Ratings: Moody's: "Aa2"
Standard & Poor's: "AAA"
Fitch: "AAA"
(See "RATINGS" herein)

OFFICIAL STATEMENT
Dated: April 18, 2012

NEW ISSUE: BOOK-ENTRY-ONLY

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

$10,535,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2012

Dated: May 1, 2012 **Due: May 1, as shown below**

Interest on the $10,535,000 City of Carrollton, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 2012 (the "Bonds") will be payable November 1 and May 1 of each year, commencing November 1, 2012 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 National Association. Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed first class, postage paid, by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The City of Carrollton, Texas (the "City") intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but such system could be discontinued in the future. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds maturing on May 1, 2023, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of $5,000, on May 1, 2022, or any date thereafter as described herein (see "THE BONDS – Optional Redemption Provisions" herein).

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an ordinance (the "Bond Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City. As permitted by the provisions of Chapter 1207, the City Council, in the Bond Ordinance, delegated the authority to certain City officials to execute an approval the "Pricing Certificate" establishing the pricing terms for the Bonds. The Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the "Ordinance." The Bonds are special obligations of the City and, together with the outstanding and unpaid Previously Issued Bonds (as defined in the Ordinance), and any additional parity bonds that may be issued in the future, are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's combined waterworks and sewer system (the "System"). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to the Net Revenues. **The Bonds are not general obligations of the City, Dallas County, Collin County, Denton County or the State of Texas, and the registered owners of the Bonds shall never have the right to demand payment out of any funds raised or to be raised by taxation.**

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding Waterworks and Sewer System Revenue Bonds for debt service savings and (ii) to pay the costs of issuance of the Bonds (see "THE BONDS – Sources and Uses of Funds" herein).

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P. Dallas, Texas. The Bonds are expected to be available for delivery through DTC on or about May 22, 2012.

MATURITY SCHEDULE and 9 DIGIT CUSIP
See Schedule on next page

Raymond James | Morgan Keegan

BofA Merrill Lynch **Siebert Brandford Shank & Co.**

CUSIP Prefix: 145681[(1)]

MATURITY SCHEDULE

$10,535,000 Waterworks and Sewer System Refunding Bonds, Series 2012

Maturity (5/1)	Principal Amount	Rate	Initial Yield	CUSIP Suffix[(1)]	Maturity (5/1)	Principal Amount	Rate	Initial Yield	CUSIP Suffix[(1)]
2013	$790,000	2.000%	0.400%	TQ5	2019	$1,125,000	4.000%	1.640%	TW2
2014	1,020,000	3.000%	0.500%	TR3	2020	1,175,000	4.000%	1.890%	TX0
2015	490,000	2.000%	0.680%	TS1	2021	1,220,000	4.000%	2.130%	TY8
2016	500,000	4.000%	0.930%	TT9	2022	1,265,000	3.000%	2.300%	TZ5
2017	1,035,000	4.000%	1.140%	TU6	2023	840,000	3.000%	2.600% c	UA8
2018	1,075,000	4.000%	1.390%	TV4					

(Accrued Interest to be added from the Dated Date)
c = yield shown is yield to May 1, 2022, the first call date at par.

(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 Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

Matthew Marchant, Mayor

Lisa Sutter, Mayor Pro Tem

Jeff Andonian, Deputy Mayor Pro Tem

Kevin Falconer, Councilmember

Bob Garza, Councilmember

Pat Malone, Councilmember

Terry Simons, Councilmember

Anthony Wilder, Councilmember

APPOINTED OFFICIALS

Leonard Martin, City Manager

Beth Little Bormann, Assistant City Manager

Marc Guy, Assistant City Manager

Robert B. Scott, Chief Financial Officer

Priscilla Robinson, City Treasurer

R. Clayton Hutchins, City Attorney

Ashley Mitchell, City Secretary

BOND COUNSEL AND ADVISORS

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

RBC Capital Markets LLC, Financial Advisor
Dallas, Texas

INDEPENDENT AUDITOR

Grant Thornton LLP, Certified Public Accountants
Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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SUMMARY STATEMENT

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

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

The Issuer

The City of Carrollton is a duly incorporated municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas, having a 2012 population of approximately 119,370.

The Bonds

$10,535,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2012, dated May 1, 2012, maturing annually on May 1, in each of the years 2013 through 2023. Interest on the Bonds will be payable November 1 and May 1 of each year, commencing November 1, 2012, until the earlier of maturity or prior redemption (see "THE BONDS – General Description" herein).

Purpose of the Bonds

Proceeds from the Bonds will be used to (i) to refund a portion of the City's outstanding Waterworks and Sewer System Revenue Bonds for debt service savings and (ii) pay the costs of issuance of the Bonds (see "THE BONDS – Sources and Uses of Funds" herein).

Security for the Bonds

The Bonds are special obligations of the City, payable both as to principal and interest, solely from and, together with certain Previously Issued Bonds (as defined herein) and any additional parity bonds that may be issued in the future, and are secured by a pledge of and first lien on the Net Revenues (as defined in the Ordinance) of the System. The Bonds do not constitute an indebtedness or general obligation of the City or claim against its property, including the System, other than the Net Revenues of the System (see "THE BONDS – Security and Source of Payment" herein).

Optional Redemption Provisions

The Bonds maturing on May 1, 2023, are subject to redemption at the option of the City, in whole or in part, commencing on May 1, 2022, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption Provisions" herein).

Ratings

Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and Fitch Ratings have assigned municipal bond ratings of "Aa2", "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 EXEMPTION" herein, including the alternative minimum tax on corporations.

Payment Record

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

Legality

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

$10,535,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2012

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and the Appendices hereto, has been prepared by the City of Carrollton, Texas (the "City"), in connection with the offering by the City of its Waterworks and Sewer System Revenue Refunding Bonds, Series 2012 (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, Chapter1207, as amended, and an ordinance adopted by the City Council of the City (the "Bond Ordinance"). In the Bond Ordinance, the City delegated the pricing of the Bonds and certain other matters to a "Pricing Officer," who approved a "Pricing Certificate" (the "Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the "Ordinance"). Capitalized terms used herein have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated.

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

There follows in this Official Statement, descriptions of the Bonds, the Ordinance and certain information about the City and its finances, including, specifically, the System. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Underwriters (see "SELECTED PROVISIONS OF THE ORDINANCE" herein). The mailing address of the City is 1945 E. Jackson Road, Carrollton, Texas 75006. The telephone number is (972) 466-3107.

THE BONDS

General Description

The Bonds will be dated May 1, 2012, will be fully registered obligations, and will be in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from May 1, 2012, and such accrued interest will be paid semiannually, on each November 1 and May 1, commencing November 1, 2012, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates in the amounts and bear interest at per annum rates as set forth on the inside front cover page hereof.

Principal and interest will be paid by U.S. Bank National Association (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry-Only System, interest will be paid by check, dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, such registered owner. Principal will be paid to the registered owners at maturity or prior redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal 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 payments of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are being issued pursuant to the Constitution and laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and the Ordinance.

Purpose

The Bonds in the aggregate principal amount of $10,535,000 are being issued for the purpose of (i) refunding a portion of the outstanding City's Waterworks and Sewer System Revenue Bonds described in Schedule I (the "Refunded Bonds") to lower the overall debt service requirements of the City and (ii) paying for certain costs of issuance of the Bonds (see "THE BONDS – Sources and Uses of Funds" herein).

Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on their scheduled interest payment and maturity dates or date of redemption from funds to be deposited with U.S. Bank National Association (the "Escrow Agent") pursuant to an escrow agreement (the "Escrow Agreement") between the City and the Escrow Agent.

The Ordinance will provide that a portion of the proceeds of sale of the Bonds will be deposited in accordance with the Escrow Agreement to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds that the Federal Securities will mature and pay interest in such amount which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay debt service on the Bonds. By the deposit of the Federal Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds in accordance with law, and the ordinances authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from the Net Revenues (as defined herein) of the System but will be payable solely from the principal of and interest on the Federal Securities and cash, if any, held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and thus will not be included in or considered to be indebtedness of the City for the purpose of a limitation on the indebtedness or for any other purpose (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein).

Security and Source of Payment

The Bonds constitute special obligations of the City, and are payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to Net Revenues. The Ordinance defines "Net Revenues" to include the Gross Revenues of the System, consisting of all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured (as defined below) and other obligations payable solely from and secured only by a lien on and pledge of the Net Revenues, less the Maintenance and Operating Expenses of the System. Maintenance and Operating Expenses include contractual payments which under Texas laws and their provisions are established as operating expenses and which therefore have a senior right to payment from the Gross Revenues to the pledge that secures the payment of the Bonds Similarly Secured. The City has entered into a water supply contract with the City of Dallas Water Utilities ("DWU") and a wastewater treatment contract with the Trinity River Authority of Texas ("TRA"), and the payments under such agreements constitute Operating and Maintenance Expenses of the System (see "WATER AND WASTEWATER SYSTEM - Water Supply" and "WATER AND WASTEWATER SYSTEM - Wastewater Treatment System").

