Ratings: Moody's: "Aa1"
Standard & Poor's: "AAA"
Fitch: "AAA"
(See "RATINGS" herein)

OFFICIAL STATEMENT
Dated: April 19, 2011

NEW ISSUE: BOOK-ENTRY-ONLY

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

$15,000,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2011

Dated: April 15, 2011 **Due: August 15, as shown below**

Interest on the $15,000,000 City of Carrollton, Texas, General Obligation Improvement Bonds, Series 2011 (the "Bonds"), will be payable August 15 and February 15 of each year, commencing August 15, 2011 until maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount, for any one maturity. Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar (the "Paying Agent/Registrar"), initially U.S. Bank N.A.. Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed first class, postage prepaid, by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The City of Carrollton, Texas (the "City"), intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but such system could be discontinued in the future. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds maturing on and after August 15, 2022, are subject to optional redemption prior to maturity, in whole or in part, on August 15, 2021, or any date thereafter, as described herein (see "THE BONDS – Optional Redemption Provisions" herein). The Bonds maturing on August 15, 2027 (the "Term Bonds") are also subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date (see "THE BONDS – Mandatory Sinking Fund Redemption").

The Bonds are direct obligations of the City and are payable both as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

Proceeds of the Bonds will be used to (i) pay costs of public safety facilities improvements, park improvements, street improvements, traffic improvements, and drainage improvements in the City, and (ii) pay the costs associated with the issuance of the Bonds (see "THE BONDS – Purpose" herein).

MATURITY SCHEDULE & 9 DIGIT CUSIP

CUSIP Prefix: 145610[(1)]

$15,000,000 General Obligation Improvement Bonds, Series 2011

Maturity (8/15)	Principal Amount	Rate	Yield	CUSIP Suffix[(1)]	Maturity (8/15)	Principal Amount	Rate	Yield		CUSIP Suffix[(1)]
2011	$290,000	3.000 %	0.250 %	HH7	2020	$715,000	4.000 %	3.080 %		HS3
2012	585,000	3.000	0.400	HJ3	2021	740,000	4.000	3.250		HT1
2013	595,000	3.000	0.700	HK0	2022	770,000	4.000	3.450	c	HU8
2014	610,000	3.000	1.020	HL8	2023	800,000	4.000	3.580	c	HV6
2015	620,000	3.000	1.430	HM6	2024	835,000	4.000	3.750	c	HW4
2016	635,000	3.000	1.750	HN4	2025	870,000	4.000	3.880	c	HX2
2017	650,000	3.000	2.100	HP9	2028	980,000	4.125	4.200		JA0
2018	670,000	3.500	2.480	HQ7	2029	1,025,000	4.250	4.300		JB8
2019	695,000	4.000	2.830	HR5	2030	1,070,000	4.250	4.380		JC6

$1,845,000 4.00% Term Bond due August 15, 2027, Priced to Yield 4.10%; CUSIP 145610 HZ7

(Accrued Interest to be added from Dated Date)

c = yield shown is yield to August 15, 2021, the first call date at par.

UBS Financial Services Inc.

The Bonds are offered when, as and if issued and accepted by the Initial Purchaser, subject to the approval of legality by the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel. The Bonds are expected to be available for delivery through DTC on or about May 12, 2011.

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(1) CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Services. None of the City, the Financial Advisor or the Initial Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

Ronald F. Branson, Mayor

Matthew Marchant, Mayor Pro Tem

Lisa Sutter, Deputy Mayor Pro Tem

Jeff Andonian, Councilmember

Kevin Falconer, Councilmember

John Mahalik, Councilmember

Pat Malone, Councilmember

Terry Simons, Councilmember

APPOINTED OFFICIALS

Leonard Martin, City Manager

Beth Little Bormann, Assistant City Manager

Marc Guy, Assistant City Manager

Robert B. Scott, Chief Financial Officer

R. Clayton Hutchins, City Attorney

Priscilla Robinson, City Treasurer

Ashley Mitchell, City Secretary

BOND COUNSEL AND ADVISORS

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

RBC Capital Markets, LLC, Financial Advisor
Dallas, Texas

INDEPENDENT AUDITOR

Grant Thornton LLP, Certified Public Accountants
Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

Any information and expression of opinion herein contained is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

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

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

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

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SUMMARY STATEMENT

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

The Issuer

The City of Carrollton, Texas (the "City"), a duly incorporated home-rule municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas.

The Bonds

$15,000,000 General Obligation Improvement Bonds, Series 2011 (the "Bonds"), dated April 15, 2011 maturing annually on August 15, in each of the years 2011 through 2030, inclusive. Interest on the Bonds will be payable August 15 and February 15 of each year, commencing August 15, 2011, until the earlier of maturity or prior redemption.

Purpose of the Bonds

Proceeds from the Bonds will be used to (i) pay costs of public safety facilities improvements, park improvements, street improvements, traffic improvements, and drainage improvements in the City, and (ii) pay costs associated with the issuance of the Bonds (see "THE BONDS - Purpose" herein).

Security for the Bonds

The Bonds constitute direct obligations of the City payable from a continuing annual ad valorem tax levied within the limits prescribed by law, on all taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt (see "THE BONDS - Security and Source of Payment" herein).

Redemption Provisions

The Bonds maturing on or after August 15, 2022, are subject to redemption at the option of the City, in whole or in part, on August 15, 2021, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption Provisions" herein).

Ratings

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aa1", "AAA" and "AAA", respectively to the Bonds (see "RATINGS" herein).

Book-Entry-Only System

The Bonds will be initially deposited with and registered solely to Cede & Co., the nominee of The Depository Trust Company, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Tax Exemption

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

Payment Record

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

Legality

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

$15,000,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton, and Collin Counties)
GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2011

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, has been prepared by the City of Carrollton, Texas (the "City"), in connection with the offering by the City of its General Obligation Improvement Bonds, Series 2011 (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 1331, as amended, elections held in the City on January 16, 1998, May 15, 2004 and November 6, 2007 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 taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience will necessarily continue or be repeated in the future.

There follows in this Official Statement a description of the Bonds and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from RBC Capital Markets, LLC, the City's Financial Advisor. The mailing address of the City is 1945 E. Jackson Road, Carrollton, Texas 75006 and its telephone number is (972) 466-3107.

THE BONDS

General Description

The Bonds will be dated April 15, 2011, will be issued in fully registered form, and will be issued in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from April 15, 2011, and interest will be paid semiannually, on each August 15 and February 15 commencing August 15, 2011, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts and bear interest at per annum rates as set forth on the cover page hereof.

Principal and interest will be paid by U.S. 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 prepaid, 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 of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company ("DTC") in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Purpose

The Bonds in the aggregate principal amount of $15,000,000 are being issued for the purpose of (i) providing funds for public safety facilities improvements in the amount of $2,735,000; park improvements in the amount of $3,514,900; traffic improvements in the amount of $600,000; street improvements in the amount of $4,310,100; drainage improvements in the amount of $3,840,000; and (ii) paying for certain costs of issuance of the Bonds.

Security and Source of Payment

The Bonds are payable from a continuing direct annual ad valorem tax levied within limits prescribed by law by the City to provide for the operations of the City and the payment of principal of and interest on all indebtedness payable in whole or in part from ad valorem taxes (see "TAX RATE LIMITATIONS" herein).

Optional Redemption Provisions

The City reserves the right, at its option, to redeem the Bonds, having stated maturities on or after August 15, 2022 in whole or in part on August 15, 2021 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds of a maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds maturing on August 15, 2027 (the "Term Bonds") are subject to mandatory redemption in part at a price of par, plus accrued interest to the dates of redemption, on the dates and in the principal amounts as follows:

Term Bonds due August 15, 2027

Redemption Date	Principal Amount
August 15, 2026	$905,000
August 15, 2027 (maturity)	$940,000

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

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

Notice of Redemption

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

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

Limitation on Transfer of Bonds Called for Redemption

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

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Government Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

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

TAX RATE LIMITATIONS

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

ENFORCEMENT OF REMEDIES

If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but the City is not relying on Chapter 1371 with respect to the issuance of the Bonds, and the City has not waived sovereign immunity in connection with the issuance of the Bonds. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date is the last business day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for 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.

Effect of Termination of Book-Entry-Only System

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. 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 records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the Book-Entry-Only System for the Bonds should be discontinued, printed certificates will be delivered to the registered owners of the Bonds, and thereafter such Bonds may be transferred, registered and assigned on the registration books only upon their presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of $5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

TAXING PROCEDURES

General

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

Property Subject to Taxation by the City

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

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

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

State Tax Law mandates an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Texas Tax Code. This law, effective January 1, 2010, states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

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

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

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

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

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

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

The City's Rights in the Event of Tax Delinquencies

The City has a lien for unpaid taxes on personal property, subject to certain restrictions and also has a lien granted by statute for unpaid taxes on real property. Both liens are discharged upon payment. Thereafter, no lien exists in favor of the City until it again levies taxes. In the event a taxpayer fails to make timely payment of taxes due to the City on real property, a penalty of 6% of unpaid taxes is incurred in February and 1% is added monthly until the penalty reaches 10%, after which it becomes a flat 12%. In addition, delinquent taxes incur interest at the rate of 1% per month. The City may file suit for the collection thereof and may foreclose such lien in a foreclosure proceeding. The City may assess an additional 20% charge against delinquent taxes to defray its legal costs of collecting the delinquent taxes. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Valuation of Property for Taxation

The Property Tax Code generally requires all taxable property (except property utilized for a qualified "agricultural use", timberland and special inventory on vehicles and boats) to be appraised at 100% of market value as of January 1. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was assessed or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. Certain personal property held as business inventory may be assessed at the option of the taxpayer as of September 1 of each year and mineral reserves are assessed on the basis of an average monthly valuation. Residential property that has never been occupied as a residence and is being held for sale is treated as inventory for property tax purposes. The appraisal of taxable property for the City (except certain railroad rolling stock and certain intangible property of railroads and certain common carriers, which is appraised by the State) and all other taxing entities in each county in which the city is located (the City is located primarily in Dallas and Denton Counties, but a portion of the City is in Collin County) is the responsibility of the respective county appraisal districts for each county (collectively, the "Appraisal District"), each of which is a county-wide agency created under the Property Tax Code for that purpose. The Collin County Appraisal District appraises the property of the City located in Collin County and is governed by a board of directors appointed by the taxing entities participating in the Collin County Appraisal District. The Collin County Appraisal District has five voting board members, however if the Collin County Tax Assessor/Collector is not appointed by the entities as a voting member of the board, he or she automatically serves as a non-voting board member. The board of directors of the Collin County Appraisal District appoints a chief appraiser to function in the capacity of chief administrator of the Collin County Appraisal District. The chief appraiser, as provided by the annual budget adopted by the board of directors, may employ professional, clerical and other personnel. The Denton Central Appraisal District appraises the property of the City located in Denton County and is governed by a six-member board of directors appointed by the taxing entities participating in the Denton Central Appraisal District.

The Dallas Central Appraisal District appraises the property of the City located in Dallas County and is governed by a five member board whose members are appointed by votes of the Dallas County Commissioners Court and the governing bodies of the cities, towns, school districts and, upon request, conservation and reclamation districts in Dallas County, under a voting system weighted in direct proportion to the amount of taxes imposed by the voting entities. Cumulative voting for Appraisal District Board members is permitted.

Assessment and Levy

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

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

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

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

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that would produce an amount of taxes exceeding the prior year's levy until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that if the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for that year to the rollback tax rate. "Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Rollback tax rate" means the rate that will produce last year's maintenance and operation expenses paid from property taxes (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate. "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

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

Collection of Taxes

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

THE PROPERTY TAX CODE AS APPLIED TO THE CITY OF CARROLLTON

General Tax Exemptions

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

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

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

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

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

The City taxes are collected by the Dallas County Tax Assessor-Collector.

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

Economic Development Incentives

The City has developed a strategic business plan designed to permit the City to build the interrelationship regarding land development in the City and City's goals embodied in the City's Comprehensive Zoning and Subdivision Ordinances and other policies. This strategy has been developed in light of the fact that the City is substantially built out. The strategy includes measures designed to steer the City's efforts to grow its tax base increasingly toward redevelopment projects, with a special emphasis on transit oriented development ("TOD"), including redevelopment of areas around planned light rail stations in the City that are part of the Dallas Area Rapid Transit ("DART") system. The City has adopted criteria for tax abatement in accordance with the provisions of Chapter 312, and ad valorem tax rebate agreements in accordance with the provisions of Chapter 380. The City's policies for such agreements include incentives targeted to new construction, the relocation, expansion or modernization of companies, including companies with large taxable inventories, neighborhood retail/commercial reinvestment projects, as well as restaurant and office projects in the Highlands Development area and projects in the I-35 Freeway Corridor of the City. Any consideration for a tax abatement or reduction must be reviewed by the City Council and be consistent with the City's policies for such tax incentive. No tax abatement may be granted for a period of greater than 10 years. The City's tax abatement criteria generally limit the property abated to 50% of the new value added. Other factors taken into account in determining whether a project qualifies for such incentives are the number of jobs that will be created or retained, the amount of capital investment to be made by a taxpayer and the location of the project. The City has also developed a tax incentive program designed to encourage retailers or specialty retailers to back-fill vacant grocery store anchors in excess of 50,000 square feet. This incentive provides grants to retailers who meet the criteria of the program. In the year ended September 30, 2010, the City rebated approximately $736, 455 of ad valorem taxes in accordance with its ad valorem tax rebate policy which was equal to approximately 1.34% of the City's total tax levy for the year ended September 30, 2010.

The City Council adopted by ordinance and established a Tax Increment Reinvestment Zone ("TIRZ") on January 10, 2006. The TIRZ was created for the purpose of dedicating the increase in tax revenue generated within the TIRZ to provide funds for public infrastructure to encourage accelerated development and redevelopment in the areas surrounding the planned Downtown and Trinity Mills DART light rail stations. The TIRZ covers an area of approximately 1,047 acres. The TIRZ is a barbell shaped, contiguous area, with a northern terminus encircling the general area of the planned Trinity Mills DART station, and with the southern terminus encircling the planned Downtown DART station. A corridor connects the two light rail station areas, which is bound on the east by Broadway Street and on the west by Interstate Highway 35E. The base taxable values of the TIRZ are frozen at the level of taxable values for 2006, the year of creation, at $131,305,003. In tax year 2010, the TIRZ had a taxable value of $135,768,289, representing approximately $4,463,286 million of incremental value. The City is the only taxing entity participating in the TIRZ, and the City's participation is set at 65% of the incremental value within the TIRZ. The City ordinance establishing the TIRZ provides that the TIRZ will terminate on December 31, 2020 or at an earlier time designated by subsequent ordinance of the City Council, or at such time as all project costs and tax increment bonds, if any, have been paid in full. No debt has been issued by the City that is secured by revenues of the TIRZ.