At the expected delivery date of the Bonds, and excluding the Refunded Bonds, the City has outstanding bonds secured by and payable from Net Revenues on parity with the Revenue Bonds (the "Previously Issued Bonds") as follows:

Dated Date	Outstanding Amount	Series Description
04/15/2002	$ 5,365,000	Waterworks and Sewer Systems Revenue Refunding and Improvements Bonds, Series 2002
06/01/2003	3,195,000	Waterworks and Sewer Systems Revenue Improvements Bonds, Series 2003
02/15/2005	7,760,000	Waterworks and Sewer Systems Revenue Improvements Bonds, Series 2005
08/01/2007	4,985,000	Waterworks and Sewer Systems Revenue Improvements Bonds, Series 2007
Total	$ 21,305,000	

The Previously Issued Bonds, the Bonds and any additional parity revenue bonds that may be issued in the future are collectively referred to as the "Bonds Similarly Secured." The Bonds Similarly Secured are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create a lien or mortgage on the System, except the Net Revenues, and no judgment against the City may be enforced for payment of the Bonds Similarly Secured by levy and execution against any property owned by the City. See "SELECTED PROVISIONS OF THE ORDINANCE" herein for a further description of the security for the Bonds and for definitions of the terms used above.

Reserve Fund

As additional security for the payment of Bonds Similarly Secured, the City has established a reserve (the "Reserve Fund") to pay the principal and interest on the Bonds Similarly Secured when and to the extent other funds are insufficient for such purpose. In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Bonds, the amount currently on deposit to the credit of the Reserve Fund is an amount equal to at least $2,008,330 (the "Current Reserve"). By reason of the issuance of the Bonds, the total amount required to be accumulated and maintained in said Fund in accordance with the Ordinance and the ordinance authorizing the Previously Issued Bonds is $1,610,108. The amount required to be on deposit in the Reserve Fund is the Average Annual Debt Service for the Bonds Similarly Secured. In the event that an amount less than the Required Reserve is on deposit in the Reserve Fund due to the issuance of Additional Bonds or otherwise, the Ordinance provides that the City will make additional deposits thereto, beginning on or before the 20th day of the month in which such deficiency occurs and on or before the 20th day of each month thereafter until the Required

Reserve has been fully accumulated. Such deposits shall equal 1/60th of the difference between the Required Reserve and the Current Reserve (see "SELECTED PROVISIONS OF THE ORDINANCE" herein).

Additional Bonds

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

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

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

Rates

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

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

Optional Redemption Provisions

The City reserves the right, at its option, to redeem the Bonds having stated maturities on May 1, 2023, in whole or in part in integral multiples of $5,000, commencing on May 1, 2022 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

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

Notice of Redemption

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

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

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

Limitation on Transfer of Bonds Called for Redemption

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

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations which are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (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. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Securities will be maintained at any particular rating category and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State of Texas. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations of the City under the Ordinance or payable from or secured by the Net Revenues of the System or considered outstanding for any other purpose other than to be paid from the funds and Government Securities deposited in escrow. Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may with the written consent of the Holders 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.

Sources and Uses of Funds

The proceeds from the sale of the Bonds, together with the City's contribution to the refunding from prior issue debt service funds, will be applied approximately as follows:

Sources of Funds	
Principal Amount of Bonds	$10,535,000.00
Accrued Interest	21,265.42
Reoffering Premium	1,088,326.85
Debt Service Reserve Contribution	385,000.00
Total Available Funds	$12,029,592.27
Uses of Funds	
Deposit to Escrow Fund	$11,847,895.98
Accrued Interest	21,265.42
Underwriters' Discount	59,478.33
Costs of Issuance	100,952.54
Total Application of Funds	$12,029,592.27

Ownership

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

ENFORCEMENT OF REMEDIES

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

RECORD DATE FOR INTEREST PAYMENT

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association. 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).

WATER AND WASTEWATER SYSTEM

Water Supply

The City is a non-interruptible, treated water contract customer of Dallas Water Utilities ("DWU"). Under contract terms, the City pays a demand rate through a rate-of-flow controller and a volume charge for all use. The term of this contract ends in June 2013 and provides that it may be extended for such additional periods as the parties agree upon. Currently the demand charge is set for 41 millions gallons per day ("MGD") with budgeted increase (if required) to approximately 43 MGD. The City obtains 100% of its water supply from DWU. A city-owned well (Trinity Sands Aquifer) within the City can be utilized for emergency purposes. The City accesses the DWU water supply through five intakes with a maximum projected demand of 80 MGD.

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

The payments by the City under the water supply contract constitute operating expenses of the System, and, in accordance with state law, must be paid prior to payment of the City's revenue bonds which are payable from the Net Revenues of the System. 2011-12 rates are $.3581 per 1,000 gallons and $199,958 per MGD for rate-of-flow demand charges. Total water purchase charges are budgeted for fiscal year 2011-12 at $11,591,501 for the combined demand and volume charges. For fiscal years 2010 through 2012 (using projected demand charges for 2012), the DWU demand charges per million gallons of water have increased an average of 6.5% per year.

Water Distribution System

The City owns and operates the water distribution system for the entire City, with full capability to provide retail water service to all retail water customers within the City limits. The system encompasses an area of approximately 35 square miles with about 551 miles of transmission and distribution lines ranging from 54" concrete-steel cylinder trunks to 6" distribution lines. The City system is composed of 3 pump stations with 17 pumps, having a total pumping capacity of 93.81 MGD. Maximum water used in a single day to date has been 43,274,000 gallons in 2006. Amounts in excess of 41 MGD (the City's current stipulated demand quantity from DWU) can be obtained from City storage and a City well (2.0 MGD capacity). The City believes that water conservation efforts are essential for maintaining cost effective services, and efforts continued to be made to encourage water conservations through various means. Total City-owned storage capacity is 11.5 million gallons ("MG") of elevated storage and 36.5 MG of ground storage. The water distribution system served 30,859 residential and 4,615 commercial meter connections for fiscal year 2010-11 with an overall system average consumption of 22 MGD.

Wastewater Collection System

The City owns and operates a complete wastewater collection system adequate to collect and transport all domestic, commercial, and industrial wastewater to the Central Regional Wastewater Treatment Plant of the Trinity River Authority ("TRA") in Grand Prairie, Texas. The operation and maintenance of the City's water and wastewater utilities is by a combined staff of 51 employees.

With a wastewater collection system of approximately 448 miles of mains and nineteen lift stations, the City collects approximately 4.6 billion gallons of wastewater annually. The City's local collectors discharge into four major interceptors. The City's collection system discharges to the TRA Central Regional Wastewater System ("CRWS") interceptors located just west of I-35 (Stemmons Freeway) and east of the Elm Fork of the Trinity River. Flow from the City enters these TRA interceptors and is measured at a downstream meter station. The TRA interceptors vary in size from 42" to 72" through the Carrollton area.

The City's 1993 wastewater master plan was updated in August 2002. This study included a review of population and land use projections, an evaluation of the existing wastewater collection system, and projected system improvements through the year 2012. This study provided modifications to the wastewater capital improvements program and the wastewater impact fee.

In addition to the capital improvements program, the City continues a proactive program of replacing wastewater mains which have reached the limit of useful life. This program is funded through the annual utility budget, currently at $1,500,000 per year and approximately 20,000 linear feet of wastewater mains are replaced annually.

Wastewater Treatment System

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

The City's annual expense for wastewater treatment services during fiscal year 2010-11 was $5,904,861. The City's estimated average flows to TRA for 2011 were 10.4 MGD.

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

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

In 1980, a two phase expansion program was completed that increased the capacity to 100 MGD and provided tertiary treatment. Growth in the service area resulted in the expansion of the CRWS facility to a capacity of the CRWS Treatment Plant of 135 MGD, with construction initiated in 1988 and completed in early 1994. Effluent discharged from CRWS consistently meets or exceeds the requirements specified in the TPDES permit issued by the Texas Commission on Environmental Quality ("TCEQ"). TCEQ approved an uprating of the discharge permit to an effluent level of 162 MGD with the completion of the solids dewatering project on April 2001. TRA has engaged an engineering firm to establish a five year capital improvement plan for the CRWS Treatment Plant that will support increasing the existing treatment capacity of the plant from 162 MGD to 189 MGD. The five year CIP also identified collection system improvements that will increase hydraulic capacity and will rehabilitate selected segments of the existing pipeline interceptor system to meet state and federal regulatory requirements. This program of proposed capital improvements will be funded by issuing bonds in the amount of $621 million.

Billing

Charges for all City-provided utility services (water, wastewater and solid waste) are billed monthly in one statement. Customers cannot pay for one utility service only; they must pay for all services billed. Bills computed at the net monthly rate are due when rendered and are payable within 20 calendar days from the bill date. A bill not paid by due date of the second month's bill incurs a penalty of $25.00; a customer whose bill is not paid by the 7th calendar day after the penalty date is subject to interruption of service with a interrupt day fee of $25.00. An additional fee of $60.00 applies if restoral is done after regular business hours.

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

CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT

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

The City annually adopts a capital improvement plan (the "CIP") that reflects all capital expenditures planned by the City over a five year period, which includes costs of maintaining City infrastructure, as well as costs of proposed new municipal facilities, including public safety facilities, parks, transportation, public works, stormwater drainage, and water and wastewater improvements. The annual CIP includes capital expenditures proposed for funding from various sources administered through the City's Capital Project Fund and other funds of the City, and proposed to be funded from a blend of current funds, available reserves and proceeds of tax-supported and enterprise fund bond issues.

The 2011-12 CIP reflects the potential expenditure of approximately $14,750,000 in System capital expenditures over the five year planning period, without issuance of System revenue bonds during the planning period. All projected System capital expenditures are planned to be completed with "pay as you go" monies.

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

In addition to over 50,000 linear feet of water line improvements ranging in size from 8 to 54-inches throughout the City, the Water Distribution Master Plan called for the construction of a major transmission main from the Dallas Water Utilities Elm Fork Water Treatment Plant to the Northern Pump Station, two-2 MG elevated storage tanks, increased capacity in the City's central pump station, dismantling and replacement of old ground storage tanks, and a pump station to increase water pressure in the Golden Bear area. An interlocal agreement was reached with the cities of The Colony and Lewisville for joint construction and operation of the transmission main to the Northern Pump Station. The Golden Bear pump station project was completed in 2006 while the transmission main and the dismantling of the old tanks were completed in 2009.

The Water Distribution Master Plan was updated and revised as improvements have gone under detailed design and construction. One of the elevated storage tanks has been designed and constructed as a 3 MG tank. The project included the demolition of an existing 1.5 MG tank which required rehabilitation, and construction of the new tank in the same area. This alternative eliminated the need to buy new land and construct piping to the new location while eliminating the higher maintenance costs of the old tank. Several water line improvement projects were coordinated and completed with street reconstruction projects and with the the transmission main project. Improvements to the Columbian Club Pump Station were completed in 2011. The Master Plan was updated in 2011 to include Transit Oriented Development ("TOD") which increased the size of the previously recommended 2 MG elevated storage tank to 3 MG and identified several new lines to serve these TOD areas. This new 3 MG tank is scheduled for construction in 2015 while the TOD water lines will be coordinated with new development and Interstate Highway 35E reconstruction which is expected to start in 2015.

Wastewater improvements include replacing old interceptor lines with larger lines to accommodate the build out population in the City's four sewer sheds (Hutton, Furneaux, Dudley and Indian Creeks). Over 60,000 linear feet of lines up to 36-inches in diameter were recommended for replacement. Currently, all of these have been constructed along with creek improvements except for one segment of the Furneaux Creek interceptor which will be under construction in the summer of 2012.

Ongoing funding from operations of $2,650,000 for fiscal year 2012 year for water and wastewater main rehabilitation is expected to continue as annual pay-as-you-go operational expenses. This funding from operations has improved overall system performance allowing the City to replace and repair water lines and sanitary sewer lines.

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

SYSTEM FINANCIAL POLICIES AND GOALS

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

In adopting the City's 2011-12 fiscal year budget, the City is of the view that budget meets the targeted System fund balance goal, though no assurance can be given that the actual result will in all instances meet the fund balance target.

The City also annually budgets for a transfer from its Utilities Fund to the General Fund as a payment in lieu of taxes ("PILOT"). This PILOT was calculated as an estimate of what the Utility Fund would pay to the City in ad valorem and franchise taxes if it were a separate entity. The Utility Fund PILOT totals $2,416,244 for Fiscal Year 2011-12. In addition to the PILOT transfer, a transfer is made from the Utility Fund to the Utility Debt Service Fund to cover debt service requirements for System debt (for Fiscal Year 2011-12, this transfer is budgeted at $2,500,100), to the Administrative Services Fund to cover allocated overhead charges (for Fiscal Year 2011-12, this transfer is budgeted at $145,937), and to the Capital Projects Fund to cover pay-as-you-go capital improvements (for Fiscal Year 2011-12, this transfer is budgeted at $2,650,000).

SELECTED PROVISIONS OF THE ORDINANCE

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

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

> "Additional Bonds" - Revenue bonds or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 18 of this Ordinance and which, together with the Bonds and Previously Issued Bonds, are equally and ratably secured by a first lien on and pledge of the Net Revenues of the System.
>
> "Average Annual Debt Service" - That average amount which, at the time of computation, will be required to pay the Debt Service of obligations when due and derived by dividing the total of such Debt Service by the number of years then remaining before final maturity. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.
>
> "Bonds" - The "City of Carrollton, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 2012", dated May 1, 2012, authorized by this Ordinance.
>
> "Bonds Similarly Secured" - Collectively, the Previously Issued Bonds, the Bonds and Additional Bonds.
>
> "City" - The City of Carrollton located in the Counties of Dallas, Denton and Collin, Texas.
>
> "Debt Service" - As of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest at the maximum rate permitted by the terms thereof and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

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

"Government Obligations" - (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the City are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other than authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds.

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

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

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

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

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

(1) those Bonds or Bonds Similarly Secured cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds or Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of Section 28 hereof, or substantially similar provisions with respect to Bonds Similarly Secured; and

(3) those Bonds or Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof or similar provisions with respect to Bonds Similarly Secured.

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

(1) "City of Carrollton, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2002", dated April 15, 2002, originally issued in the aggregate principal amount of $19,380,000;

(2) "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2003", dated June 1, 2003, originally issued in the aggregate principal amount of $4,695,000; and

(3) "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2005", dated February 15, 2005, originally issued in the aggregate principal amount of $10,000,000.

(4) "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2007", dated August 1, 2007, originally issued in the aggregate principal amount of $5,820,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Bonds, the amount currently on deposit to the credit of the Reserve Fund is an amount equal to at least $2,008,330 (the "Current Reserve"). By reason of the issuance of the Bonds, the total amount required to be accumulated and maintained in said Fund is hereby determined to be $1,610,108 (the "Required Reserve"). The amount required to be on deposit in the Reserve Fund is the Average Annual Debt Service for the Bonds Similarly Secured. In the event that an amount less than the Required Reserve is on deposit in the Reserve Fund due to the issuance of Additional Bonds or otherwise, the Ordinance provides that the City will make additional deposits thereto, beginning on or before the 20th day of the month in which such deficiency occurs and on or before the 20th day of each month thereafter until the Required Reserve has been fully accumulated. Such deposits shall equal 1/60th of the difference between the Required Reserve and the Current Reserve.

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

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

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

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

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

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

SECTION 17: Investments - Security of Funds. (a) Money in any Fund required to be maintained in accordance with provisions of this Ordinance may, at the option of the City, be placed in time deposits or certificates of deposit secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or may, at the option of the City, be invested in such manner and in such obligations as now and hereafter authorized by the laws of the State of Texas, including the Public Funds Investment Act of 1987, and in making such investments exercising a standard of care emphasizing safety of capital as well as probable income, but without speculation. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds Similarly Secured.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) A statement of the income and expenses of the System for such Fiscal Year.

(2) A balance sheet for the System as of the end of such Fiscal Year.

(3) A statement describing the sources and application of funds of the System for such Fiscal Year.

(4) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Bonds Similarly Secured and his recommendations for any changes or improvements in the operations, records and accounts of the System.

(5) A list of insurance policies in force at the end of the Fiscal Year covering the properties of the System, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

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

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

(1) It has the lawful power to pledge the Net Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued hereunder, together with the Previously Issued Bonds and the Additional Bonds shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(2) The Net Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Previously Issued Bonds, and the Bonds.

(3) To the extent that it legally may, the City will not grant any franchise or permit the acquisition, construction or operation of any competing facilities which might be used as a substitute for the facilities of the System, and the City will prohibit any such competing facilities.