The Streamlined Sales and Use Tax Agreement Project

In 1992 the U.S. Supreme Court ruled that states cannot force retailers without a physical presence in the consumer's state to collect sales taxes. The Court reasoned that the current patchwork of roughly 7,500 taxing jurisdictions across the country is too complex and burdensome, particularly for online retailers. In order to collect sales taxes, the Court ruled, states will need to simplify the existing sales tax collection system. The National Governors Association, among others, has promoted model legislation designed to simplify the collection of sales tax collection programs to address the Supreme Court's ruling. In early 2000, representatives of state government and the business community formed the Streamlined Sales Tax Project ("SSTP") to develop measures to design, test and implement a sales and use tax system that radically simplifies sales and use taxes. On November 12, 2002, 34 states, including Texas, and the District of Columbia involved in the Streamlined Sales Tax Implementing States ("SSTIS") process approved the Streamlined Sales and Use Tax Agreement (the "SSUTA") based upon recommendations put forth by the SSTP. The SSUTA goes into effect when 10 states comprising at least 20 percent of the population of states imposing a sales tax have come into compliance, which has now occurred. However, collection by generators of sales and use taxes on remote sales remains voluntary under the SSUTA until either Congress or the Supreme Court acts to make such collection mandatory.

In 2001, the Texas Legislature adopted the Simplified Sales and Use Tax Administration Act, which is codified at Chapter 142, Texas Tax Code. Chapter 142 in general does not include substantive changes to Texas sales tax law, but it merely authorizes the State Comptroller of Public Accounts to participate in the development of the SSUTA. Based upon such negotiations, the Comptroller is authorized to make recommendations to the Texas Legislature, and the Legislature must enact any changes to State sales and use tax laws that may be needed to bring the State into full compliance with SSUTA. A key aspect of the SSUTA, which was slated to take effect under the terms of the model agreement in 2005, relates to the source jurisdiction for sales tax activity. The office of the Comptroller has deferred the implementation of that provision because "several members of the Texas Legislature as well as many business owners around the state have raised concerns about the significant and far-reaching effects of these changes." The SSUTA includes the destination of use as the relevant jurisdiction for taxing economic activity, as opposed to the jurisdiction in which a sale originates. At present, destination sourcing of sales transactions has not been authorized by Texas law, except for services and goods sold into a jurisdiction where the seller has a presence. The State as a whole would likely increase overall sales tax collections if destination sourcing of all sales tax transactions should become law in the State, and there could be some benefits for many if not all governments that collect sales taxes if the provisions of SSUTA are enacted in the State. However, governmental entities such as the City, which has a higher than average concentration of sales tax payers engaged in commercial activities that include sales of personal property delivered to other jurisdictions, could experience a material decline in sales tax collections if destination sourcing of all sales tax transactions should become law. The City commissioned a study of the impact that the destination sourcing of sales tax transactions would have on the City, and the study indicates that the impact would be a loss of approximately $4.0 million to $5.4 million annually. The City cannot predict whether Texas law will be modified in a way that will include destination sourcing of all sales tax activities.

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

CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT

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

In fiscal year 1997, the City Council initiated a capital improvement planning process that included creation of the 11-member Capital Improvements Plan Advisory Committee ("CIPAC") composed of residents of the City. City staff, working with a professional consulting team comprised of architects, engineers and urban planners, completed the City's 1998 Master Plan, which was designed as a guide for both long-term planning and near-term programming for public facilities. In 2004, the City staff and an independent planning consultant updated the 1998 Master Plan. The City has also commissioned and developed a Comprehensive Parks, Recreation and Open Space Master Plan. The City annually adopts a capital improvement plan (the "CIP") that reflects all capital expenditures planned by the City over a five year period, which includes costs of maintaining City infrastructure, as well as costs of proposed new municipal facilities, including public safety facilities, parks, transportation, public works, stormwater drainage and water and wastewater improvements. The annual CIP includes capital expenditures proposed for funding from various sources administered through the City's Capital Project Fund and other funds of the City, and proposed to be funded from a blend of current funds, available reserves and proceeds of tax-supported and enterprise fund bond issues.

The 2010-11 CIP reflects the potential expenditure of approximately $87.890 million of the six year planning period, with general obligation bonds providing approximately $51.890 million of the funding. The issuance of the Bonds is part of the capital budget adopted by the City for the 2010-11 fiscal year and prior years. The current capital budget includes $72.050 million bond authorization acquired in the 1998, 2004, and 2007 elections (see "TABLE 15 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS" in Appendix A). In adopting the 2010-11 CIP, the City determined to allocate $0.035000 of the $0.406241 tax rate levy for operating purposes to be segregated into capital fund for the specific and expressed purpose of TOD and street rehabilitation. This determination was made in furtherance of the City's plans associated with the light rail stations built in the City by DART. The dedicated TOD tax revenues are earmarked for infrastructure improvements, redevelopment, and beautification projects around the rail stations that are designed to spur significant reinvestment in those areas. In reallocating some of this tax revenue, which was formerly dedicated to street projects in the City, the City has included funds for the street projects in the portion of the CIP to be funded through the general obligation bond program.

The current capital budget anticipates that the City will issue general obligation debt to fund improvements for the City's drainage system, streets, traffic, parks, and public safety. The capital budget also assumes the issuance of $14.000 million in general obligation debt in the 2010-2011 fiscal year, and $13.000 million in the 2011-2012 fiscal year, with the balance of the general obligation debt included in the plan indicated for issuance during the remaining period covered by the CIP.

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 18.) Both state law and the City's investment policies are subject to change.

Investment Authority and Investment Practices of the City

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates that are issued by a depository institution that has its main office or a branch office in the State of Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6), (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (11) through (13) 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; (9) 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; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the Chief Financial Officer (if not the Treasurer) and the Investment Officer.

INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS

Self-Insurance

The City administers a Self-Insured Retention ("SIR") program within its Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas: (a) worker's compensation liability with a $450,000 retention and statutory limit on coverage, (b) general liability with a $350,000 retention and a $5,000,000 per occurrence and $10,000,000 policy aggregate limit on coverage, (c) law enforcement liability with a $350,000 retention and a $5,000,000 per occurrence and $10,000,000 policy aggregate limit on coverage, (d) public official errors and omissions with a $350,000 retention and a $5,000,000 per occurrence and $10,000,000 policy aggregate limit on coverage, (e) automobile and physical damage liability with a $350,000 retention and a $5,000,000 per occurrence and $10,000,000 policy aggregate limit on coverage, (f) employee benefit liability with a $350,000 retention and a $5,000,000 per occurrence and $10,000,000 policy aggregate limit on coverage, (g) property loss with $10,000 retention and a $125,000,000 limit on coverage, and (h) crime policy covering dishonest acts of employees, computer fraud, and funds transfer fraud with a $25,000 retention and $3,000,000 per occurrence limit.

All funds of the City participate in the program and make payments to the Risk Management Fund based on biennial actuarial estimates of the amounts needed to pay prior and current year claims. As of the end of fiscal year 2009, the biennial actuarial analysis determined that the loss reserve was $1,340,706 which represents the discounted present value of expected losses using an expected future investment yield assumption of 3.5% and includes claims incurred but not yet reported. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2010, which is attached hereto as Appendix B.

Employee Health Plan

The City maintains the Employee Health and Disability Fund for employees and dependents, which is self-insured by the City. Revenues are recognized from payroll deductions and from City contributions with long-term disability claims in excess of one year covered through the third-party insurance policies. In addition, excess insurance up to $1,000,000 has been obtained for an individual employee's health care claims exceeding $200,000 and for health claims in the aggregate exceeding $9,713,647. At September 30, 2010, there was a liability of $857,000 in such fund, which represents estimated claims incurred but not yet reported. The total fund balance at September 30, 2010, was $11,911,898. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2010, which is attached hereto as Appendix B.

Pension and Retirement Fund

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

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

Beginning in 1993, the City granted on an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to 70% of the change in the consumer price index (CPI). The financial impacts of the automatic USC and COLA were not accounted for by the unit credit actuarial method, and beginning with the December 2007 valuation, TMRS changed to the projected unit credit method and tightened many of its assumptions used. This resulted in actuarial required contributions increasing by 50% or more for some member cities. In response to the significant increase in the required contribution rate due to changing of the actuarial method, the City adopted various benefit reductions effective January 1, 2009, including reducing USC from 100% to 75%, dropping the transfer feature of USC, increasing the amortization period to 40 years, and lifting the applicable statutory maximums. Effective January 1, 2010, The City adopted an additional benefit change reducing the annual COLA for retirees from 70% of the change in CPI to 50%. In addition, a resolution adopted by council allows for additional contributions each year if certain conditions are met which should reduce the ultimate amortization period substantially below 40 years and have to date, created a net pension asset in the City's financial statements. This indicates that actual contributions have exceeded the amount necessary for the 30 year amortization used for financial reporting purposes.

Under the state law governing TMRS, the actuary annually determines the City contribution rate per GAAP and per state statutes on a calendar-year basis. The City discloses the annual pension costs based on the calculated rates per GAAP for the City's fiscal year. The rate per GAAP is 17.70% of covered payroll for the months in calendar year 2009, and 16.73% for the months in calendar year 2010. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at the actuarially determined statutory rate, which can differ from the annual contribution rate calculated per GAAP. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective with rates beginning January 1, 2010). If a change in plan provisions is elected by the City, this rate can change. For the months in calendar year 2009, the City made contributions of 16.74% based on a 40-year closed amortization period which is .96 percentage points less than the actuarially required contribution of 17.70% required by GAAP, for a total of ($347, 551). For the months in calendar year 2010, the City continued to make contributions of 16.74% which provided for an additional voluntary contribution of .69 percentage points over the statutorily required rate of 16.05% based on a 39-year amortization period and was .01 percentage points over the actuarially required contribution rate of 16.73% required by GAAP for a total of $228,641. Additionally, the City made an additional year-end voluntary contribution for fiscal year 2010 of $376,902. This strategy of making additional contributions has resulted in a net pension asset for the City of $893,308 as of September 30, 2010.

As of December 31, 2009, the most recent actuarial valuation date, the plan was 77.2% funded. The actuarial accrued liability for benefits was $208,924,862, and the actuarial value of assets was $161,328,186, resulting in an unfunded actuarial accrued liability (UAAL) of $47,596,676. These amounts include the assets and actuarial liabilities related to both the Municipal Accumulation Fund (MAF) and the Employee Savings Fund (ESF) of the City. It should be noted that only the assets of the MAF can be used to pay for the MAF's actuarial liabilities, and if ESF assets and liabilities had been excluded, the reported funding status would be lower. The covered payroll (annual payroll of active employees covered by the plan) was $46,403,538, and the ratio of the UAAL to the covered payroll was 102.6%. For additional information, see Note 7 to the Basic Financial Statements for the year ended September 30, 2010, in Appendix B herein and 2009 TMRS Comprehensive Annual Financial Report at www.tmrs.org.

Other Post-Employment Benefits

Effective for fiscal year 2008, the City implemented Governmental Accounting Standards Board ("GASB") Statement 45 ("GASB 45") Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions ("OPEB") prospectively (no beginning Net OPEB Obligation).

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

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

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

Current retirees contribute to the Retiree Health Existing (Closed) Program the total blended premium for active and retired participants. The City contribution to the Retiree Health Existing (Closed) Program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contributions rates for fiscal year 2010 were $5,976 to $13,368 per year depending on coverage levels selected. In fiscal year 2010, total member contributions were $380,189. The City contributions to the plan for fiscal year 2010, which are also equal to claims paid in excess of premiums collected, were $534,041. Because the City elected to fund its OPEB benefits on a pay-as-you-go basis by making deposits into its Employee Health and Disability Fund, and not to fund an OPEB irrevocable trust, GASB 45 does not allow the City to report a funded status. However, based upon a December 31, 2009 actuarial valuation, the City's total accrued liability for its OPEB plan was $5,380,780 and at September 30, 2010, the City's Employee Health and Disability Fund had net assets of $11,911,898 reflecting that net assets available exceed the City's actuarial accrued OPEB liability. For additional information, see Note 12 to the Basic Financial Statements for the year ended September 30, 2010, in Appendix B herein.

Deferred Compensation Payable

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

RATINGS

The Bonds are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AAA" by Fitch Ratings ("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 Initial Purchaser make any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

PENDING LITIGATION

Various lawsuits pending against the City involve claims relating to general liability, automotive liability, workers' compensation, civil rights actions, labor and employment, and various contractual matters. In the opinion of the City Attorney, 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 Initial Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

LEGAL MATTERS

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

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

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

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

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

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

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

LEGAL INVESTMENTS IN TEXAS

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FORWARD LOOKING STATEMENTS

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

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

INITIAL PURCHASER

After requesting bids for the Bonds, the City accepted the bid of UBS Financial Services Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the front cover page of this Official Statement at a price of par plus a cash premium of $278,784.10.

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

CERTIFICATION OF OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda, supplement or amendment thereto, for its Bonds, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2010, the date of the last audited financial statements of the City appearing in the Official Statement.

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

FINANCIAL ADVISOR

RBC Capital Markets, LLC 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 has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. RBC Capital Markets, LLC may not submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds.

CONTINUING DISCLOSURE

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format prescribed by the MSRB. 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 "TABLE 1" through "TABLE 5" and "TABLE 8" through "TABLE 18" 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 2011.

The financial information and operating data to be provided may be set forth in one or more documents or may be included by specific reference to any document available to the public on EMMA or filed with the SEC as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data which is customarily prepared by the City by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

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

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

Availability of Information

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

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

Compliance with Prior Undertakings

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

CONCLUDING STATEMENT

This Official Statement has been prepared under the direction of the City Council of the City by City Staff. The City Council of the City of Carrollton, Texas, has reviewed and approved the Official Statement and said instrument has been authorized for use and distribution by the Initial Purchaser in connection with their offering of the Bonds.

/s/ *Ronald F. Branson*
Mayor, City of Carrollton, Texas

ATTEST:

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

APPENDIX A

GENERAL FINANCIAL TABLES

TABLE 1
TAX AND DEBT FINANCIAL INFORMATION

2010 Appraised Value of Taxable Property[1]		$ 11,159,877,383
Less Exemptions:		
Agricultural Land Use	$ 83,510,015	
Homestead	884,017,512	
Disabled Veterans	9,545,295	
Over 65	268,170,135	
Disabled Persons	21,566,339	
Totally Exempt	674,084,106	
Freeport	306,745,673	
Capped Value	4,838,478	
Other Exemptions	731,169	
Total Exemptions		2,253,208,722
2010 Taxable Valuation[1]		$ 8,906,668,661
Gross General Obligation Bonded Debt:		
General Purpose Bonds and Certificates[2]		$ 184,915,000
Less: General Obligation Interest & Sinking Fund Balances as of 09/30/2010		5,864,803
Net General Obligation Bonded Debt		$ 179,050,197
Ratio of Gross General Obligation Bonded Debt to 2010 Taxable Valuation		2.08%
Ratio of Net General Obligation Bonded Debt to 2010 Taxable Valuation		2.01%

2000 Census Population - 109,576

2010 Estimated Population - 122,100

Per Capita Taxable Valuation - $72,946

Per Capita Gross General Obligation Bonds Bonded Debt - $1,514

Per Capita Net General Obligation Bonds Bonded Debt - $1,466

[1] As of certified tax roll provided to the City by Dallas, Denton and Collin County Appraisal Districts in July 2010 (Fiscal year 2011).
[2] Includes the Bonds.