(4) The City will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

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

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

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

SECTION 28: Defeasance. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the pledge of the Net Revenues of the System under this Ordinance and all other obligations of the City to the Holders shall thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Obligations shall have been irrevocably deposited in trust with the Paying Agent/ Registrar, or an authorized escrow agent, which Government Obligations have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of moneys or Government Obligations will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

Any moneys so deposited with the Paying Agent/ Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall, upon the request of the City, be remitted to the City against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the City shall be subject to any applicable unclaimed property laws of the State of Texas.

INVESTMENT POLICIES, PROCEDURES AND PORTFOLIOS

Investments

The City invests available funds in investments authorized by the Public Funds Investment Act of the State of Texas and in accordance with investment policies approved by the City Council. (Financial information regarding current investments can be found in Appendix A, Table 11.) Both state law and the City's investment policies are subject to change.

Investment Authority and Investment Practices of the City

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates (i) that are issued by a depository institution that has its main office or a branch office in the State of Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.41(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6), (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (11) through (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 a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (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, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS

Self-Insurance

The City administers a Self-Insured Retention ("SIR") program within its Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas: (a) general liability with a $50,000 per occurrence retention and a $2,000,000 per occurrence and $4,000,000 policy aggregate limit on coverage, (b) law enforcement liability with a $50,000 per occurrence retention and a $2,000,000 per occurrence and $4,000,000 policy aggregate limit on coverage, (c) public official errors and omissions with a $50,000 per occurrence retention and a $2,000,000 per occurrence and $4,000,000 policy aggregate limit on coverage, (d) worker's compensation liability with a $100,000 per occurrence retention and statutory limit on coverage, (e) property loss with $10,000 per occurrence retention and a $134,535,933 limit on coverage, (f) automobile liability with a $50,000 per occurrence retention and a $1,000,000 per occurrence limit on coverage, and (g) automobile physical damage liability with a $10,000 retention and a actual cash value or agreed value as schedule limit on coverage.

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 2011, the biennial actuarial analysis determined that the loss reserve was $2,395,312 which represents the discounted present value of expected losses using an expected future investment yield assumption of 3% 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, 2011, 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 $10,019,303. At September 30, 2011, there was a liability of $828,000 in such fund, which represents estimated claims incurred but not yet reported. The total fund balance at September 30, 2011, was $12,380,795. For additional information, see Note 10 to the City's Basic Financial Statements for the year ended September 30, 2011, which are attached hereto as Appendix B.

Pension and Retirement Fund

The City provides pension benefits for all eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan administered by Texas Municipal Retirement System (TMRS), an agent, multiple-employer public employee retirement system. The City has adopted plan provisions among the options available in the 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. If at any time during their career an employee earns a USC this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

The 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 16.73% of covered payroll for the months in calendar year 2010, and 16.88% for the months in calendar year 2011. 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, 2009 valuation is effective with rates beginning January 1, 2011). If a change in plan provisions is elected by the City, this rate can change. For the months in calendar year 2010, the City made 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 closed amortization period and was .01 percentage points over the actuarially required contribution of 16.73% required by GAAP, for a total of $287,901. For the months in calendar year 2011, the City continued to make contributions of 16.74% which provided for an additional voluntary contribution of .46 percentage points over the statutorily required rate of 16.28% based on a 38-year amortization period and was .14 percentage points over the actuarially required contribution rate of 16.88% required by GAAP for a total of $241,146. Additionally, the City made an additional year-end voluntary contribution for fiscal year 2011 of $200,000. This strategy of making additional contributions has resulted in a net pension asset for the City of $1,046,553 as of September 30, 2011.

As of December 31, 2010, the most recent actuarial valuation date, the plan was 91.7% funded after the restructuring of the TMRS funds. The actuarial accrued liability for benefits was $281,246,707, and the actuarial value of assets was $257,904,344, resulting in an unfunded actuarial accrued liability (UAAL) of $23,342,363. The covered payroll (annual payroll of active employees covered by the plan) was $45,234,987, and the ratio of the UAAL to the covered payroll was 51.6%. For additional information, see Note 7 to the Basic Financial Statements for the year ended September 30, 2011, in Appendix B herein and 2010 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 2011 were $6,211 to $31,620 per year depending on coverage levels selected. In fiscal year 2011, total member contributions were $420,546. The City contributions to the plan for fiscal year 2011, 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, 2011, the City's Employee Health and Disability Fund had net assets of $12,380,795 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, 2011, in Appendix B herein.

Deferred Compensation Payable

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

RATINGS

The Bonds are rated "Aa2" by Moody's Investors Service, Inc., "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business and "AAA" by Fitch Ratings. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the view of such organizations at the time such ratings were given and neither the City, the Financial Advisor, nor the Underwriters make any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and developments arising from the Budget Control Act of 2011, including the deliberations and results thereof of the Joint Select Committee on Deficit Reduction, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds.

PENDING LITIGATION

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

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

LEGAL MATTERS

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

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

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of 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 legal securities for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FORWARD LOOKING STATEMENTS DISCLAIMER

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

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

UNDERWRITING

Morgan Keegan & Company, Inc., or its successor in interest ("Morgan Keegan"), acting on behalf of itself and as representative of Raymond James & Associates, Inc. ("Raymond James"), Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Siebert, Brandford & Shank & Co. (collectively the "Underwriters") have agreed with the City, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of $59,478.33. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such respective public offering prices, and such respective public offering prices may be changed from time to time, by the Underwriters.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James, acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James | Morgan Keegan" that appears on the cover of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

Morgan Keegan has entered into a distribution arrangement with Raymond James for the distribution of the Bonds at the original issue prices. Such arrangement generally provides that Morgan Keegan will share a portion of its underwriting compensation or selling concession with Raymond James.

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

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.

The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by RBC Capital Markets, LLC on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Bonds and the restricted Federal Securities will be verified by Grant Thornton LLP, certified public accountants. Such computations will be based solely on assumptions and information supplied by RBC Capital Markets, LLC on behalf of the City. Grant Thornton LLP will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax-exemption of interest on the Bonds and with respect to the defeasance of the Refunded 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 11" 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 2012.

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

/s/ Matthew Marchant
Mayor, City of Carrollton, Texas

ATTEST:

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

SCHEDULE I

SCHEDULE OF BONDS TO BE REFUNDED

Series	Original Dated Date	Principal Amount Being Refunded	Maturities Being Refunded	Redemption Date	Redemption Price
Waterworks & Sewer System Revenue Refunding and Improvement Bonds, Series 2002	04/15/2002	$ 795,000	05/01/2013	05/30/2012	Par
		830,000	05/01/2014	05/30/2012	Par
		310,000	05/01/2015	05/30/2012	Par
		325,000	05/01/2016	05/30/2012	Par
		345,000	05/01/2017	05/30/2012	Par
		360,000	05/01/2018	05/30/2012	Par
		380,000	05/01/2019	05/30/2012	Par
		400,000	05/01/2020	05/30/2012	Par
		420,000	05/01/2021	05/30/2012	Par
		440,000	05/01/2022	05/30/2012	Par
		$ 4,605,000			
Waterworks & Sewer System Revenue Bonds, Series 2003	06/01/2003	$ 230,000	05/01/2014	05/01/2013	Par
		240,000	05/01/2015	05/01/2013	Par
		250,000	05/01/2016	05/01/2013	Par
		255,000	05/01/2017	05/01/2013	Par
		265,000	05/01/2018	05/01/2013	Par
		280,000	05/01/2019	05/01/2013	Par
		290,000	05/01/2020	05/01/2013	Par
		305,000	05/01/2021	05/01/2013	Par
		315,000	05/01/2022	05/01/2013	Par
		330,000	05/01/2023	05/01/2013	Par
		$ 2,760,000			
Waterworks &Sewer System Revenue Bonds, Series 2005	02/15/2005	$ 515,000	05/01/2017	05/01/2014	Par
		535,000	05/01/2018	05/01/2014	Par
		555,000	05/01/2019	05/01/2014	Par
		580,000	05/01/2020	05/01/2014	Par
		600,000	05/01/2021	05/01/2014	Par
		625,000	05/01/2022	05/01/2014	Par
		650,000	05/01/2023	05/01/2014	Par
		$ 4,060,000			
		$ 11,425,000			

APPENDIX A

GENERAL FINANCIAL TABLES

TABLE 1

WATERWORKS AND SEWER SYSTEM REVENUE BONDS
OUTSTANDING DEBT SERVICE REQUIREMENTS

Fical Year Ending 9/30	Existing Debt Service	Less: Refunded Bonds	$10,535,000 Waterworks and Sewer System Refunding Revenue Bonds, Series 2012			Total Debt Service Requirements
			Principal	Interest	Total	
2012	$ 2,548,903	$ -	$ -	$ -	$ -	$ 2,548,903
2013	2,547,553	1,297,424	790,000	364,550	1,154,550	2,404,679
2014	2,545,113	1,525,059	1,020,000	348,750	1,368,750	2,388,804
2015	1,985,628	964,549	490,000	318,150	808,150	1,829,229
2016	1,992,003	966,149	500,000	308,350	808,350	1,834,204
2017	1,991,678	1,480,649	1,035,000	288,350	1,323,350	1,834,379
2018	1,988,050	1,479,396	1,075,000	246,950	1,321,950	1,830,604
2019	1,996,200	1,485,371	1,125,000	203,950	1,328,950	1,839,779
2020	1,995,894	1,488,190	1,175,000	158,950	1,333,950	1,841,654
2021	1,996,054	1,487,300	1,220,000	111,950	1,331,950	1,840,704
2022	1,992,569	1,483,440	1,265,000	63,150	1,328,150	1,837,279
2023	1,534,574	1,021,170	840,000	25,200	865,200	1,378,604
2024	1,191,754	-	-	-	-	1,191,754
2025	1,191,360	-	-	-	-	1,191,360
2026	452,000	-	-	-	-	452,000
2027	451,500	-	-	-	-	451,500
Totals	**$ 28,400,829**	**$ 14,678,696**	**$ 10,535,000**	**$ 2,438,300**	**$ 12,973,300**	**$ 26,695,433**

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

	Fiscal Year Ended 9/30				
	2011	2010	2009	2008	2007
Revenues	$ 37,252,276	$ 33,585,356	$ 34,546,031	$ 36,108,584	$ 33,689,946
Expenses:					
Personal Services	3,510,275	3,573,380	3,726,351	3,648,949	3,565,463
Supplies and Services	19,265,802	18,359,278	18,792,132	17,597,382	17,547,306
Utilities	948,136	905,799	1,233,722	1,287,743	1,125,919
Allocations	1,062,926	1,098,674	1,138,529	1,073,111	1,122,765
Provision for Doubtful accounts	61,893	59,032	74,325	66,812	79,166
Transfers Out	3,346,964	3,265,278	3,282,643	3,270,586	3,334,308
Total Expenses	28,195,996	27,261,441	28,247,702	26,944,583	26,774,927
Net Available for Debt Service	$ 9,056,280	$ 6,323,915	$ 6,298,329	$ 9,164,001	$ 6,915,019
Customer Count Water/Sewer	35,802	33,915	34,825	34,878	34,545
Average Annual Debt Service	$ 1,775,052	$ 1,843,461	$ 1,903,950	$ 1,958,624	$ 2,082,323
Coverage	5.10 x	3.43 x	3.31 x	4.68 x	3.32 x

Current Year Debt service, Fiscal Year Ended 9/30/12	$ 2,548,903
Coverage of Fiscal Year Debt Service at 9/30/11 by Net Available	3.55 x
Average Annual Debt Service - 2012/2027	$ 1,668,465
Coverage of Average Annual Debt Service at 9/30/11 by Net Available	5.43 x
Maximum Annual Debt Service - 2012/2027	$ 2,548,903
Coverage of Maximum Annual Debt Service at 9/30/11 Net Available	3.55 x

TABLE 3
FUND BALANCES
(As of September 30, 2011)

Reserve Fund	$ 1,775,052
Interest and Sinking Fund	1,062,043
Total Fund Balances	**$ 2,837,095**

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

	2010-11 Actual [1]	2011-12 Adopted Budget [1]
Beginning Operating Funds	$ 12,257,399	$ 14,460,200
Revenues		
Water Sales & Charges	24,558,937	22,600,000
Sewer Sales & Charges	11,544,740	11,325,000
Tag & Reconnect Fees	445,400	440,000
Industrial Surcharge	248,432	195,000
Backflow Prevention Charges	129,746	140,000
Investment Income	71,658	72,000
Miscellaneous	158,096	144,500
Total Revenues	$ 37,157,009	$ 34,916,500
Total Funds Available	$ 49,414,408	$ 49,376,700
Expenditures		
Personal Services	2,562,719	2,743,481
Supplies and Services	18,766,430	20,170,365
Utilitites	937,927	892,593
Allocations	3,598,643	3,598,945
Capital Outlay	-	-
Canceled Encumbrances	(12,571)	-
Transfers Out	7,600,993	7,566,344
Total Expenditures	$ 33,454,141	$ 34,971,728
Ending Operating Funds	$ 15,960,267	$ 14,404,972

(1) Budget basis.

TABLE 5
UTILITY PLANT IN SERVICE
(As of September 30, 2011)

Land	$ 1,372,868
Utility Plant	237,673,938
Equipment and Intangibles	3,720,608
Total Capital Assets	242,767,414
Less Accumulated Depreciation	(102,064,340)
Net Utility Plant in Service	**$ 140,703,074**

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

	Fiscal Year Ended September 30				
	2011	**2010**	**2009**	**2008**	**2007**
Water & Wastewater					
System in Service	$ 242,767,414	$ 238,841,255	$235,261,309	$ 221,860,872	$203,194,483
Reserve for Depreciation	(102,064,340)	(94,445,790)	(86,877,623)	(79,546,438)	(73,178,024)
Net plant in Service	140,703,074	144,395,465	148,383,686	142,314,434	130,016,459
Construction Funds Net Assets	10,867,953	11,523,684	13,924,037	15,645,578	21,927,433
Net Plant in Sevice and Coming on Line	151,571,027	155,919,149	162,307,723	157,960,012	151,943,892
Plus Other Assets	231,369	240,723	241,367	259,691	251,325
Plus Operating Working Capital	16,580,291	12,642,244	10,052,261	11,047,492	10,377,693
Assets Net of Current Liabilities and Debt Reserves	168,382,687	168,802,116	172,601,351	169,267,195	162,572,910
Long Term Debt	19,848,764	21,485,520	23,380,345	25,158,081	26,875,818
Less Debt Reserves	(1,775,052)	(1,843,461)	(2,008,330)	(2,008,330)	(2,008,330)
Net Long Term Debt	18,073,712	19,642,059	21,372,015	23,149,751	24,867,488
Plus Other Liabilities	617,639	656,134	701,717	704,558	654,243
Total Obligations	18,691,351	20,298,193	22,073,732	23,854,309	25,521,731
City's Equity in System	$149,691,336	$148,503,923	$150,527,619	$145,412,886	$137,051,179
% Equity	88.90%	87.98%	87.21%	85.91%	84.30%

TABLE 7
TOP TEN WATER CUSTOMERS
AS OF 9/30/2011

	Name	Type	Revenues	% of Total Water Revenues[1]
1.	Carrollton-Farmers Branch ISD	School District	$ 469,140	1.91%
2.	Lewisville ISD	School District	164,446	0.67%
3.	Bella Vida Gardens Assoc. LLC	Apartments	128,856	0.52%
4.	BH Autumn Chase Apts. LP.	Apartments	127,998	0.52%
5.	Western Extrusions	Manufacturing	113,850	0.46%
6.	Country Square Associates	Apartments	93,843	0.38%
7.	Frankel Family Trust	Apartments	91,969	0.37%
8.	UDR The Meridian, LLC	Apartments	89,590	0.36%
9.	Baylor Healthcare	Healthcare	76,601	0.31%
10.	Carrollton Edentree L.P.	Apartments	74,307	0.30%
	TOTAL		**$ 1,430,600**	**5.83%**

(1) Total water revenues from October 1, 2010 through September 30, 2011 was $24,558,938.

Source: City of Carrollton Utility Customer Service Department.

TABLE 8
WATER USAGE

Fiscal Year Ended 9/30	Average Daily Use In Gallons	Maximum Daily Use In Gallons	Total Gallons for Year
2002	21,859,000	39,593,000	7,978,785,000
2003	22,165,000	42,932,000	8,090,575,000
2004	20,828,000	35,292,000	7,602,461,000
2005	21,673,000	40,525,000	7,910,685,000
2006	26,276,000	43,274,000	9,590,868,000
2007	19,255,000	38,849,000	7,028,198,000
2008	22,547,000	43,175,000	8,229,714,000
2009	21,117,000	41,162,000	7,707,993,000
2010	19,635,000	40,022,000	7,166,971,000
2011	22,311,000	41,106,000	8,143,386,000

Source: City of Carrollton Water Distribution Department.