Source: City of Carrollton

TABLE 2
VALUATION AND FUNDED DEBT HISTORY

Fiscal Period	Taxable Valuation[1]	% Valuation Increase/Decrease Over Prior Year (100% of Market Value Basis)	Funded Debt Outstanding at Year End	Ratio Funded Debt to Taxable Valuation %
2000/01	$ 7,045,371,795	11.26 %	$123,097,884	1.75 %
2001/02	7,582,552,679	7.62	129,067,712	1.70
2002/03	8,035,545,074	5.97	135,076,525	1.68
2003/04	8,139,613,187	1.30	125,170,614	1.54
2004/05	8,042,579,673	(1.19)	138,347,403	1.72
2005/06	8,178,218,158	1.69	153,739,773	1.88
2006/07	8,491,796,090	3.83	163,587,824	1.93
2007/08	9,291,057,815	9.41	153,704,298	1.65
2008/09	9,086,431,988	(2.20)	170,508,127	1.88
2009/10	9,203,400,425	1.29	181,120,000	1.97
2010/11	8,906,668,661	(3.22)	184,915,000 [2]	2.08

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

[2] Includes the Bonds.

TABLE 3
TOTAL TAXABLE VALUATION BY CATEGORY[3]

	Real Property		Personal & Other Property		
Fiscal Year	Taxable Valuation	% of Total	Taxable Valuation	% of Total	Total Taxable Valuation
2001/02	$ 5,639,735,104	74 %	$ 1,942,817,575	26 %	$ 7,582,552,679
2002/03	5,970,831,984	74	2,064,713,090	26	8,035,545,074
2003/04	6,247,258,674	77	1,892,354,513	23	8,139,613,187
2004/05	6,393,776,850	79	1,648,802,823	21	8,042,579,673
2005/06	6,592,683,475	81	1,585,534,683	19	8,178,218,158 [4]
2006/07	7,011,757,750	83	1,480,038,340	17	8,491,796,090
2007/08	7,559,613,508	81	1,731,444,307	19	9,291,057,815
2008/09	7,426,041,202	82	1,660,390,786	18	9,086,431,988
2009/10	7,561,599,599	82	1,641,800,826	18	9,203,400,425
2010/11	7,280,575,560	82	1,626,093,101	18	8,906,668,661

[3]Source: Dallas Central Appraisal District for fiscal years 2001/02 through 2007/08 and from Dallas, Denton and Collin County Appraisal Districts in fiscal year 2008/09 through 2010/11.

[4]Beginning with the 2004 tax year, the City granted the freeport tax exemption.

TABLE 4
TOTAL APPRAISED VALUATION BY CATEGORY[1]

Property Use Category	Tax Year 2010	Tax Year 2009	Tax Year 2008	Tax Year 2007	Tax Year 2006
Real, Residential, Single Family, and Mobile Homes Real	$ 5,366,997,688	$ 5,395,664,382	$ 5,362,113,242	$ 5,205,720,990	$ 4,990,742,160
Residential, Multiple Family	625,968,359	673,466,793	697,769,864	675,792,150	611,792,000
Real, Vacant Lots/ Tracts	120,935,813	147,133,360	184,327,028	174,215,740	160,543,740
Real, Acreage (Land Only)	91,472,306	81,171,271	99,031,259	78,565,077	86,017,561
Real, Commercial, Industrial and Utilities	2,348,887,251	2,493,320,174	2,609,042,647	2,526,807,500	2,226,695,980
Tangible Personal, Commercial Industrial and Utilities	1,971,160,531	2,178,058,656	2,401,797,772	2,331,098,070	2,205,536,690
Tangible Personal, Special Inventory Other	23,988,320	26,660,410	25,928,585	20,636,970	19,180,060
Total Appraised Valuation[2]	$ 10,549,410,268	$ 10,995,475,046	$ 11,380,010,397	$ 11,012,836,497	$ 10,300,508,191

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

[2] Represents gross values, prior to exemptions.

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

TABLE 5
PERCENTAGE TOTAL APPRAISED VALUATION BY USE CATEGORY

	Percent of Total Appraised Valuation for Tax Years				
Property Use Category	**2010**	**2009**	**2008**	**2007**	**2006**
Real Property					
Single-Family Residential	50.9%	49.1%	47.1%	47.3%	48.4%
Multi-Family Residential	5.9%	6.1%	6.2%	6.1%	6.1%
Vacant Lots/Tracts	1.1%	1.3%	1.6%	1.6%	1.5%
Acreage-Land Only	0.9%	0.7%	0.9%	0.7%	0.8%
Commercial, Industrial, and Utilities	22.3%	22.7%	22.9%	22.9%	21.6%
Tangible Personal Property					
Commercial, Industrial, and Utilities	18.7%	19.8%	21.1%	21.2%	21.4%
Other	0.2%	0.2%	0.2%	0.2%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

TABLE 6
ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES

Expenditures of the various taxing bodies within the territory of the City are paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowing to finance their expenditures. The following statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in the report on each entity in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas and from the political subdivisions. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, entities may have programs requiring the future issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded Tax Debt of these various taxing bodies.

	General Obligation Bond Debt	Estimated % Applicable[4]	Overlapping General Obligation Bond
Carrollton-Farmers Branch Independent School District	$ 355,595,000	26.51%	$ 94,268,235
Collin County	383,805,000	0.08%	307,044
Collin County Community College District	45,980,000	0.08%	36,784
Coppell Independent School District	142,273,994	0.04%	56,910
Dallas County	121,176,552	2.80%	3,392,943
Dallas County Community College District	416,040,000	2.80%	11,649,120
Dallas County Hospital	705,000,000	2.80%	19,740,000
Dallas Independent School District	1,685,740,000	1.27%	21,408,898
Denton County	496,900,000	9.26%	46,012,940
Lewisville Independent School District	995,917,161	13.67%	136,141,876
Plano Independent School District	1,042,987,382	0.17%	1,773,079
Valwood Improvement Authority	10,194,888	58.76%	5,990,516
Total estimated overlapping bonded debt			$ 340,778,344
City of Carrollton	**$ 184,915,000** [1]	**100.00%**	**$ 184,915,000**
Total direct and estimated overlapping bonded debt			$ 525,693,344
Ratio, direct and estimated overlapping debt to 2010 assessed valuation [2]			5.90%
Per capita direct and estimated overlapping bonded debt [3]			$ 4,305

[1] Includes the Bonds.

[2] Based upon 2010 Certified Taxable Assessed Valuation of $8,906,668,661.

[3] Based upon an estimated September 30, 2010 population of 122,100.

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

TABLE 7

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

Political Subdivision	2010 Taxable Valuation	2010 Tax Rate	Amount Authorized But Unissued
City of Carrollton	$ 8,906,668,661	$ 0.61788	$ 51,897,000
Carrollton - Farmers Branch ISD	14,133,013,647	1.34690	70,865,000
Collin County	71,277,687,478	0.24000	255,145,000
Collin County Com. College District	73,186,324,497	0.08630	-
Coppell ISD	7,165,643,131	1.42420	43,900,000
Dallas County	158,179,482,962	0.24310	6,200,000
Dallas County Community College District	164,219,576,805	0.09923	-
Dallas County Hospital District	158,295,231,580	0.27100	42,000,000
Dallas ISD	75,985,949,045	1.23781	-
Denton County	51,721,875,628	0.27390	330,713,873
Lewisville ISD	20,946,756,857	1.42670	434,509,475
Plano ISD	33,660,912,497	1.35340	172,470,000
Valwood Improvement Authority	1,511,812,468	0.30750	20,616,666
Total Overlapping Authorized but Unissued Debt			$ 1,428,317,014

Source: Taxing jurisdictions, political subdivisions, appraisal districts and latest available publication of the Municipal Advisory Council of Texas.

TABLE 8

PROPERTY TAX RATES, LEVIES AND COLLECTIONS

(Year Ended 9-30)

	Tax Rate Distribution					
Fiscal Year Ended	Total Tax Rate	Operating/ General Fund	Interest and Sinking Fund	Tax Levy for Year[1]	Percent of Current Collections	Percent of Total Collections
2000/01	$ 0.5993	$ 0.3696	$ 0.2297	$ 42,222,914	97.47 %	97.83 %
2001/02	0.5993	0.3696	0.2297	45,442,240	97.69 %	98.41 %
2002/03	0.5993	0.3769	0.2224	48,904,525	97.64 %	98.53 %
2003/04	0.5993	0.3966	0.2027	48,813,595	98.34 %	98.94 %
2004/05	0.5993	0.3901	0.2092	48,739,310	98.60 %	99.67 %
2005/06	0.6329	0.4329	0.2000	52,446,165	98.63 %	102.11 %
2006/07	0.6329	0.4340	0.1989	53,577,184	98.81 %	99.07 %
2007/08	0.6179	0.4391	0.1787	57,531,674	98.86 %	98.16 %
2008/09	0.6179	0.4321	0.1858	58,797,682	98.41 %	98.19 %
2009/10	0.6179	0.4157	0.2022	57,160,657	98.97 %	99.66 %
2010/11	0.6179	0.4062	0.2116	54,806,043	95.20 % [2]	94.80 % [2]

Source: City of Carrollton.

(1) Adjusted Tax Levy at Fiscal Year End.

(2) Partial Collections as of February 28, 2011.

TABLE 9
TOP TEN TAXPAYERS
(Fiscal Year 2011)

Name	Nature of Property	Total Taxable Value[1]	% of Total Taxable Value
1. AT&T Communications	Communications	$ 66,509,280	0.75%
2. Halliburton Co. Inc.	Manufacturing	61,083,075	0.69%
3. Cobalt Industries	Real Estate Investments	51,091,520	0.57%
4. Verizon	Communications	45,521,400	0.51%
5. Oncor Electric Delivery	Public Utility	37,993,190	0.43%
6. SaraLee Bakery Group	Food Preparation	33,645,642	0.38%
7. Hilite Industries Automotive	Manufacturing	27,596,424	0.31%
8. Acquiport DFWIP Inc.	Real Estate	27,393,690	0.31%
9. Trend Offset Printing Services Inc.	Printing	22,916,480	0.26%
10. First Industrial Texas LP	Real Estate	21,670,910	0.24%
Total		$ 395,421,611	4.44%

[1]Total taxable value including real and personal property is $8,906,668,661.

Source: Dallas County Tax Office, City Report of Property Value, 2010 (Fiscal Year 2011).

TABLE 10
DEBT SERVICE FUND MANAGEMENT INDEX

General Obligation Debt Service Requirements,		
Fiscal Year Ending 9/30/11[1]		$ (19,918,825)
Debt Service Fund, All General Obligation Issues 9/30/10	$ 5,864,803	
Budget for Fiscal Year 2010/11 Debt Service Fund Tax Levy @ 98% Collection	18,396,675	24,261,478
Estimated Surplus, Year Ending 9/30/11		$ 4,342,653

[1] Includes the Bonds.

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

Principal and Interest Requirements,	
Fiscal Year Ending September 30, 2011[1]	$ 19,918,825
$0.211634 Tax Rate @ 98% Collection Procedures[2]	18,396,675

[1]Includes the Bonds.

[2]Total estimated net taxable value computed and adjusted for estimated valuation under protest, rebatable property, and TIRZ incremental value from 2010/11 budgeted tax year certified taxable valuation of $8,906,668,661.

TABLE 12
MUNICIPAL SALES TAX

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

Fiscal Year Ended 9/30	Total Collected	Percentage of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2001	$ 19,179,613	45.42 % [1]	$ 0.26 [1]	$ 172.79
2002	17,694,963	38.94 [1]	0.22 [1]	157.57
2003	17,798,586	36.39 [1]	0.22 [1]	158.35
2004	18,945,727	38.81 [1]	0.24 [1]	168.95
2005	19,480,222	39.97 [3]	0.25 [3]	167.21
2006	20,758,445	40.13 [1]	0.25 [1]	174.88
2007	22,021,647	41.75 [2]	0.26 [2]	183.28
2008	21,474,564	38.51 [3]	0.24 [3]	178.13
2009	21,041,210	39.17 [3]	0.24 [3]	173.97
2010	19,947,850	35.90 [3]	0.22 [3]	163.37 [4]

[1] Based on 99.0% collection rate of the total tax levy.

[2] Based on 98.5% collection rate of the total tax levy.

[3] Based on 98% collection rate of the total tax levy.

[4] Based on estimated population of 122,100 as of September 30, 2010.

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

TABLE 13
COMPARATIVE MONTHLY SALES TAX COLLECTIONS

Month	2010-11	2009-10	2008-09
October	$ 1,933,331	$ 1,963,957	$ 2,179,917
November	1,446,404	1,429,772	1,912,862
December	1,631,912	1,425,180	2,082,319
January	2,048,512	2,183,732	2,051,106
February	1,472,167	1,537,579	1,443,881
March	1,394,815	1,217,833	1,462,608
April	2,046,264 [5]	1,970,749	1,974,312
May	1,500,585 [5]	1,642,272	1,690,960
June	1,484,819 [5]	1,441,815	1,472,710
July	2,168,997 [5]	2,016,834	1,474,109
August	1,509,511 [5]	1,473,515	1,764,008
September	1,492,479 [5]	1,644,612	1,532,419
	$ 20,129,795 [6]	$ 19,947,850	$ 21,041,210

Source: Comptroller of Public Accounts; City of Carrollton

[5] Based on City of Carrollton budget, amount forecasted not actual.

[6] Amount does not include mixed beverage and sales taxes retained.

TABLE 14
OUTSTANDING DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION DEBT

Fiscal Year Ended 30-Sep	Existing Debt Service	$15,000,000 General Obligation Improvement Bonds, Series 2011			Total Debt Service Requirements
		Principal	Interest	Total	
2011	$ 19,441,071	$ 290,000	$ 187,754	$ 477,754	$ 19,918,825
2012	18,973,566	585,000	554,563	1,139,563	20,113,129
2013	18,366,855	595,000	537,013	1,132,013	19,498,868
2014	18,356,985	610,000	519,163	1,129,163	19,486,148
2015	17,749,935	620,000	500,863	1,120,863	18,870,798
2016	16,816,798	635,000	482,263	1,117,263	17,934,060
2017	15,949,273	650,000	463,213	1,113,213	17,062,485
2018	14,959,973	670,000	443,713	1,113,713	16,073,685
2019	14,117,498	695,000	420,263	1,115,263	15,232,760
2020	12,605,991	715,000	392,463	1,107,463	13,713,454
2021	11,222,228	740,000	363,863	1,103,863	12,326,090
2022	9,806,794	770,000	334,263	1,104,263	10,911,056
2023	8,855,468	800,000	303,463	1,103,463	9,958,930
2024	8,280,450	835,000	271,463	1,106,463	9,386,913
2025	8,269,150	870,000	238,063	1,108,063	9,377,213
2026	6,542,188	905,000	203,263	1,108,263	7,650,450
2027	4,753,838	940,000	167,063	1,107,063	5,860,900
2028	3,122,913	980,000	129,463	1,109,463	4,232,375
2029	3,122,513	1,025,000	89,038	1,114,038	4,236,550
2030	1,134,963	1,070,000	45,475	1,115,475	2,250,438
Totals	$ 232,448,445	$ 15,000,000	$ 6,646,679	$ 21,646,679	$ 254,095,124

TABLE 15

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS[1]

Authorization Purpose	Authorization Date	Amount Authorized	Prior Issuance	The Bonds	Balance Unissued
Traffic Improvements	01/16/98	$ 5,100,000	$ 3,450,000	$ 600,000	$ 1,050,000
Traffic Improvements	05/15/04	450,000	-	-	450,000
Drainage Improvements	05/15/04	15,400,000	4,769,567	3,840,000	6,790,433
Street Improvements & Traffic Flow	11/06/07	27,550,000	6,083,333	4,310,100	17,156,567
Park Improvements	11/06/07	6,350,000	2,835,100	3,514,900	-
Drainage Improvements	11/06/07	9,200,000	-	-	9,200,000
Public Safety Facilities	11/06/07	3,950,000	1,215,000	2,735,000	-
Central Service Center Improvement	11/06/07	2,050,000	200,000	-	1,850,000
Economic Development Incentives	11/06/07	2,000,000	1,600,000	-	400,000
		$ 72,050,000	$ 20,153,000	$ 15,000,000	$ 36,897,000

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

TABLE 16

GENERAL FUND[2] **COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

	Fiscal Year Ended 9-30				
	2010	2009	2008	2007	2006
Fund Balance -					
Beginning of Year	$ 17,211,745	$ 17,701,350	$ 21,809,245	$ 22,644,060	$ 16,366,425
Revenues:					
Taxes & Franchise Fees	65,785,552	64,513,316	63,690,970	62,471,752	60,091,889
Charges for Services	3,834,428	4,036,512	4,322,419	4,128,079	4,051,422
Fines and Forfeitures	4,040,011	3,502,058	3,543,342	3,865,120	3,751,778
Investment Income	352,073	836,443	1,856,368	2,834,325	1,892,860
Licenses and Permits	1,688,628	1,715,378	1,981,533	1,590,778	1,751,401
Intergovernmental	4,598	105,514	36,291	63,273	73,654
Miscellaneous	282,325	397,732	365,702	490,231	473,323
Total Revenues	$ 75,987,615	$ 75,106,953	$ 75,796,625	$ 75,443,558	$ 72,086,327
Expenditures:					
General Government and Administration	$ 13,427,628	$ 14,498,301	$ 14,261,687	$ 12,816,582	$ 12,693,038
Development Services	10,013,402	10,689,495	10,703,249	9,995,202	9,556,993
Public Safety	42,096,694	42,283,157	41,778,136	38,841,560	36,159,294
Cultural and Recreation	10,527,915	11,778,291	11,936,817	11,234,504	10,984,120
Net Transfers	380,189	(3,652,686)	1,224,631	3,390,525	(3,584,753)
Total Expenditures	$ 76,445,828	$ 75,596,558	$ 79,904,520	$ 76,278,373	$ 65,808,692
Excess/Deficiency of Revenues over Expenditures	$ (458,213)	$ (489,605)	$ (4,107,895)	$ (834,815)	$ 6,277,635
Fund Balance - End of Year	$ 16,753,532	$ 17,211,745	$ 17,701,350	$ 21,809,245	$ 22,644,060

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

TABLE 17
GENERAL FUND
CURRENT OPERATIONS

On September 15, 2010, the 2010-11 budget was adopted by the City Council. The following General Fund Operating Budget is presented on a budget basis presentation.

Revenues	2009-10 Actual[1]	2010-11 Adopted Budget	2010-11 Current Estimate[2]
Property Taxes	$ 32,689,290	$ 31,372,017	$ 31,372,017
Sales Taxes	20,103,257	20,084,000	20,100,000
Franchise Fees	12,993,005	9,488,239	9,456,516
Licenses and Permits	1,688,628	1,547,377	1,582,050
Charges for Services	3,707,931	4,326,275	4,002,665
Fines and Forfeiture	4,040,011	3,953,627	4,091,260
Other Revenues	267,545	483,552	300,000
Investment Income	336,325	375,000	375,000
Transfers In	2,692,635	3,537,223	3,537,223
Total Revenues	$ 78,518,627	$ 75,167,310	$ 74,816,731
Expenditures			
Personal Services	$ 50,053,375	$ 49,588,104	$ 49,834,690
Supplies and Services	6,814,511	8,179,291	8,324,188
Utilities	2,399,553	2,244,414	2,244,414
Allocations	14,292,756	14,768,991	14,294,071
Capital Outlay	23,523	45,508	45,508
Stimulus Program	27,717	100,000	100,000
Transfers Out	5,209,312	280,787	1,201,987
Total Expenditures	$ 78,820,747	$ 75,207,095	$ 76,044,858

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

[2]As of February 2011, City Staff monitors actual revenues and expenditures monthly and revisions are made to forecasted budget numbers as necessary to reflect changes in the economy and changes in laws or regulations that might affect operations. The fiscal year 2011 budget reflects a planned draw-down of the General Fund balance for the year of $39,785. The current estimate is for a draw-down of the General Fund balance for the year of $1,228,127 based on the programming of additional fund balance in excess of the target balance not anticipated at the time of preparation of the fiscal year 2011 budget. The planned draw-down is consistent with the targeted ending fund balance for the General Fund of 60 days of operating expenses. Although no assurances can be given, the year to date operations indicate that the City will end the fiscal year at or above the targeted ending fund balance for the General Fund.

TABLE 18
CURRENT INVESTMENTS

As of March 31, 2011 the following percentages of the City's investable funds were invested in the following investment categories and the effective duration of the total City portfolio was 1.42 years.

Type of Investment	Amortized Value	Percentage
U.S. Agencies and Instrumentalities	$ 116,991,661	61.46%
Certificates of Deposit	30,232	0.02%
Government Pools[(1)]	73,334,544	38.52%
Total Securities	$ 190,356,437	100.00%

[(1)]The City's government pool investments are in the Texas Local Government Investment Pool ("TexPool") over which the Texas State Comptroller of Public Accounts exercises oversight responsibility. TexPool is rated AAAm by S&P and operates in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940 that governs money market mutual funds.

APPENDIX B

REPORT OF EXAMINATION FOR THE YEAR ENDED SEPTEMBER 30, 2010 BY GRANT THORNTON LLP, CERTIFIED PUBLIC ACCOUNTANTS, DALLAS TEXAS AND EXCERPTS OF THE CITY OF CARROLLTON, TEXAS SEPTEMBER 30, 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Grant Thornton

Report of Independent Certified Public Accountants

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the City), as of and for the year ended September 30, 2010, 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 as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, 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 our report dated January 25, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

GrantThornton

The Management's Discussion and Analysis on pages 3 through 15 and schedules of Texas Municipal Retirement System Analysis of Funding Progress and Retiree Health Plan Schedule of Funding Progress on pages 58 and 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As discussed in Note 13 to the accompanying financial statements, the City changed its method of accounting for intangible assets as of October 1, 2009, in connection with the adoption of GASB Statement No. 51, "Accounting and Reporting for Intangible Assets."

GRANT THORNTON LLP

Dallas, Texas
January 27, 2011

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2010
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

January 27, 2011

As management of the City of Carrollton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2010. In the broadest context, the financial well being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets and the City's desirability will be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses/expenditures higher or lower than the previous year? Have net assets (containing both short and long term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, (pages i-vii of this report) and the statistical section (pages 111-130 of this report) as well as information on the City's Council's Strategic Goals, the annual budget and other community information found on the City's website at www.cityofcarrollton.com. It should be noted that the Independent Auditors' Report describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$476,782 (net assets). This number must be viewed in the context that the vast majority of the City's net assets of \$360,134 (75.5%) are invested in capital assets, net of related debt, and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Those net assets restricted for specific purposes total \$9,439 (2.0%). The remaining \$107,209 (22.5%) are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net assets increased by \$10,126 in fiscal year 2010.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,749. Within this total \$28,267 is restricted by specific legal requirements, such as by debt covenants and \$57,974 has been committed and assigned to specific types of expenditures. The remaining \$16,508 is unassigned fund balance in the general fund and can be used for any lawful purpose.

- The City's long-term liabilities increased by $2,091 due primarily to the issuance of bonds for capital improvements offset by existing debt retirements.

- The City, like most governments, has been impacted by the current economic downturn. The City has seen certain revenues stagnate or decline and has moved aggressively to reduce expenditures accordingly. The City also benefits from strong fund balances and conservative financial practices. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The City maintains 15 governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Streets and Drainage, and General and Public Facilities funds, all of which are considered to be major funds. Data from the other 11 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the Comprehensive Annual Financial Report. The basic governmental funds financial statements can be found on pages 18-22.

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-57.

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

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $476,782 as of September 30, 2010.

The largest portion of the City's net assets $360,134 (75.5%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets $9,439 (2.0%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets $107,209 (22.5%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON, TEXAS

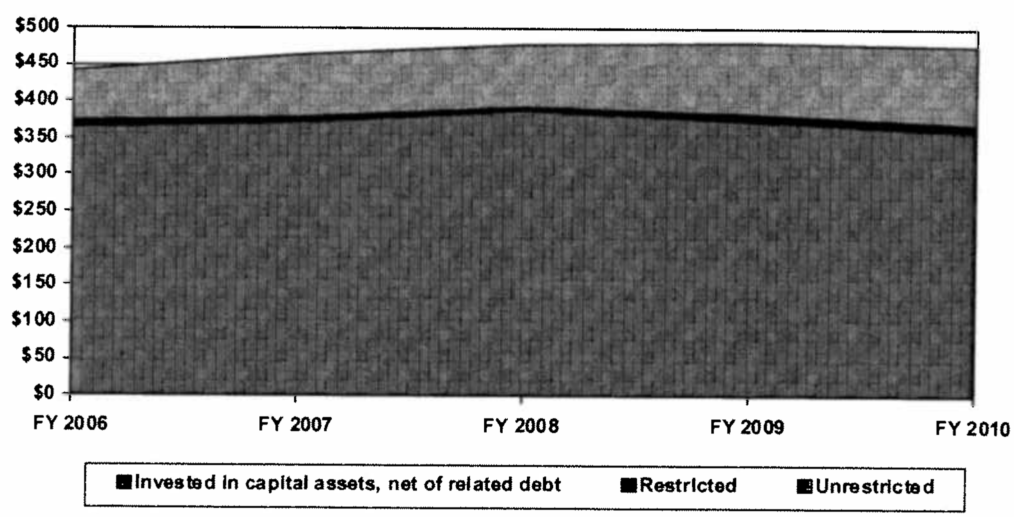
Management's Discussion and Analysis
For the Year Ended September 30, 2010
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	$ 135,223	$ 136,508	$ 34,856	$ 35,077	$ 170,079	$ 171,585
Capital assets, net	386,550	386,434	153,309	148,499	539,859	534,933
Total Assets	521,773	522,942	188,165	183,576	709,938	706,518
Long term liabilities	182,421	186,581	28,469	26,400	210,890	212,981
Other liabilities	12,835	11,517	5,629	5,238	18,464	16,755
Total Liabilities	195,256	198,098	34,098	31,638	229,354	229,736
Net Assets:						
Invested in capital net of related debt	247,857	236,526	126,415	123,608	374,272	360,134
Restricted	7,220	7,596	2,009	1,843	9,229	9,439
Unrestricted	71,440	80,722	25,643	26,487	97,083	107,209
Total Net Assets	$ 326,517	$ 324,844	$ 154,067	$ 151,938	$ 480,584	$ 476,782

As of September 30, 2010, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

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

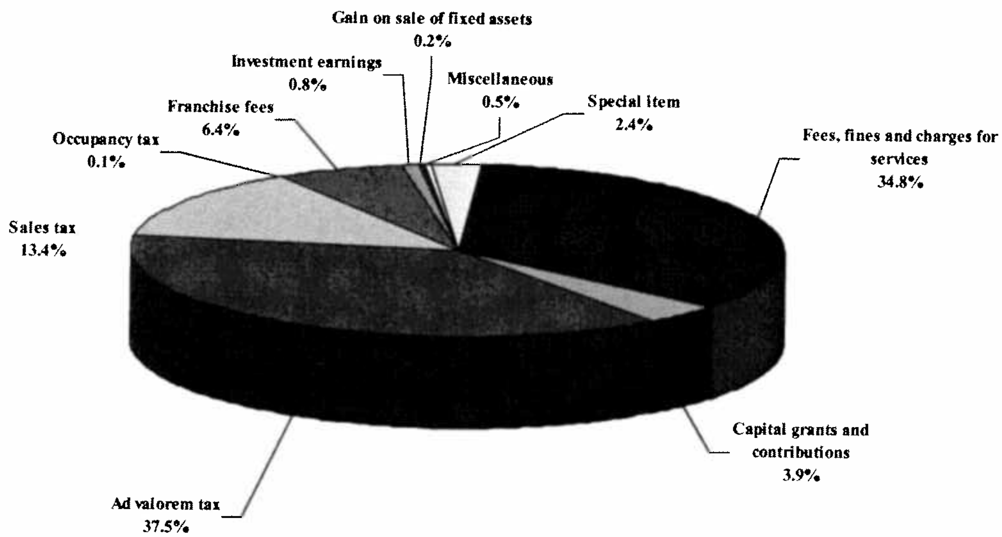


The current and other assets increased in the Governmental and Business-type activities by $1,285 and $221, respectively. Increase in the Governmental activities is primarily due to issuance of debt and accumulation of other funds for future capital expenditures offset by acquisition and construction of capital assets.

The City's long-term liabilities increased by $2,091 due primarily to the issuance of bonds for capital improvements offset by existing debt retirements.

Analysis of the City's Operations – Overall the City had a decrease in net assets of $3,802 or .8%.

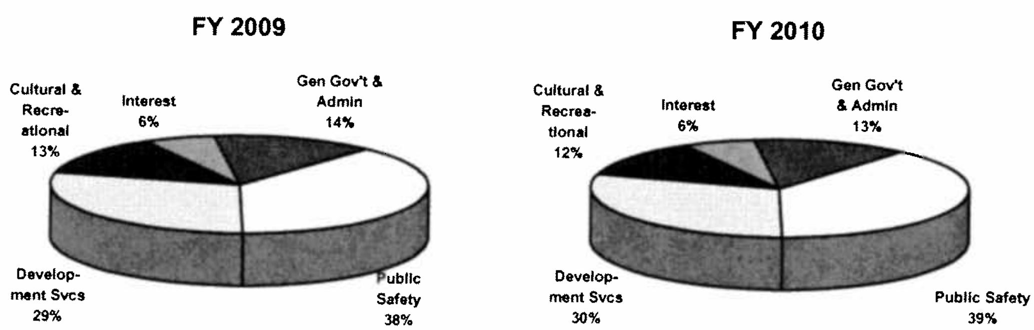
Changes in Net Assets
Revenue by Major Category
Governmental and Business-Type Activities
For the Fiscal Year Ended September 30, 2010



Governmental Activities: Governmental activities net assets decreased by $1,673. Net assets invested in capital assets, net of related debt decreased by $11,331 or 4.6% primarily due to issuance of additional debt and expenditure of debt proceeds for acquisition and construction of capital assets. Restricted net assets increased $376 or 5.2% primarily due to an increase in funds restricted for debt service. Unrestricted net assets increased by $9,282 or 13.0% primarily due to unrestricted funds accumulated for future capital expenditures.

Excluding transfers from business-type activities, total revenues for governmental activities decreased from the previous year by $31. General revenue (excluding transfers) had a net decrease of $939 or 1.0%. In General Revenues, ad valorem tax experienced a decrease of $1,577 due to a decline in the tax base. Additionally, there were decreases in sales taxes of $1,082, franchise fees of $302 and investment earnings of $2,013 due to effects of the declining economy. These decreases were offset by a special item from a change in the payment schedule on electric franchise fees from Oncor Electric Delivery Company LLC (Oncor). During fiscal year 2010, payment of electric franchise fees from Oncor were changed from annually, based on a calendar year, to quarterly. For fiscal year 2010, in addition to the revenues recorded for the annual payment for the calendar year 2009, revenue was recorded for the three quarterly payments covering the months of January 2010 through September 2010. This resulted in 21 months of franchise revenue being recorded in fiscal year 2010. Revenues of $3,612 for the additional nine months have been treated as a special item. Other general revenues increased $423. Program revenues had a $908 or 6.1% net increase primarily due to increases in capital contributions from developers, and fees, fines and charges for services. Net transfers from the business type activities to governmental activities decreased by $48 from the previous year.