TABLE 9
WATER & WASTEWATER RATES[1]

Monthly Water Rates:

Residential:

Meter Readings from October through April:		
First 2,000 gallons, minimum	$	10.63
All Over 2,000 gallons (per 1,000 gallons)		2.66
Meter Readings from May through September:		
First 2,000 gallons, minimum		10.63
Next 8,000 gallons (per1,000 gallons)		2.66
All Over 10,000 gallons (per 1,000 gallons)		3.58
All Over 25,000 gallons (per 1,000 gallons)		4.49

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

5/8" meter	$	10.63
1" meter		16.38
1.5" meter		25.99
2" meter		37.50
3" meter		68.21
4" meter		102.75
6" meter		198.73
8" meter		313.91
10" meter		448.26
Fire Line regardless of size		57.90

Irrigation use:

Next 8,000 gallons (per 1,000 gallons)	$	2.23
All use over 10,000 gallons but less than 25,000 gallons (per 1,000 gallons)		2.95
All use over 25,000 gallons (per 1,000 gallons)		3.09

Commercial use: Including apartments and portable meters.

All use over 2,000 gallons (per 1,000 gallons)	$	1.81

Industrial Use: Industrial use rates for water service will apply to customers in the business of assembly or manufacturing of goods and for which water usage equals or exceed 750,000 gallons per month for nine out of twelve months in the year:

All use over 2,000 gallons (per 1,000 gallons)	$	1.52

Monthly Sewer Rates:

Residential use:

First 2,000 gallons, minimum	$	9.67
All use over 2,000 gallons (per 1,000 gallons)		2.02

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

5/8" meter	$	9.67
1" meter		13.98
1.5" meter		21.15
2" meter		29.75
3" meter		52.71
4" meter		78.52
6" meter		150.22
8" meter		236.27
10" meter		336.65

Commercial and Industrial use:

All use over 2,000 gallons (per 1,000 gallons)	$	2.02

[1] Rates effective February 1, 2010

TABLE 10

COMPARATIVE WATER AND WASTEWATER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30				
	2011	**2010**	**2009**	**2008**	**2007**
Operating revenues:					
Charges for services	$ 37,070,326	$ 33,394,525	$ 33,783,699	$ 34,668,105	31,237,504
Miscellaneous	76,001	24,589	45,460	72,116	160,637
Total operating revenues	37,146,327	33,419,114	33,829,159	34,740,221	31,398,141
Operating expenses:					
Personal services	3,510,275	3,573,380	3,726,351	3,648,949	3,565,463
Supplies and Services	19,327,695	18,418,310	18,866,457	17,664,194	17,626,472
Utilities	948,136	905,799	1,233,722	1,287,743	1,125,919
Allocations	1,062,926	1,098,674	1,138,529	1,073,111	1,122,765
Depreciation	7,667,043	7,650,919	7,333,190	6,616,479	5,876,126
Total operating expenses	32,516,075	31,647,082	32,298,249	30,290,476	29,316,745
Income from operations	4,630,252	1,772,032	1,530,910	4,449,745	2,081,396
Nonoperating revenues (expenses):					
Investment income	105,949	166,242	716,872	1,280,478	2,291,805
Gain (loss) on sale/retirement of capital assets	6,578	5,902	(11,364)	35,037	52,009
Interest expense	(1,025,940)	(1,139,304)	(1,211,370)	(1,287,581)	(1,118,324)
Total nonoperating revenues (expenses)	(913,413)	(967,160)	(505,862)	27,934	1,225,490
Income before contributions and transfers	3,716,839	804,872	1,025,048	4,477,679	3,306,886
Capital contributions	805,406	436,710	7,372,328	7,066,729	12,039,515
Transfers in	12,132	-	-	87,885	0
Transfers out	(3,346,964)	(3,265,278)	(3,282,643)	(3,270,586)	(3,334,308)
Change in net assets	1,187,413	(2,023,696)	5,114,733	8,361,707	12,012,093
Net assets at beginning of year	148,503,923	150,527,619	145,412,886	137,051,179	125,039,086
Net assets at end of year	$ 149,691,336	$ 148,503,923	$ 150,527,619	$ 145,412,886	$ 137,051,179

TABLE 11
CURRENT INVESTMENTS

As of December 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 0.457 years.

Type of Investment	Amortized Value	Percentage
U.S. Agencies and Instrumentalities	$ 104,999,301	62.29%
Coupon Treasuries	1,993,915	1.18%
Government Pools[1]	61,568,631	36.53%
Total Securities	$ 168,561,848	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 Chapter 2256, Texas Government Code referred to as the Public Funds Investment Act.

APPENDIX B

REPORT OF EXAMINATION FOR THE YEAR ENDED SEPTEMBER 30, 2011 BY GRANT THORNTON LLP, CERTIFIED PUBLIC ACCOUNTANTS, DALLAS TEXAS AND EXCERPTS OF THE CITY OF CARROLLTON, TEXAS SEPTEMBER 30, 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Grant Thornton

Independent Auditor's Report

Audit • Tax • Advisory
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www.GrantThornton.com

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, as of and for the year ended September 30, 2011, which collectively comprise the City of Carrollton's (the "City") basic financial statements. These financial statements are the responsibility of the City'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 established by the American Institute of Certified Public Accountants. 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, 2011, 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.

The Management's Discussion and Analysis on pages 3 through 15, the schedule of Texas Municipal Retirement System Schedule of Funding Progress, and the Retiree Health Plan Schedule of Funding Progress on pages 57 and 58 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.

GRANT THORNTON LLP

Dallas, Texas
January 31, 2012

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

January 31, 2012

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, 2011. 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 109-128 of this report) as well as information on the City's Council's Strategic Goals, the annual budget and other community information found on the City's website at www.cityofcarrollton.com. It should be noted that the Independent Auditors' Report describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $475,195 (net assets). This number must be viewed in the context that the vast majority of the City's net assets of $347,965 (73%) 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 $9,351 (2%). The remaining $117,879 (25%) 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 $10,670 in fiscal year 2011.

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $112,414. Within this total $31,273 is restricted by specific legal requirements, such as by debt covenants and $64,894 has been committed and assigned to specific types of expenditures. The remaining $16,247 is unassigned fund balance in the general fund and can be used for any lawful purpose.

- The City's long-term liabilities increased by $1,672 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 provide 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 27-56.

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 $475,195 as of September 30, 2011.

The largest portion of the City's net assets $347,965 (73%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets $9,351 (2%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets $117,879 (25%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON, TEXAS

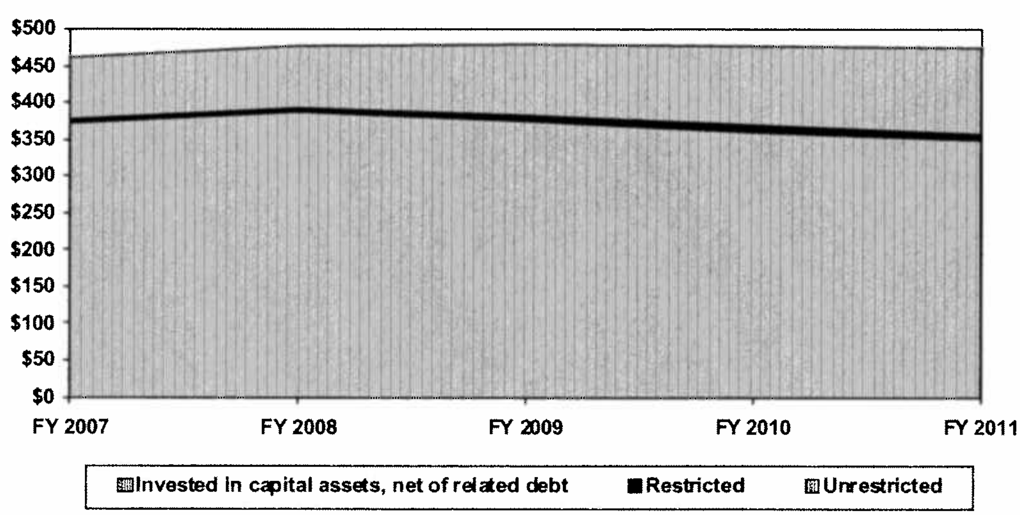
Management's Discussion and Analysis
For the Year Ended September 30, 2011
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	$ 136,508	$ 148,611	$ 35,077	$ 37,932	$ 171,585	$ 186,543
Capital assets, net	386,434	376,876	148,499	144,500	534,933	521,376
Total Assets	522,942	525,487	183,576	182,432	706,518	707,919
Long term liabilities	186,581	190,457	26,400	24,196	212,981	214,653
Other liabilities	11,517	12,524	5,238	5,547	16,755	18,071
Total Liabilities	198,098	202,981	31,638	29,743	229,736	232,724
Net Assets:						
Invested in capital assets, net of related debt	236,526	226,993	123,608	120,972	360,134	347,965
Restricted	7,596	7,576	1,843	1,775	9,439	9,351
Unrestricted	80,722	87,937	26,487	29,942	107,209	117,879
Total Net Assets	$ 324,844	$ 322,506	$ 151,938	$ 152,689	$ 476,782	$ 475,195