Expenses by Type
Governmental Activities



Total expenses for governmental activities decreased $856 or .7%.

<u>Business-type Activities:</u> Net Assets from business-type activities decreased by $2,129 or 1.4% from $154,067 to $151,938. Net assets invested in capital assets, net of related debt, decreased by $2,807 or 2.2% primarily due to capital asset depreciation offset by retirements of related debt. Unrestricted net assets increased by $844 or 3.3%. Restricted net assets decreased by $166 due to reduction in the required reserve for revenue bonds.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2010
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City's operations for year ended September 30, 2010 with comparative totals for year ended September 30, 2009.

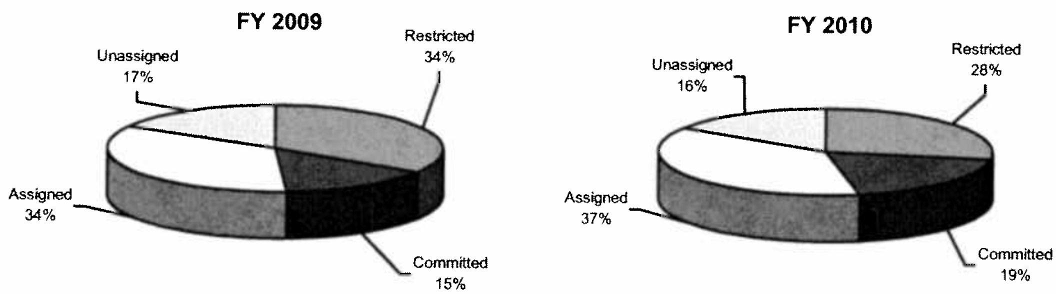
CITY OF CARROLLTON'S CHANGES IN NET ASSETS
(Amounts in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Revenues:						
Program Revenues:						
Fees, fines and charges for services	$ 9,691	$ 10,392	$ 42,605	$ 41,992	$ 52,296	$ 52,384
Operating grants and contributions	234	32	-	-	234	32
Capital grants and contributions	4,980	5,389	7,372	437	12,352	5,826
General revenues:						
Ad valorem taxes	58,108	56,531	-	-	58,108	56,531
Sales tax	21,185	20,103	-	-	21,185	20,103
Occupancy tax	131	169	-	-	131	169
Franchise fees	9,955	9,653	-	-	9,955	9,653
Investment earnings	3,016	1,003	746	181	3,762	1,184
Gain on sale of capital assets	-	364	1	6	1	370
Miscellaneous	644	665	45	24	689	689
Special item	-	3,612	-	-	-	3,612
Total revenues	107,944	107,913	50,769	42,640	158,713	150,553
Expenses:						
General government and administration	16,135	15,023	-	-	16,135	15,023
Public safety	43,859	44,043	-	-	43,859	44,043
Development services	33,615	33,811	-	-	33,615	33,811
Cultural and recreational	14,146	14,069	-	-	14,146	14,069
Interest on long term debt	6,969	6,922	-	-	6,969	6,922
Water and Sewer	-	-	33,318	32,866	33,318	32,866
Golf	-	-	1,036	951	1,036	951
Sanitation	-	-	6,548	6,670	6,548	6,670
Total expenses	114,724	113,868	40,902	40,487	155,626	154,355
Increase (decrease) in net assets before transfers	(6,780)	(5,955)	9,867	2,153	3,087	(3,802)
Transfers	4,330	4,282	(4,330)	(4,282)	-	-
Increase (decrease) in net assets	(2,450)	(1,673)	5,537	(2,129)	3,087	(3,802)
Net assets October 1	328,967	326,517	148,530	154,067	477,497	480,584
Net assets September 30	$ 326,517	$ 324,844	$ 154,067	$ 151,938	$ 480,584	$ 476,782

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Fund Balances by Type
Governmental Funds



At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $102,749. Within this total $28,267 is restricted by specific legal requirements, such as by debt covenants, and $57,974 has been committed and assigned to specific types of expenditures. The remaining $16,508 is unassigned fund balance in the general fund and can be used for any lawful purpose.

In the general fund, the City originally budgeted for a fund balance decrease in the current year of $741. It is one of the City's financial policies to maintain fund balance in the general fund equal to 60 days expenditures and when those balances significantly exceed the 60 day target to transfer the excess to capital project funds to fund pay as you go capital expenditures. Due to actual expenditures being less than originally budgeted and revenues being more than originally budgeted, transfers out to capital projects funds were increased and the actual budget basis fund balance change was a decrease for fiscal year 2010 of $179. This better than budget performance is due to the City's continued emphasis on expenditure control including close monitoring of expenditures in the final days of the fiscal year. The amount of excess fund balance exceeding the fiscal year 2010 budget will be addressed during the fiscal year 2012 budget deliberations. Debt service fund balance increased in 2010 by $518 due to better than projected property tax receipts and lower than projected interest expenditures on debt service. Streets and Drainage Capital Projects fund balance increased in 2010 by $504 due to proceeds from bonds issued offset by capital outlay expenditures. General and Public Facilities Capital Projects fund balance increased in 2010 by $5,090 due to proceeds from bonds issued and transfers from other funds for future capital projects.

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

Unrestricted net assets of the respective enterprise funds are $24,841 for Water and Sewer, $1,001 for Golf Course and $401 for Sanitation. The total of all enterprise fund net assets of $151,694 is adjusted by $244 for the consolidation of the internal service fund activities related to enterprise funds to equal the total net assets for business-type activities in the entity-wide statements of $151,938. Change in net assets for enterprise funds in 2010 were ($2,024) in the Water and Sewer Fund, ($413) in the Golf Course Fund and $420 in the Sanitation Fund.

General Fund Budgetary Highlights - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of 1.7% or $1,343. Management's estimate of the General Fund's budgeted revenues increased $1,346 from original budget based on year-to-date experience. This increase in revenues was primarily related to the change in the Oncor electric franchise payment schedule mentioned previously providing an additional budgeted revenue of $3,612 offset by decreases in property taxes of $334, sales tax of $871, other franchise fees of $639, and investment income of $425.

Amounts in Thousands Unless Stated Otherwise

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to $534,933 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, intangibles, improvements, and infrastructure and construction in progress. The total decrease in the City's investment in capital assets for the current fiscal year was .9% (.03% decrease for governmental activities and 3.1% decrease in business-type activities.)

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

- Construction of Animal Shelter totaling $2.8 million
- Parks and recreation center improvements totaling $4.3 million, including $3.4 million in renovations of Crosby Recreation Center
- Water and sewer system infrastructure improvements totaling $3.6 million, including $19 thousand in developer contributions
- Street and Alley Improvements of $16.9 million, including $1.1 million in developer contributions
- Drainage Improvements of $3.6 million, including $2.1 million in developer contributions

Capital Assets at Year-end
Net of Accumulated Depreciation

	Governmental activities		Business-type activities		Total	
	2009	2010	2009	2010	2009	2010
Land	$ 104,465	$ 105,066	$ 2,368	$ 2,368	$ 106,833	$ 107,434
Buildings	21,774	26,338	5,210	4,844	26,984	31,182
Equipment	10,811	9,616	2,592	2,135	13,403	11,751
Intangibles	2,310	2,063	73	51	2,383	2,114
Improvements	29,553	28,706	2,689	2,092	32,242	30,798
Infrastructure	214,348	214,581	140,377	137,009	354,725	351,590
Construction in Progress	3,289	64	-	-	3,289	64
Total	$ 386,550	$ 386,434	$ 153,309	$ 148,499	$ 539,859	$ 534,933

Additional information on the City's capital assets can be found in note 4 on pages 38-40 of this report.

Amounts in Thousands Unless Stated Otherwise

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of $199,127. Of this amount, $175,695 comprises bonded debt backed by the full faith and credit of the government and $23,432 represents bonds secured solely by water and sewer revenues.

Outstanding Debt at Year End
Bonds and Notes Payable

	Governmental activities		Business-type activities		Total	
	2009	2010	2009	2010	2009	2010
General Obligation Bonds	$ 167,077	$ 172,942	$ -	$ -	$ 167,077	$ 172,942
Revenue Bonds	-	-	25,299	23,432	25,299	23,432
Certificates of Obligation	861	438	2,570	2,315	3,431	2,753
Total	$ 167,938	$ 173,380	$ 27,869	$ 25,747	$ 195,807	$ 199,127

During the fiscal year, the City's total debt increased by $3,320 or 1.7% due to proceeds from bonds issued offset by existing debt retirements.

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

	Moody's Investors Service	Standard & Poor's	Fitch
General Obligation Bonds	Aa1	AAA	AAA
Certificates of Obligation	Aa1	AAA	AAA
Revenue Bonds	Aa2	AAA	AAA

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's long term-debt can be found in footnote 5 on pages 40-45 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In the fiscal year 2011 Budget, General Fund revenues are budgeted to decrease by 4.7% from the fiscal year 2010 final budget with ad valorem taxes making up 43.6% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, decreased 3.2% for the fiscal year 2011 budget compared to a 2.5% decrease in the previous year's budget.

In this coming fiscal year, the City's budget will continue to be impacted by the economic downturn. On the positive side, the City continues to develop commercially and is aggressively pursuing Transit Oriented Development opportunities with light rail service to the City which opened December 6, 2010. Sales tax receipts declined in fiscal years 2008 to 2010 after growing five years in a row. This revenue source is the most volatile and subject to further declines as the regional or national economy continues to suffer.

The Water and Sewer Operating Fund is budgeted in fiscal year 2011 to operate at a small net surplus in fiscal year 2011.

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.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Net Assets
September 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 61,002,622	$ 13,989,966	$ 74,992,588
Investments	37,171,773	10,642,230	47,814,003
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	-	-	-
Other taxes	4,171,595	-	4,171,595
Accounts	-	5,063,987	5,063,987
Accrued interest	117,145	22,516	139,661
Other	155,959	102,957	258,916
Due from other governments	316,167	-	316,167
Internal balances	37,520	(37,520)	-
Inventories	50,607	-	50,607
Prepaid items	129,740	-	129,740
Restricted assets:			
Investments	31,209,521	5,039,914	36,249,435
Deferred charges	1,288,092	216,745	1,504,837
Net pension asset	856,753	36,555	893,308
Capital assets:			
Land	105,066,469	2,367,868	107,434,337
Buildings	54,852,413	19,563,656	74,416,069
Equipment	24,659,735	5,155,393	29,815,128
Intangibles	6,080,654	729,892	6,810,546
Improvements	37,883,511	11,178,031	49,061,542
Infrastructure	305,066,249	215,720,785	520,787,034
Construction in progress	63,586	-	63,586
Accumulated depreciation	(147,238,602)	(106,216,889)	(253,455,491)
Total assets	522,941,509	183,576,086	706,517,595
Liabilities			
Accounts payable	9,244,501	2,828,085	12,072,586
Customer deposits payable	-	1,972,282	1,972,282
Accrued interest	900,350	437,913	1,338,263
Arbitrage liability	30,232	-	30,232
Unearned revenue	1,341,886	-	1,341,886
Noncurrent liabilities:			
Due within one year	13,595,781	2,217,874	15,813,655
Due in more than one year	172,985,106	24,181,654	197,166,760
Total liabilities	198,097,856	31,637,808	229,735,664
Net assets			
Invested in capital assets, net of related debt	236,526,305	123,607,558	360,133,863
Restricted for:			
Debt service	4,964,453	1,843,461	6,807,914
Capital projects and special revenue purposes	2,631,577	-	2,631,577
Unrestricted	80,721,318	26,487,259	107,208,577
Total net assets	$ 324,843,653	$ 151,938,278	$ 476,781,931

See acompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Activities
For the Year Ended September 30, 2010

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
Program Activities	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activites	Business-type Activities	Total
Governmental activities							
General government and administration	$ 15,023,107	$ 126,497	$ -	$ -	$ (14,896,610)	$ -	$ (14,896,610)
Public safety	44,042,950	6,630,295	31,425	127,255	(37,253,975)	-	(37,253,975)
Development services	33,811,295	1,159,367	-	5,202,782	(27,449,146)	-	(27,449,146)
Cultural and recreational	14,068,566	2,475,389	-	59,157	(11,534,020)	-	(11,534,020)
Interest on long-term debt	6,921,692	-	-	-	(6,921,692)	-	(6,921,692)
Total governmental activities	113,867,610	10,391,548	31,425	5,389,194	(98,055,443)	-	(98,055,443)
Business-type activites:					-		
Water and sewer	32,866,464	33,394,525	-	436,710	-	964,771	964,771
Golf	950,736	819,035	-	-	-	(131,701)	(131,701)
Sanitation	6,669,493	7,778,811	-	-	-	1,109,318	1,109,318
Total business-type activities	40,486,693	41,992,371	-	436,710	-	1,942,388	1,942,388
Total government	$ 154,354,303	$ 52,383,919	$ 31,425	$ 5,825,904	(98,055,443)	1,942,388	(96,113,055)
General revenues:							
Taxes:							
Ad valorem					56,530,661	-	56,530,661
Sales					20,103,257	-	20,103,257
Occupancy					168,725	-	168,725
Franchise fees					9,653,252	-	9,653,252
Investment earnings					1,002,342	180,815	1,183,157
Gain on sale of capital assets					364,151	5,902	370,053
Miscellaneous					664,755	24,589	689,344
Special Item					3,612,167	-	3,612,167
Transfers					4,282,338	(4,282,338)	-
Total general revenues and transfers					96,381,648	(4,071,032)	92,310,616
Change in net assets					(1,673,795)	(2,128,644)	(3,802,439)
Net assets at beginning of year					326,517,448	154,066,922	480,584,370
Net assets at end of year					$ 324,843,653	$ 151,938,278	$ 476,781,931

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Balance Sheet
Governmental Funds
September 30, 2010

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 18,115,532	$ 5,901,685	$ 36,365,611	$ 31,841,275	$ 15,806,217	$ 108,030,320
Receivables (net, where applicable, of allowance for doubtful accounts):						
Ad valorem taxes	-	-	-	-	-	-
Other taxes	4,101,148	-	-	70,447	-	4,171,595
Accrued interest	40,215	-	27,708	20,853	11,285	100,061
Other	85,638	-	-	-	-	85,638
Due from other funds	282,066	-	-	-	-	282,066
Prepaid items	-	-	-	-	83,312	83,312
Due from other governments	-	-	-	131,623	184,544	316,167
Total assets	$ 22,624,599	$ 5,901,685	$ 36,393,319	$ 32,064,198	$ 16,085,358	$ 113,069,159
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 5,859,634	$ 6,650	$ 1,738,017	$ 297,969	$ 798,917	$ 8,701,187
Arbitrage liability	-	30,232	-	-	-	30,232
Deferred revenue	-	-	-	131,623	115,543	247,166
Unearned revenue	11,433	-	988,951	296,768	44,734	1,341,886
Total liabilities	5,871,067	36,882	2,726,968	726,360	959,194	10,320,471
Fund balances:						
Restricted for:						
Debt service	-	5,864,803	-	-	-	5,864,803
Streets and drainage	-	-	13,907,997	-	-	13,907,997
Public facilities	-	-	-	3,060,169	-	3,060,169
Other capital projects	-	-	-	161,168	3,337,187	3,498,355
Other purposes	-	-	-	-	1,935,559	1,935,559
Committed to:						
Transit oriented development	-	-	-	8,966,511	-	8,966,511
Street rehabiliation	-	-	6,971,443	-	-	6,971,443
Other capital projects	-	-	-	-	3,657,818	3,657,818
Assigned to:						
Encumbrances	245,183	-	-	-	-	245,183
Streets and drainage	-	-	12,786,911	-	-	12,786,911
Public facilities	-	-	-	19,149,990	-	19,149,990
Other capital projects	-	-	-	-	6,118,770	6,118,770
Other purposes	-	-	-	-	76,830	76,830
Unassigned	16,508,349	-	-	-	-	16,508,349
Total fund balances	16,753,532	5,864,803	33,666,351	31,337,838	15,126,164	102,748,688
Total liabilities and fund balances	$ 22,624,599	$ 5,901,685	$ 36,393,319	$ 32,064,198	$ 16,085,358	$ 113,069,159

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets
September 30, 2010

Total fund balance - total governmental funds		$ 102,748,688
Amounts reported for governmental activities in the statement of net assets are different because:		
Net pension asset in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Includes net pension assets of Internal Service Funds.		856,753
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Includes capital assets of Internal Service Funds.		386,434,015
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		247,166
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(900,350)
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	$ 21,538,036	
Accounts payable	(543,314)	
Net amount allocated to business-type activities	(244,546)	20,750,176
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	$ 13,595,781	
Due in more than one year	172,985,106	
Deferred charges	(1,288,092)	(185,292,795)
Net assets of governmental activities		$ 324,843,653

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2010

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Ad valorem	$ 32,408,660	$18,340,788	3,165,571	-	$ 2,204,082	$ 56,119,101
Penalty and interest	280,630	130,930	-	-	-	411,560
Sales	20,103,257	-	-	-	-	20,103,257
Occupancy	-	-	-	-	168,725	168,725
Franchise fees	12,993,005	-	-	272,414	-	13,265,419
Assessments	-	-	4,260	-	254,448	258,708
Charges for services	3,834,428	-	-	-	3,900	3,838,328
Intergovernmental	4,598	-	539,846	239,428	1,755,882	2,539,754
Licenses and permits	1,688,628	-	-	-	-	1,688,628
Fines and forfeitures	4,040,011	-	-	117,854	448,018	4,605,883
Investment income	352,073	15,237	217,899	166,295	108,437	859,941
Miscellaneous	252,943	-	2,843	203,245	205,724	664,755
Total revenues	75,958,233	18,486,955	3,930,419	999,236	5,149,216	104,524,059
Expenditures:						
Current:						
General government and administration	13,427,628	-	-	-	-	13,427,628
Public safety	42,096,694	-	-	-	323,299	42,419,993
Development services	10,013,402	-	-	-	2,516	10,015,918
Cultural and recreational	10,527,915	-	-	-	506,057	11,033,972
Capital outlay	-	-	15,759,443	5,836,210	6,162,604	27,758,257
Debt service:						
Principal retirement	-	10,950,000	-	-	-	10,950,000
Interest and fiscal charges	-	7,019,015	-	-	-	7,019,015
Total expenditures	76,065,639	17,969,015	15,759,443	5,836,210	6,994,476	122,624,783
Excess (deficiency) of revenues over expenditures	(107,406)	517,940	(11,829,024)	(4,836,974)	(1,845,260)	(18,100,724)
Other financing sources (uses):						
Bonds issued	-	-	12,890,000	1,000,000	1,710,000	15,600,000
Refunding bonds issued	-	11,815,000	-	-	-	11,815,000
Premium on bonds issued	-	650,963	288,092	-	-	939,055
Payment to refunded bond escrow agent	-	(12,465,963)	-	-	-	(12,465,963)
Sale of capital assets	29,382	-	-	-	-	29,382
Transfers in	4,828,644	-	-	8,993,293	911,132	14,733,069
Transfers out	(5,208,833)	-	(845,132)	(66,000)	(3,836,293)	(9,956,258)
Total other financing sources (uses)	(350,807)	-	12,332,960	9,927,293	(1,215,161)	20,694,285
Net change in fund balances	(458,213)	517,940	503,936	5,090,319	(3,060,421)	2,593,561
Fund balances at beginning of year	17,211,745	5,346,863	33,162,415	26,247,519	18,186,585	100,155,127
Fund balances at end of year	$ 16,753,532	$ 5,864,803	33,666,351	31,337,838	$ 15,126,164	$ 102,748,688

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2010

Net change in fund balances - total governmental funds		$ 2,593,561
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report all payments to pensions as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered as expense. Any excess payment is recorded an asset. Change in net pension asset.		253,775
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 outlay recorded as capital assets in the current period.		22,805,180
The net effect of various transactions involving capital assets.		
Capital contributions	$ 3,257,236	
Asset retirements/disposals	304,660	3,561,896
Depreciation expense on capital assets 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, depreciation expense is not reported as expenditure in governmental funds.		(26,628,109)
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 costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bonds issued	$ (15,600,000)	
Refunding bonds issued	(11,815,000)	
Premium on bonds issued	(939,055)	
Payment to refund bond escrow agent	12,465,963	
Bond principal retirement	10,950,000	
Amortization of deferred charges	(86,467)	
Amortization of bond premiums/discounts	406,992	
Amortization of bond refunding losses	(222,335)	(4,839,902)
Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net assets compensated absences are expensed as they are accrued. Change in the compensated absences liability.		(126,237)
Some property tax and intergovernmental revenues will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on fund statements.		(376,370)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest.		(867)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported with governmental activities net of amount allocated to business-type activities and depreciation expense.		
Change in net assets	$ (582,988)	
Net of amount allocated to business activities	111,710	
Depreciation expense	1,554,556	1,083,278
Change in net assets of governmental activities		$ (1,673,795)

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended September 30, 2010

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with
			GAAP	Budget	Budget	Final Budget Positive
	Original	Final	Basis	Basis	Basis	(Negative)
Revenues:						
Taxes:						
Ad valorem	$ 32,193,433	$ 31,859,405	$ 32,408,660	$ -	$ 32,408,660	$ 549,255
Penalty and interest	250,000	250,000	280,630	-	280,630	30,630
Sales	20,954,500	20,084,000	20,103,257	-	20,103,257	19,257
Franchise fees	10,165,345	13,138,225	12,993,005	-	12,993,005	(145,220)
Charges for services	4,093,653	4,119,814	3,834,428	-	3,834,428	(285,386)
Intergovernmental	-	-	4,598	-	4,598	4,598
Licenses and permits	1,750,750	1,547,377	1,688,628	-	1,688,628	141,251
Fines and forfeitures	3,466,200	3,773,099	4,040,011	-	4,040,011	266,912
Investment income	815,000	390,000	352,073	904	352,977	(37,023)
Miscellaneous	502,090	375,125	252,943	-	252,943	(122,182)
Total revenues	74,190,971	75,537,045	75,958,233	904	75,959,137	422,092
Expenditures:						
Current:						
General government and administration	13,545,918	14,498,564	13,427,628	94,853	13,522,481	976,083
Public safety	42,839,581	42,115,924	42,096,694	(59,304)	42,037,390	78,534
Development services	10,996,685	10,393,794	10,013,402	8,095	10,021,497	372,297
Cultural and recreational	11,772,855	10,803,992	10,527,915	1,839	10,529,754	274,238
Total expenditures	79,155,039	77,812,274	76,065,639	45,483	76,111,122	1,701,152
Deficiency of revenues under expenditures	(4,964,068)	(2,275,229)	(107,406)	(44,579)	(151,985)	2,123,244
Other financing sources (uses):						
Sale of capital assets	-	-	29,382	-	29,382	29,382
Transfers in	5,052,334	5,197,139	4,828,644	324,000	5,152,644	(44,495)
Transfers out	(829,295)	(5,208,833)	(5,208,833)	-	(5,208,833)	-
Total other financing sources (uses)	4,223,039	(11,694)	(350,807)	324,000	(26,807)	(15,113)
Net change in fund balances	(741,029)	(2,286,923)	(458,213)	279,421	(178,792)	2,108,131
Fund balances at beginning of year	16,396,929	16,396,929	17,211,745	(814,816)	16,396,929	-
Fund balances at end of year	$ 15,655,900	$ 14,110,006	$ 16,753,532	$ (535,395)	$ 16,218,137	$ 2,108,131

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Assets
Proprietary Funds
September 30, 2010

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Totals	
Assets					
Current Assets:					
Cash and cash equivalents	$ 23,025,703	$ 913,363	$ 693,130	$ 24,632,196	$ 21,353,596
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	4,257,529	-	806,458	5,063,987	-
Accrued interest	20,925	752	839	22,516	17,084
Other	-	102,957	-	102,957	70,321
Inventories	-	-	-	-	50,607
Prepaid items	-	-	-	-	46,428
Restricted assets:					
Cash and cash equivalents	3,196,453	-	-	3,196,453	-
Total current assets	30,500,610	1,017,072	1,500,427	33,018,109	21,538,036
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,843,461	-	-	1,843,461	-
Deferred charges	204,168	12,577	-	216,745	-
Net pension asset	36,555	-	-	36,555	3,066
Capital assets:					
Land	1,372,868	995,000	-	2,367,868	-
Buildings	18,038,700	1,524,956	-	19,563,656	176,409
Equipment	2,979,010	716,080	1,460,303	5,155,393	16,397,190
Intangibles	729,892	-	-	729,892	87,557
Improvements	-	11,178,031	-	11,178,031	-
Infrastructure	215,720,785	-	-	215,720,785	-
Accumulated depreciation	(94,445,790)	(11,255,618)	(515,481)	(106,216,889)	(10,614,853)
Total capital assets, net of accumulated depreciation	144,395,465	3,158,449	944,822	148,498,736	6,046,303
Total noncurrent assets	146,479,649	3,171,026	944,822	150,595,497	6,049,369
Total assets	176,980,259	4,188,098	2,445,249	183,613,606	27,587,405
Liabilities					
Current liabilities:					
Accounts payable	1,999,522	10,974	817,589	2,828,085	543,314
Due to other funds	-	-	282,066	282,066	-
Estimated health claims payable	-	-	-	-	857,000
Customer deposits payable	1,972,282	-	-	1,972,282	-
Revenue bonds payable	1,894,825	-	-	1,894,825	-
Certificates of obligation payable	-	275,000	-	275,000	-
Compensated absences	48,049	-	-	48,049	12,566
Accrued interest	420,004	17,909	-	437,913	-
Total current liabilities	6,334,682	303,883	1,099,655	7,738,220	1,412,880
Noncurrent liabilities:					
Revenue bonds payable	21,485,520	-	-	21,485,520	-
Certificates of obligation payable	-	2,040,000	-	2,040,000	-
Compensated absences	656,134	-	-	656,134	14,735
Long-term risk liability	-	-	-	-	1,340,706
Total noncurrent liabilities	22,141,654	2,040,000	-	24,181,654	1,355,441
Total liabilities	28,476,336	2,343,883	1,099,655	31,919,874	2,768,321
Net Assets					
Invested in capital assets, net of related debt	121,819,287	843,449	944,822	123,607,558	6,046,303
Restricted for:					
Revenue bond retirement	1,843,461	-	-	1,843,461	-
Unrestricted	24,841,175	1,000,766	400,772	26,242,713	18,772,781
Total net assets	$ 148,503,923	$ 1,844,215	$ 1,345,594	151,693,732	$ 24,819,084

Reconciliation to government-wide statement of net assets:	
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	244,546
Net assets of business-type activities	$ 151,938,278

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2010

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	$ 33,394,525	$ 819,035	$ 7,778,811	$ 41,992,371	$ 14,252,485
Miscellaneous	24,589	-	-	24,589	-
Total operating revenues	33,419,114	819,035	7,778,811	42,016,960	14,252,485
Operating expenses:					
Personal services	3,573,380	-	-	3,573,380	715,467
Supplies and services	18,418,310	67,889	6,385,646	24,871,845	12,092,894
Utilities	905,799	-	4,347	910,146	36,043
Allocations	1,098,674	9,468	83,392	1,191,534	80,585
Depreciation	7,650,919	707,922	146,030	8,504,871	1,554,556
Total operating expenses	31,647,082	785,279	6,619,415	39,051,776	14,479,545
Income (loss) from operations	1,772,032	33,756	1,159,396	2,965,184	(227,060)
Nonoperating revenues (expenses):					
Investment income	166,242	7,018	7,555	180,815	142,401
Gain (loss) on sale/retirement of capital assets	5,902	(3,076)	-	2,826	30,109
Interest expense	(1,139,304)	(158,491)	(22,336)	(1,320,131)	-
Total nonoperating revenues (expenses)	(967,160)	(154,549)	(14,781)	(1,136,490)	172,510
Income (loss) before contributions and transfers	804,872	(120,793)	1,144,615	1,828,694	(54,550)
Capital contributions	436,710	-	-	436,710	-
Transfers out	(3,265,278)	(291,953)	(725,107)	(4,282,338)	(528,438)
Change in net assets	(2,023,696)	(412,746)	419,508	(2,016,934)	(582,988)
Net assets at beginning of year	150,527,619	2,256,961	926,086		25,402,072
Net assets at end of year	$ 148,503,923	$ 1,844,215	$ 1,345,594		$ 24,819,084

Reconciliation to government-wide statement of activities:	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(111,710)
Change in net assets of business-type activities	$ (2,128,644)

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Cash flows from operating activities:					
Cash received from customers for services	$ 32,814,943	$ 933,839	$ 7,796,703	$ 41,545,485	$ -
Cash received from employees for services	-	-	-	-	1,912,565
Cash received from other funds for services	-	-	-	-	12,301,729
Cash received from loss claim recoveries	-	-	-	-	204,021
Other operating cash receipts	24,589	-	-	24,589	-
Cash payments to suppliers for goods and services	(19,791,089)	(67,618)	(6,450,364)	(26,309,071)	(4,153,458)
Cash payments to employees for services	(3,148,237)	-	-	(3,148,237)	(751,022)
Cash payment for loss claims	-	-	-	-	(8,355,427)
Cash payments to other funds for services	(1,080,553)	(10,175)	(67,521)	(1,158,249)	(145,993)
Net cash provided by operating activities	8,819,653	856,046	1,278,818	10,954,517	1,012,415
Cash flows from noncapital financing activities:					
Transfers to other funds	(3,265,278)	(291,953)	(725,107)	(4,282,338)	(528,438)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(4,038,421)	(46,725)	-	(4,085,146)	(315,241)
Proceeds from sale of capital assets	7,600	12,134	-	19,734	98,003
Interest paid on bonds	(1,082,259)	(158,575)	-	(1,240,834)	-
Interest paid on interfund loan	-	-	(22,336)	(22,336)	-
Retirement of bonds	(1,850,000)	(255,000)	-	(2,105,000)	-
Retirement of interfund loan	-	-	(301,664)	(301,664)	-
Capital contributions	417,990	-	-	417,990	-
Net cash used by capital and related financing activities	(6,545,090)	(448,166)	(324,000)	(7,317,256)	(217,238)
Cash flow from investing activities:					
Interest on cash and cash equivalents	187,232	7,364	8,078	202,674	156,092
Net increase (decrease) in cash and cash equivalents	(803,483)	123,291	237,789	(442,403)	422,831
Cash and cash equivalents, October 1	28,869,100	790,072	455,341	30,114,513	20,930,765
Cash and cash equivalents, September 30	$ 28,065,617	$ 913,363	$ 693,130	$ 29,672,110	$ 21,353,596

(Continued)

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	$ 1,772,032	$ 33,756	$ 1,159,396	$ 2,965,184	$ (227,060)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:					
Depreciation	7,650,919	707,922	146,030	8,504,871	1,554,556
Provision for doubtful accounts	59,031	-	15,871	74,902	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(705,004)	-	17,892	(687,112)	-
Decrease in other receivables	-	114,804	-	114,804	(38,191)
Decrease in inventories	-	-	-	-	62,531
Decrease in prepaid items	-	-	-	-	121,872
Decrease in net pension asset	(15,075)			(15,075)	10,858
Increase (decrease) in accounts payable	(30,915)	(436)	(60,371)	(91,722)	367,085
Increase in estimated health claims payable	-	-	-	-	(758,000)
Increase in deposits	125,422	-	-	125,422	-
Decrease in liability for compensated absences	(36,757)	-	-	(36,757)	(81,236)
Net cash provided by operating activities	$ 8,819,653	$ 856,046	$ 1,278,818	$ 10,954,517	$ 1,012,415

Noncash investing, capital and financing activities:
During this past year, the Enterprise Funds received $18,720 noncash capital contributions from developers consisting of water and sewer infrastructure. Additionally, the Internal Service Funds transferred assets with a net value of $23,350 to the Governmental Activities.