As of September 30, 2011, 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)

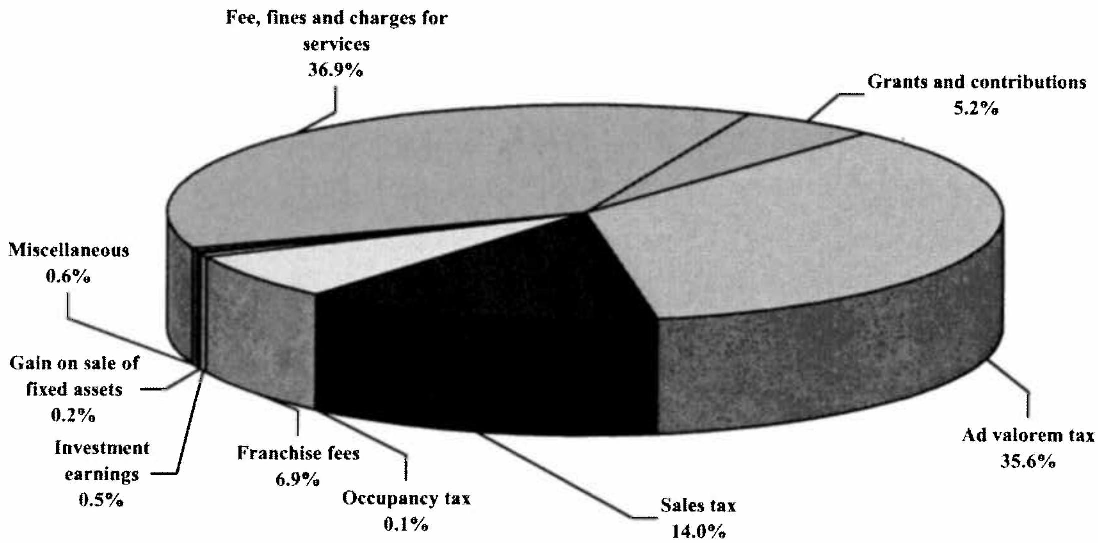


The current and other assets increased in the Governmental and Business-type activities by $12,102 and $2,855, respectively. Increase in the Governmental activities is primarily due to issuance of debt and accumulation of other funds for future capital purchases offset by acquisition and construction of capital assets. Increase in the Business-type activities is primarily from higher revenue from Water and Sewer operations due to the extremely hot and dry weather conditions in fiscal year 2011.

The City's long-term liabilities increased by $1,672 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 $1,587 or .3%.

Changes in Net Assets
Revenue by Major Category
Governmental and Business-Type Activities
For the Fiscal Year Ended September 30, 2011

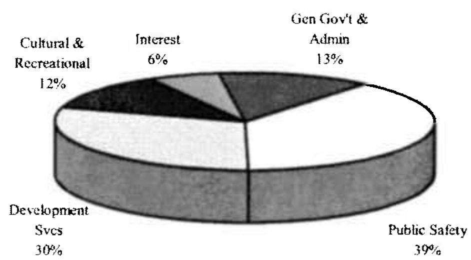


Governmental Activities: Governmental activities net assets decreased by $2,338. Net assets invested in capital assets, net of related debt decreased by $9,533 or 4% primarily due to issuance of additional debt and use of debt proceeds for acquisition and construction of capital assets. Restricted net assets decreased $20 or 0.3%. Unrestricted net assets increased by $7,215 or 9% primarily due to unrestricted funds accumulated for future capital purchases.

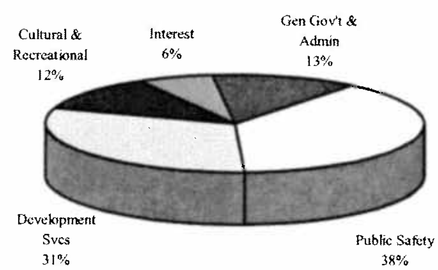
Excluding transfers from business-type activities, total revenues for governmental activities decreased from the previous year by $444. General revenue (excluding transfers) had a net decrease of $3,241 or 1.0%. In General Revenues, ad valorem tax experienced a decrease of $1,780 due to a decline in the tax base. Additionally, there was a decrease in investment earnings of $376 due to effects of the declining investment markets. Increases were seen in sales taxes of $1,461 and franchise fees of $955. Revenue from a special item in 2010 decreased general revenues by $3,612 and other general revenues increased by $111. Program revenues had a $2,797 or 17.7% net increase primarily due to increases in capital grants and contributions and fees, fines and charges for services. Net transfers from the business type activities to governmental activities increased by $1,436 from the previous year.

Expenses by Type
Governmental Activities

FY 2010



FY 2011



Total expenses for governmental activities increased $1,687 or 1.5%.

<u>Business-type Activities:</u> Net Assets from business-type activities increased by $751 or 0.5% from $151,938 to $152,689. Net assets invested in capital assets, net of related debt, decreased by $2,636 or 2.1% primarily due to capital asset depreciation offset by retirements of related debt. Unrestricted net assets increased by $3,455 or 13.0% primarily due to earnings in the Water and Sewer Fund from increased sales due to the extremely hot and dry weather conditions in fiscal year 2011. Restricted net assets decreased by $68 due to reduction in the required reserve for revenue bonds.

The following table provides a summary of the City's operations for year ended September 30, 2011 with comparative totals for year ended September 30, 2010.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program Revenues:						
Fees, fines and charges for services	$ 10,392	$ 11,472	$ 41,992	$ 45,232	$ 52,384	$ 56,704
Operating grants and contributions	32	38	-	-	32	38
Capital grants and contributions	5,389	7,100	437	805	5,826	7,905
General revenues:						
Ad valorem taxes	56,531	54,751	-	-	56,531	54,751
Sales tax	20,103	21,564	-	-	20,103	21,564
Occupancy tax	169	196	-	-	169	196
Franchise fees	9,653	10,608	-	-	9,653	10,608
Investment earnings	1,003	627	181	117	1,184	744
Gain on sale of capital assets	364	270	6	7	370	277
Miscellaneous	665	843	24	76	689	919
Special item	3,612	-	-	-	3,612	-
Total revenues	107,913	107,469	42,640	46,237	150,553	153,706
Expenses:						
General government and administration	15,023	14,539	-	-	15,023	14,539
Public safety	44,043	44,483	-	-	44,043	44,483
Development services	33,811	35,909	-	-	33,811	35,909
Cultural and recreational	14,069	13,362	-	-	14,069	13,362
Interest on long term debt	6,922	7,232	-	-	6,922	7,232
Water and Sewer	-	-	32,866	33,621	32,866	33,621
Golf	-	-	951	870	951	870
Sanitation	-	-	6,670	5,277	6,670	5,277
Total expenses	113,868	115,525	40,487	39,768	154,355	155,293
Increase (decrease) in net assets before transfers	(5,955)	(8,056)	2,153	6,469	(3,802)	(1,587)
Transfers	4,282	5,718	(4,282)	(5,718)	-	-
Increase (decrease) in net assets	(1,673)	(2,338)	(2,129)	751	(3,802)	(1,587)
Net assets October 1	326,517	324,844	154,067	151,938	480,584	476,782
Net assets September 30	$ 324,844	$ 322,506	$ 151,938	$ 152,689	$ 476,782	$ 475,195

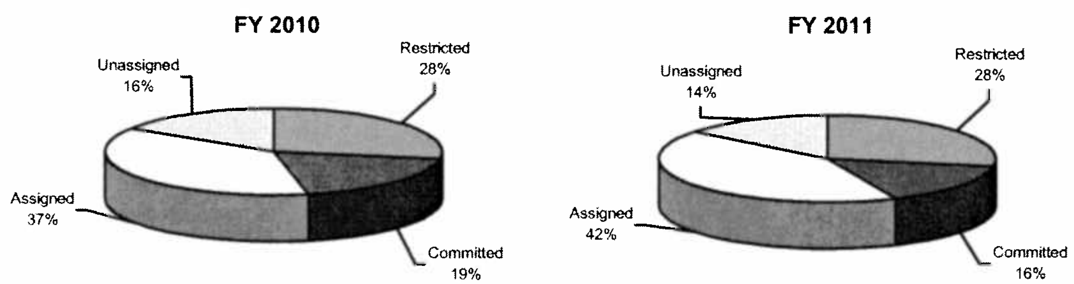
CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Fund Balances by Type
Governmental Funds