	Water and Sewer	Golf Course	Sanitation	Total	Governmental Activities- Internal Service Funds
Reconciliation of total cash and cash equivalents:					
Current assets:					
Cash and cash equivalents	$ 23,025,703	$ 913,363	$ 693,130	$ 24,632,196	$ 21,353,596
Restricted assets - cash and cash equivalents	3,196,453	-	-	3,196,453	-
Noncurrent assets:					
Restricted assets - cash and cash equivalents	1,843,461	-	-	1,843,461	-
Total cash and cash equivalents	$ 28,065,617	$ 913,363	$ 693,130	$ 29,672,110	$ 21,353,596

See accompanying notes to basic financial statements.

(Concluded)

(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 (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled State and Local Governments – Audit and Accounting Guide 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 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. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exception to this general rule is interfund services provided by the internal service funds. Elimination of these charges would distort the direct costs reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements:

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

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

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

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

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

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

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net 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 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 billing, collection and payment for solid waste collection and disposal services. All costs are financed through charges to sanitation customers.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net 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 revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

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

E. Budgetary Control

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

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1.

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

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

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

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

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

G. Prepaid Items

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

H. Inventories

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

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 Special Revenue and Proprietary funds an indirect cost percentage of information technology and administrative services for those funds but paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2010, the City allocated $2,448,176 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 purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

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

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

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

L. Restricted Assets

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

The following table summarizes the restricted cash and investments:

Governmental activities:	
Debt Service Fund	$ 5,901,685
Bond construction account	21,555,130
Other Capital Project Funds	1,629,075
Special Revenue Funds	2,123,631
	31,209,521
Business-type activities	
Revenue bond accrued interest payable	420,004
Current maturities of revenue bonds	804,167
Reserve for revenue bond retirement	1,843,461
Customer deposits	1,972,282
	5,039,914
Total Restricted cash and investments	$ 36,249,435

M. Compensated Absences

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

Vacation Leave:

- Civil Service employees who have completed six full months of service and Non-Civil Service employees who have completed five years of service will be paid any accumulated vacation leave.
- Non-Civil Service employees who have completed six full months of service but less than five years will be paid for accumulated vacation leave up to a maximum of 160 hours.

Sick Leave:

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

N. Nature and Purpose of Classifications of Fund Equity

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted or committed. Assignments are made by City management based on Council direction.

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

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

O. Minimum Fund Balance Policy

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

P. 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 and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(2) BUDGET BASIS OF ACCOUNTING:

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2010

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

Net change in fund balances - budget basis	$ (178,792)
Beginning of year adjustment for encumbrances recognized as expenditures	(199,700)
End of year adjustment for encumbrances not recognized as expenditures	245,183
Unrealized investment loss recognized for GAAP basis only	(23,240)
Interfund loan transactions treated as transfers for budget basis	(301,664)
Net change in fund balances -GAAP basis	$ (458,213)

(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, 2010. All deposits of the City that exceeded the federal depository insurance coverage level was covered by collateral with a value of $8,040,312 held by the Federal Reserve Bank in the City's name under a joint safekeeping agreement with JPMorgan Chase Bank, N.A.

At September 30, 2010, the carrying amount of the City's deposits was a credit balance of $1,561,945, primarily consisting of outstanding checks, and the respective bank balances totaled $81,128. The City's cash on hand totaled $36,425. Additionally, the City held a certificate of deposit of $130,661.

Investments - State statutes, City bond ordinances and City resolutions authorize the City's investments. The City is authorized to invest in the following: U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States with ten years or less stated final maturity (cannot be an inverse floater, a principal only or interest only); obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating, no-load; SEC registered mutual funds with a weighted average stated maturity of less than two years that are invested in allowable securities; obligations of Texas and its agencies; fully collateralized repurchase agreements and reverse repurchase agreements; prime domestic commercial paper; prime domestic bankers' acceptances; guaranteed investment contracts; securities lending program consisting of authorized investments by the City's investment policy; insured or collateralized certificates of deposit; government pools; and no-load SEC registered money market funds consisting of any of these securities listed.

The City's investments carried at fair value as of September 30, 2010, are:

Investments:	Fair Value	Effective Duration (in years)	Credit Risk
Coupon Agencies	$ 84,063,438	.079	AAA
Government Pools	76,387,447	-	AAA
Total Fair Value	$160,450,885		
Portfolio Duration:		.079	

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

Interest Rate Risk – In compliance with the City's Investment Policy, as of September 30, 2010, the City minimized the interest rate risk, related to current events market turmoil in the portfolio by: limiting the effective duration of security types not to exceed two years with the exception of securities purchases related to reserve funds; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in short-term securities, money market mutual funds, or similar government investment pools.

Credit Risk – In compliance with the City's Investment Policy, as of September 30, 2010, the City minimized credit risk losses due to default of a security issuer or backer, by;

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2010

(4) CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Governmental activities				
Capital assets not being depreciated:				
Land	$ 104,465,194	$ 601,275	$ -	$ 105,066,469
Construction in progress	3,289,253	(3,002,246)	(223,421)	63,586
Total capital assets not being depreciated	107,754,447	(2,400,971)	(223,421)	105,130,055
Capital assets being depreciated:				
Buildings	48,703,317	6,273,996	(124,900)	54,852,413
Equipment	24,522,473	1,345,855	(1,208,593)	24,659,735
Intangibles	5,662,778	417,876	-	6,080,654
Improvements	35,619,435	638,054	1,626,022	37,883,511
Infrastructure	314,141,858	20,589,019	(29,664,628)	305,066,249
Total capital assets being depreciated	428,649,861	29,264,800	(29,372,099)	428,542,562
Less accumulated depreciation for:				
Buildings	(26,929,513)	(1,710,041)	124,900	(28,514,654)
Equipment	(13,711,707)	(2,411,069)	1,079,516	(15,043,260)
Intangibles	(3,352,437)	(665,214)	-	(4,017,651)
Improvements	(6,065,792)	(1,485,358)	(1,626,022)	(9,177,172)
Infrastructure	(99,794,066)	(20,356,427)	29,664,628	(90,485,865)
Total accumulated depreciation	(149,853,515)	(26,628,109)	29,243,022	(147,238,602)
Total capital assets being depreciated, net	278,796,346	2,636,691	(129,077)	281,303,960
Governmental activities capital assets, net	$ 386,550,793	$ 235,720	$ (352,498)	$ 386,434,015

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 2,367,868	$ -	$ -	$ 2,367,868
Capital assets being depreciated:				
Buildings	19,563,656	-	-	19,563,656
Equipment	5,410,002	-	(254,609)	5,155,393
Intangibles	729,892	-	-	729,892
Improvements	11,130,597	47,434	-	11,178,031
Infrastructure	212,056,390	3,664,395	-	215,720,785
Total capital assets being depreciated	248,890,537	3,711,829	(254,609)	252,347,757
Less accumulated depreciation for:				
Buildings	(14,354,005)	(365,977)	-	(14,719,982)
Equipment	(2,817,891)	(440,890)	237,702	(3,021,079)
Intangibles	(657,296)	(21,294)	-	(678,590)
Improvements	(8,441,223)	(644,627)	-	(9,085,850)
Infrastructure	(71,679,305)	(7,032,083)	-	(78,711,388)
Total accumulated depreciation	(97,949,720)	(8,504,871)	237,702	(106,216,889)
Total capital assets being depreciated, net	150,940,817	(4,793,042)	(16,907)	146,130,868
Business-type activities capital assets, net	$ 153,308,685	$ (4,793,042)	$ (16,907)	$ 148,498,736

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

Governmental activities:	
General government and administration	$ 2,457,495
Public safety	1,336,825
Development services	2,208,672
Cultural and recreational	20,625,117
Total depreciation expense - Governmental activities	$ 26,628,109
Business-type activities:	
Water and sewer	$ 7,650,919
Golf course	707,922
Sanitation	146,030
Total depreciation expense - Business-type activities	$ 8,504,871

The City has active construction projects as of September 30, 2010. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	$ 39,898,391
Traffic	2,331,731
Parks and Recreation	7,081,467
General Facilities	34,389,367
Community Development	6,880,734
Tax Increment Reinvestment Zone	197,582
Water and Sewer	13,143,127
Golf Course	322,294
Total	$ 104,244,693

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

(5) LONG-TERM DEBT AND LIABILITIES:

General Obligation Bonds and Certificates of Obligation –

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

The 2002 Tax and Golf Course Surplus Revenue Certificates of Obligation 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 pledge of surplus net revenues of the City's Golf Course as provided in the ordinances authorizing the Certificates.

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

Certain certificates of obligation are to be repaid by revenues of the Enterprise Funds.

General Obligation Bonds Refunding -

Due to favorable interest rates, during fiscal year 2010, $12,465,963, including premium, of Series 2010 General Obligation (GO) Improvement and Refunding Bonds were issued to advance refund $11,580,000 of the City's previously issued and outstanding GO Bonds. Debt refunded included $9,035,000 of GO Improvement Bonds, Series 2001 and $2,545,000 of GO Improvement and Refunding Bonds, Series 2002. The proceeds were deposited with an escrow agent to purchase direct obligations of the United States of America. The reacquisition price exceeded the net carrying amount of the old debt by $831,017. This amount is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. Under the escrow reserve agreement, the escrow fund is irrevocably pledged to the payment of principal and interest on the refunded bonds. As a result, the refunded obligations are considered to be defeased and the liability for those bonds has been removed from the City's financial statements. As a result of the refunding, the City reduced its aggregate debt services payments to maturity by $1,227,380, and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of $998,390.

At September 30, 2010, general obligation bonds and certificates of obligation currently outstanding are as follows:

	Interest Rate %	Issue Date	Maturity Date	Outstanding
General Obligation Bonds:				
Improvement, Series 2001	4.75 - 5.375	4/15/2001	8/15/2021	1,170,000
Improvement and Refunding, Series 2002	4 - 5.25	4/15/2002	8/15/2022	6,465,000
Improvement, Series 2003	3 - 4.25	6/1/2003	8/15/2023	11,355,000
Improvement and Refunding, Series 2005	3 - 5.25	2/15/2005	8/15/2025	46,290,000
Improvement, Series 2006	4 - 6	6/1/2006	8/15/2026	19,960,000
Improvement, Series 2007	4 - 5.25	8/1/2007	8/15/2027	18,690,000
Improvement and Refunding, Series 2009	2 - 5	4/15/2009	8/15/2029	36,005,000
Improvement and Refunding, Series 2010	2.25 - 4.125	4/15/2010	8/15/2030	27,230,000
				$ 167,165,000
Certificates of Obligation:				
Tax and Golf Course Surplus Revenue, Series 2002	5 - 6.25	5/15/2002	8/15/2017	$ 2,315,000
Tax and Waterworks and Sewer System (Limited Pledge) Revenue, Series 2006	4	6/1/2006	8/15/2011	435,000
				$ 2,750,000

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

General Obligation Bonds

Year Ending September 30	Governmental Activities Principal	Governmental Activities Interest	Total
2011	$ 11,385,000	$ 7,185,396	$ 18,570,396
2012	11,830,000	6,726,791	18,556,791
2013	11,620,000	6,327,510	17,947,510
2014	12,060,000	5,881,985	17,941,985
2015	11,980,000	5,350,248	17,330,248
2016-2020	54,125,000	19,487,031	73,612,031
2021-2025	37,340,000	9,094,059	46,434,059
2026-2030	16,825,000	1,851,413	18,676,413
Total	$ 167,165,000	$ 61,904,433	$ 229,069,433

Certificates of Obligation

Year Ending	Governmental Activities		Business-type Activities		
September 30	Principal	Interest	Principal	Interest	Total
2011	$ 435,000	$ 17,400	$ 275,000	$ 143,275	$ 870,675
2012	-	-	290,000	126,775	416,775
2013	-	-	310,000	109,375	419,375
2014	-	-	325,000	90,000	415,000
2015	-	-	350,000	69,688	419,688
2016-2017	-	-	765,000	72,500	837,500
Total	$ 435,000	$ 17,400	$ 2,315,000	$ 611,613	$ 3,379,013

Revenue Bonds –

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

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. Management of the City believes that it is in compliance with all significant financial requirements as of September 30, 2010.

At September 30, 2010, revenue bonds currently outstanding are as follows:

	Interest Rate %	Issue Date	Maturity Date	Outstanding
Revenue Bonds:				
Waterworks and Sewer System Revenue Refunding and Improvements, Series 2002	4 - 5.625	4/15/2002	5/1/2022	$ 6,470,000
Waterworks and Sewer System Revenue Improvements, Series 2003	3 - 5	6/1/2003	5/1/2023	3,400,000
Waterworks and Sewer System Revenue Improvements, Series 2005	2.5 - 4.2	2/15/2005	5/1/2025	8,175,000
Waterworks and Sewer System Revenue Improvements, Series 2007	4.375 - 5	8/1/2007	5/1/2027	5,190,000
				$ 23,235,000

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

Revenue Bonds

Year Ending September 30	Business-type Activities Principal	Interest	Total
2011	$ 1,930,000	$ 1,008,009	$ 2,938,009
2012	1,620,000	928,902	2,548,902
2013	1,685,000	862,552	2,547,552
2014	1,755,000	790,113	2,545,113
2015	1,275,000	710,628	1,985,628
2016-2020	7,265,000	2,698,824	9,963,824
2021-2025	6,865,000	1,041,310	7,906,310
2026-2027	840,000	63,500	903,500
Total	$ 23,235,000	$ 8,103,838	$ 31,338,838

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2010

Bonds Authorized and Unissued –

At September 30, 2010, the City had $51,897,000 in general obligation bonds which were authorized and unissued.

Defeased Bonds Outstanding –

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

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On September 30, 2010, $16,825,000 of bonds outstanding are considered defeased.

Compensated Absences –

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

Health Claims Liability –

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

Long-term Risk Liability –

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2010

Changes in long-term liabilities –

On the next schedule, the additions to the General Obligation Bonds in the Governmental Type Activities represent the issuance of $27,415,000 of General Obligation Improvement and Refunding Bonds, Series 2010.

Transactions for the year ended September 30, 2010 are summarized as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Governmental type activities					
Bonds payable:					
General obligation bonds	$ 161,860,000	$ 27,415,000	$ (22,110,000)	$ 167,165,000	$ 11,385,000
Certificates of obligation	855,000	-	(420,000)	435,000	435,000
Less deferred amounts:					
For discounts and premiums	5,223,127	963,905	(406,992)	5,780,040	450,093
On refunding	(1,844,458)	(791,612)	222,335	(2,413,735)	(258,808)
Total bonds payable	166,093,669	27,587,293	(22,714,657)	170,966,305	12,011,285
Compensated absences	13,371,876	813,332	(768,332)	13,416,876	727,496
Health claims liability	1,615,000	5,163,104	(5,921,104)	857,000	857,000
Long-term risk liability	1,340,706	1,270,623	(1,270,623)	1,340,706	-
Total governmental activities	$ 182,421,251	$ 34,834,352	$ (30,674,716)	$ 186,580,887	$ 13,595,781
Business type activities					
Bonds payable:					
Revenue bonds payable	$ 25,085,000	$ -	$ (1,850,000)	$ 23,235,000	$ 1,930,000
Certificates of obligation	2,570,000	-	(255,000)	2,315,000	275,000
Less deferred amounts:					
For discounts and premiums	214,024	-	(16,752)	197,272	16,752
On refunding	(140,942)	-	89,015	(51,927)	(51,927)
Total bonds payable	27,728,082	-	(2,032,737)	25,695,345	2,169,825
Compensated absences	740,940	33,974	(70,731)	704,183	48,049
Total business-type activities	28,469,022	33,974	(2,103,468)	26,399,528	2,217,874
Total government	$ 210,890,273	$ 34,868,326	$ (32,778,184)	$ 212,980,415	$ 15,813,655

(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, 20% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2010, were 99.0% of the tax levy.

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

The City Charter does not provide for a debt limit; therefore, no computation can be made. However, at September 30, 2010, the City had a tax margin of $1.88 for every $100 valuation based upon a maximum ad valorem tax of $2.50 for every $100 valuation imposed by Texas Constitutional law.

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

(7) PENSION PLAN:

Plan Description:

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153, by calling 800-924-8677, or accessing the publications section of the TMRS website at www.tmrs.org.

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

Beginning in 1993, the City granted on an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to 70% of the change in the consumer price index (CPI). The financial impacts of the automatic USC and COLA were not accounted for by the unit credit actuarial method, and beginning with the December 2007 valuation, TMRS changed to the projected unit credit method and tightened many of its assumptions used. This resulted in actuarial required contributions increasing by 50% or more for some member cities. In response to the significant increase in the required contribution rate due to changing of the actuarial method, the City adopted various benefit reductions effective January 1, 2009, including reducing USC from 100% to 75%, dropping the transfer feature of USC, increasing the amortization period to 40 years, and lifting the applicable statutory maximums. Effective January 1, 2010, The City adopted an additional benefit change reducing the annual COLA for retirees from 70% of the change in CPI to 50%. In addition, a resolution adopted by council allows for additional contributions each year if certain conditions are met which should reduce the ultimate amortization period substantially below 40 years and have to date, created a net pension asset in the City's financial statements. This indicates that actual contributions have exceeded the amount necessary for the 30 year amortization used for financial reporting purposes.

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

	Plan Year 2009	Plan Year 2010
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above	20 years at any age, 5 years at age 60 and above
Updated Service Credit	75% Repeating	75% Repeating
Annuity Increase to retirees	70% of CPI Repeating	50% of CPI Repeating

The City does not participate in Social Security.

Funding Policy:

Under the state law governing TMRS, the actuary annually determines the City contribution rate per GAAP and per state statues on a calendar-year basis. The City discloses the annual pension costs based on the calculated rates per GAAP for the City's fiscal year. The rate per GAAP is 17.70% of covered payroll for the months in calendar year 2009, and 16.73% for the months in calendar year 2010. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at the actuarially determined statutory rate, which can differ from the annual contribution rate calculated per GAAP. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective of rates beginning January 1, 2010). If a change in plan provisions is elected by the City, this rate can change. For the months in calendar year 2009, the City made contributions of 16.74% based on a

40-year closed amortization period which is .96 percentage points less than the actuarially required contribution of 17.70% required by GAAP. For the months in calendar year 2010, the City continue to make contributions of 16.74% which provided for an additional voluntary contribution of .69 percentage points over the statutorily required rate of 16.05% based on a 39-year amortization period and was .01 percentage points over the actuarially required contribution rate of 16.73% required by GAAP. Additionally, the City made an additional year-end voluntary contribution for fiscal year 2010.

Annual Pension Cost and Net Pension Asset:

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

Annual Required Contribution (ARC)	$7,797,214
Contributions Made – statutorily required monthly	(7,449,663)
Contributions Made – voluntary monthly 2010	(228,641)
Contributions Made – voluntary year end	(376,902)
Increase in net pension asset	(257,992)
Net Pension Asset, beginning of the year	635,316
Net Pension Asset, end of the year	$ 893,308

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Obligation) Asset
2008	$5,763,976	112%	$680,005
2009	7,555,564	99	635,316
2010	7,797,214	103	893,308

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

Funding Status and Funding Progress:

As of December 31, 2009, the most recent actuarial valuation date, the plan was 77.2% funded. The actuarial accrued liability for benefits was $208,924,862, and the actuarial value of assets was $161,328,186, resulting in an unfunded actuarial accrued liability (UAAL) of $47,596,676. These amounts include the assets and actuarial liabilities related to both the Municipal Accumulation Fund (MAF) and the Employee Savings Fund (ESF) of the City. It should be noted that only the assets of the MAF can be used to pay for the MAF's actuarial liabilities, and if ESF assets and liabilities had been excluded, the reported funding status would be lower. The covered payroll (annual payroll of active employees covered by the plan) was $46,403,538, and the ratio of the UAAL to the covered payroll was 102.6%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial Valuation Date	December 31, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years – Closed Period
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.5%
Projected Salary Increases	Varies by age and service
Payroll growth	3%
Inflation Rate	3%
Cost-of-Living Adjustments	1.5%

(8) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

Due to/from other funds at September 30, 2010 consist of $282,066 due from the Sanitation Fund to the General Fund for loan used to purchase capital assets for the City's automated recycling program. Final Repayment of this balance is expected in the subsequent year.

Interfund transfers during the year ended September 30, 2010, were as follows:

	Transfers In				
	General Fund	General and Public Facilities	Non-Major Govern-mental	Governmental Activities Entity-wide	Total
Transfers Out					
General Fund	$ -	$ 5,208,833	$ -		$ 5,208,833
Streets and Drainage	-	-	845,132		845,132
General and Public Facilities	-	-	66,000		66,000
Non-Major Governmental	51,833	3,784,460	-		3,836,293
Internal Service	494,473	-	-	33,965	528,438
Water and Sewer	3,265,278	-	-		3,265,278
Golf Course	291,953	-	-		291,953
Sanitation	725,107	-	-		725,107
Total	$ 4,828,644	$ 8,993,293	$ 911,132	$ 33,965	$ 14,767,034

Transfers are primarily used to move funds from:

- The Proprietary Funds to the General Fund for an allocated amount of administrative services.
- The Water and Sewer Fund to the General Fund for a payment in lieu of taxes.
- The General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.
- The Community Development capital project fund to the General and Public Facilities capital project fund for transit-oriented development projects.

(9) WATER PURCHASE AND WASTEWATER TREATMENT CONTRACTS:

The City has a contract with Dallas Water Utilities to purchase substantially all of the City's potable water. Under the contract, the City pays Dallas Water Utilities a rate based on a fixed demand charge plus water usage. The rates charged are subject to minimum annual contract payments. Water expense for the year ended September 30, 2010, was $10,476,173.

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, 2010, was $5,527,670.

(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:

Policy	Retention	Limits on Liability
General Liability, Auto Liability, Law Enforcement Liability, Public Officials Liability and Employee Benefit Liability	$350,000 per occurrence	$5,000,000 per occurrence and $10,000,000 policy aggregate
Workers' Compensation	$450,000 per occurrence	Statutory
Property Loss	$10,000 per occurrence	$125,000,000 per occurrence
Crime for Employee Theft, Computer Fraud, and Funds Transfers Fraud	$25,000 per occurrence	$3,000,000 per occurrence

All funds of the City participate in the program and make payments to the Risk Management Fund based on biennial actuarial estimates of the amounts needed to pay prior and current-year claims. As of the end of fiscal year 2009, a biennial actuarial analysis determined that the loss reserve was $1,340,706 which represents the discounted present value of expected losses using an expected future investment yield assumption of 3.5% and includes claims incurred but not yet reported.

Changes in this reserve amount in fiscal years 2009 and 2010 were as follows:

	Balance at Beginning of Fiscal Year	Current-year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2008-2009	$ 1,990,857	$ 258,601	$ 908,752	$1,340,706
2009-2010	$ 1,340,706	$ 1,780,400	$ 1,780,400	$1,340,706

The City maintains the Employee Health and Disability Fund to account for the City's employee health care coverage and long-term disability programs which are self-insured by the City with long-term disability claims in excess of one year covered through third-party insurance policies. In addition, excess insurance of up to $1,000,000 has been obtained for an individual employee's health care claims exceeding $200,000 and for health claims in the aggregate exceeding $9,713,647. Revenues are recognized from payroll deductions and City contributions. At September 30, 2010, a liability of $857,000 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2009 and 2010 were as follows:

	Balance at Beginning of Fiscal Year	Current-year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2008-2009	$ 1,515,000	$ 6,544,164	$ 6,444,164	$ 1,615,000
2009-2010	$ 1,615,000	$ 6,119,104	$ 6,877,104	$ 857,000

There have been no significant reductions in insurance coverage during the fiscal year 2010.

(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, results of operations, or cash flows. Construction commitments are discussed in note 4.

(12) POSTEMPLOYMENT BENEFITS:

Program Description:

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

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

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

Under the provisions of GASB Statement 45, employees who will be required to contribute the full aged based cost for coverage for the City's Health Plan do not receive an Other Post Employment Benefit. Accordingly, only those employees who are eligible to participate in the Retiree Health Existing (Closed) Program are included in the valuation results described below.

Funding Policy:

Current retirees contribute to the Retiree Health Existing (Closed) Program the total blended premium for active and retired participants. The City contribution to the Retiree Health Existing (Closed) Program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contributions rates for fiscal year 2010 were \$5,976 to \$13,368 per year depending on coverage levels selected. In fiscal year 2010, total member contributions were \$380,189. The City contributions to the plan for fiscal year 2010, which are also equal to claims paid in excess of premiums collected, were $534,041.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other postemployment benefit (OPEB) cost (expense) for the Retiree Health Existing (Closed) Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	$534,041
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	534,041
Contributions made	534,041
Change in OPEB obligation	-
Net OPEB obligation (asset) – beginning of year	-
Net OPEB obligation (asset) – end of year	$ -

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 were as follows:

Fiscal Year	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$470,698	100%	-
2010	534,041	100%	-

Funded Status and Funding Progress:

As of December 31, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $5,380,780, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2010 was $9,140,716, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 58.9%.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the City chose to close its program as of January 1, 2009 and to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero. It is important to note; however, that the net assets available in the Employee Health and Disability Fund exceed as of September 30, 2010 the Actuarial Accrued Liability of $5,380,780.

Actuarial Methods and Assumptions:

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

In December 31, 2009, actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions include a 4.5% investment rate of return (compounded annually net after investment expenses) and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. Both rates include a 3% inflation assumption. The City's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a closed period. The remaining amortization period at December 31, 2009 was 17 years.

(13) ACCOUNTING CHANGES:

GASB Statement 51 "Accounting and Financial Report for Intangible Assets" addresses accounting and financial reporting standards for intangible capital assets such as computer software. The City implemented this standard for fiscal year 2010. The effect on the financial statements was the reclassification of computer software previously recorded as equipment to a new capital asset category for intangible assets.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2010

(14) SPECIAL ITEM

During fiscal year 2010, payment of electric franchise fees from Oncor were changed from annually, based on a calendar year, to quarterly. In fiscal year 2010, in addition to the revenues recorded for the annual payment for the calendar year 2009, revenue was recorded for the three quarterly payments covering the months of January 2010 through September 2010. This resulted in 21 months of franchise revenue being recorded in fiscal year 2010. Revenues of $3,612,167 for the additional nine months have been treated as a special item for the Governmental Activities on the Government-wide Statement of Activities.

CITY OF CARROLLTON, TEXAS
Required Supplementary Information
Texas Municipal Retirement System
Schedule of Funding Progress
Last Nine Fiscal Years
(Unaudited)

Fiscal Year	(1) Actuarial Value of Assets**	(2) Actuarial Accrued Liability*	Funded Ratio (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll
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%
2004	128,856,066	151,848,369	84.9%	22,992,303	39,616,484	58.0%
2005	132,672,341	158,303,490	83.8%	25,631,149	40,738,288	62.9%
2006	137,972,528	165,878,626	83.2%	27,906,098	39,670,739	70.3%
2007	146,875,267	178,152,761	82.4%	31,277,494	41,951,353	74.6%
2008	141,565,199	198,026,702	71.5%	56,461,503	42,811,373	131.9%
2009	150,073,733	197,379,646	76.0%	47,305,913	45,747,413	103.4%
2010	161,328,186	208,924,862	77.2%	47,596,676	46,403,538	102.6%

* As of December 31 of the preceding year, the date of the actuarial valuation.
** Assets are stated at amortized cost as of December 31 of the preceding year.

Notes:
For fiscal years 2002 to 2007, the actuarial accrued liability was calculated using the Unit Credit actuarial funding method. For fiscal year 2008 and forward, the actuarial accrued liability was calculated using the Projected Unit Credit actuarial funding method.

Fiscal Year 2008 Actuarial Accrued Liability adjusted for plan changes adopted effective January 1, 2009.

Fiscal Year 2009 Actuarial Accrued Liability adjusted for plan changes adopted effective January 1, 2010.

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

Fiscal Year*	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	Funded Ratio (1)/(2)	Unfunded Actuarial Accrued Liability	Annual Covered Payroll**	Unfunded Actuarial Accrued Liability As a Percentage of Covered Payroll
2008	$ -	$5,062,374	0.0%	$5,062,374	$9,195,431	55.1%
2009	-	5,062,374	0.0%	5,062,374	9,231,907	54.8%
2010	-	5,380,780	0.0%	5,380,780	9,140,716	58.9%

* Fiscal Year 2008 and 2009 of December 31 2007 actuarial valuation. Fiscal Year 2010 as of December 31, 2009 actuarial valuation.
** Annual covered payroll is the payroll related to those grandfathered employees who will be able to retire and continue health coverage at a subsidized premium.

APPENDIX C

FORM OF LEGAL OPINION RELATING TO THE GENERAL OBLIGATION IMPROVEMENT BONDS, SERIES 2011 OF FULBRIGHT & JAWORSKI L.L.P., DALLAS, TEXAS

FULBRIGHT
& Jaworski L.L.P.
Attorneys at Law

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IN REGARD to the authorization and issuance of the "City of Carrollton, Texas, General Obligation Improvement Bonds, Series 2011", dated April 15, 2011, in the principal amount of $________________ (the "Bonds"), we have examined into their issuance by the City of Carrollton, Texas (the "City") solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

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

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

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

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in

the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

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

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