At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $112,414. Within this total $31,274 is restricted by specific legal requirements, such as by debt covenants, and $64,893 has been committed and assigned to specific types of expenditures. The remaining $16,247 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 $586. It is one of the City's financial policies to maintain fund balance in the general fund equal to 60 days expenditures and when those balances significantly exceed the 60 day target to transfer the excess to capital project funds to fund pay as you go capital expenditures. Due to actual expenditures being less than originally budgeted and revenues being more than originally budgeted, transfers out to capital projects funds were increased and the actual budget basis fund balance change was an increase for fiscal year 2011 of $35. 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 2011 budget will be addressed during the fiscal year 2013 budget deliberations. Debt service fund balance decreased in 2011 by $486 due to debt service payments on the 2011 issuance that was not planned when the debt service tax rate was set. Streets and Drainage Capital Projects fund balance increased in 2011 by $6,694 due to proceeds from bonds issued offset by capital outlay expenditures. General and Public Facilities Capital Projects fund balance increased in 2011 by $1,071 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 $28,702 for Water and Sewer, $720 for Golf Course and $394 for Sanitation. The total of all enterprise fund net assets of $152,563 is adjusted by $126 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 $152,689. Change in net assets for enterprise funds in 2011 were $1,187 in the Water and Sewer Fund, ($165) in the Golf Course Fund and ($153) in the Sanitation Fund.

General Fund Budgetary Highlights - The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of 2.1% or $1,643. Management's estimate of the General Fund's budgeted revenues increased $803 or 1.1% from original budget based on year-to-date experience.

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, 2011, amounts to $521,376 (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, net of accumulated depreciation, for the current fiscal year was 2.5 % (2.5% decrease for governmental activities and 2.7% decrease in business-type activities.)

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

- Acquisition of vehicles and equipment totaling $2 million, including $1.5 million of public safety equipment and vehicles and $500 thousand of parks and golf course maintenance equipment.
- Parks and recreation center improvements totaling $1.5 million, including $500 thousand in construction of the Thomas Spray Ground and $320 thousand in renovations of McInnish Park restrooms.
- Water and sewer system infrastructure improvements totaling $4 million, including $314 thousand in developer contributions.
- Street and alley improvements of $11.2 million, including $765 thousand in developer contributions.
- Drainage Improvements of $2.5 million, including $290 thousand in developer contributions.

Capital Assets at Year-end
Net of Accumulated Depreciation

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Land	$ 105,066	$ 104,982	$ 2,368	$ 2,368	$ 107,434	$ 107,350
Buildings	26,338	24,990	4,844	4,565	31,182	29,555
Equipment	9,617	9,123	2,135	2,115	11,752	11,238
Intangibles	2,063	1,494	51	30	2,114	1,524
Improvements	28,618	28,083	2,092	1,653	30,710	29,736
Infrastructure	214,668	206,655	137,009	133,769	351,677	340,424
Construction in Progress	64	1,549	-	-	64	1,549
Total	$ 386,434	$ 376,876	$ 148,499	$ 144,500	$ 534,933	$ 521,376

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

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011
Amounts in Thousands Unless Stated Otherwise
(Unaudited)

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of $199,781. Of this amount, $178,295 comprises bonded debt backed by the full faith and credit of the government and $21,486 represents bonds secured solely by water and sewer revenues.

Outstanding Debt at Year End
Bonds and Notes Payable

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
General Obligation Bonds	$ 172,942	$ 176,255	$ -	$ -	$ 172,942	$ 176,255
Revenue Bonds	-	-	23,432	21,486	23,432	21,486
Certificates of Obligation	438	-	2,315	2,040	2,753	2,040
Total	$ 173,380	$ 176,255	$ 25,747	$ 23,526	$ 199,127	$ 199,781

During the fiscal year, the City's total debt increased by $654 or 0. 3% due to proceeds from bonds issued offset by existing debt retirements.

The City's General Obligation, Tax and Golf Course Surplus Revenue Certificates of Obligation, and Waterworks 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

Additionally, several of the City's Bonds are insured.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In the fiscal year 2012 Budget, General Fund revenues are budgeted to decrease by 0.6% from the fiscal year 2011 final budget with ad valorem taxes making up 43.3% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, decreased 0.1% for the fiscal year 2012 budget compared to a 3.2% 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 but is seeing some encouraging signs. 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, the most volatile revenue source, which declined in fiscal years 2008 to 2010 after growing five years in a row, rebounded in fiscal year 2011 with 7.3% growth.

The Water and Sewer Operating Fund is budgeted in fiscal year 2012 to operate at a small net deficit in fiscal year 2012 based on the high levels of available fund balance exceeding financial standards.

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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash, cash equivalents and investments	$ 103,150,177	$ 26,856,268	$ 130,006,445
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	14,996	-	14,996
Sales taxes	2,021,452	-	2,021,452
Franchise fees	3,762,253	-	3,762,253
Accounts	-	5,593,040	5,593,040
Accrued interest	60,819	12,396	73,215
Other	1,167,042	82,331	1,249,373
Due from other governments	1,215,363	-	1,215,363
Internal balances	(125,907)	125,907	-
Inventories	95,860	-	95,860
Prepaid items	49,800	-	49,800
Restricted assets:			
Cash, cash equivalents and investments	34,765,284	5,019,442	39,784,726
Deferred charges	1,429,986	199,197	1,629,183
Net pension asset	1,003,633	42,920	1,046,553
Capital assets:			
Land	104,982,459	2,367,868	107,350,327
Buildings	55,442,912	19,563,656	75,006,568
Equipment	25,088,717	5,265,436	30,354,153
Intangibles	6,104,561	729,892	6,834,453
Improvements	38,855,297	11,294,344	50,149,641
Infrastructure	288,495,371	219,635,238	508,130,609
Construction in progress	1,548,698	-	1,548,698
Accumulated depreciation	(143,641,515)	(114,355,948)	(257,997,463)
Total assets	525,487,258	182,431,987	707,919,245
Liabilities			
Accounts payable	10,614,823	2,962,715	13,577,538
Customer deposits payable	-	2,182,347	2,182,347
Accrued interest	910,169	402,890	1,313,059
Unearned revenue	999,028	-	999,028
Noncurrent liabilities:			
Due within one year	14,222,705	1,979,105	16,201,810
Due in more than one year	176,234,253	22,216,403	198,450,656
Total liabilities	202,980,978	29,743,460	232,724,438
Net assets			
Invested in capital assets, net of related debt	226,993,301	120,971,378	347,964,679
Restricted for:			
Debt service	4,468,657	1,775,052	6,243,709
Capital projects and special revenue purposes	3,107,422	-	3,107,422
Unrestricted	87,936,900	29,942,097	117,878,997
Total net assets	$ 322,506,280	$ 152,688,527	$ 475,194,807

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Activities
For the Year Ended September 30, 2011

		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	$ 14,538,522	$ 183,765	$ -	$ -	$ (14,354,757)	$ -	$ (14,354,757)
Public safety	44,482,891	7,058,605	38,499	649,721	(36,736,066)	-	(36,736,066)
Development services	35,909,416	1,150,299	-	6,386,898	(28,372,219)	-	(28,372,219)
Cultural and recreational	13,362,124	3,079,277	-	63,178	(10,219,669)	-	(10,219,669)
Interest on long-term debt	7,231,859	-	-	-	(7,231,859)	-	(7,231,859)
Total governmental activities	115,524,812	11,471,946	38,499	7,099,797	(96,914,570)	-	(96,914,570)
Business-type activites:							
Water and sewer	33,620,735	37,070,326	-	805,406	-	4,254,997	4,254,997
Golf	870,260	986,300	-	-	-	116,040	116,040
Sanitation	5,277,104	7,174,814	-	-	-	1,897,710	1,897,710
Total business-type activities	39,768,099	45,231,440	-	805,406	-	6,268,747	6,268,747
Total government	$ 155,292,911	$ 56,703,386	$ 38,499	$ 7,905,203	(96,914,570)	6,268,747	(90,645,823)
General revenues:							
Taxes:							
Ad valorem					54,751,313	-	54,751,313
Sales					21,564,480	-	21,564,480
Occupancy					195,870	-	195,870
Franchise fees					10,607,534	-	10,607,534
Investment earnings					627,029	116,423	743,452
Gain on sale of capital assets					270,089	6,578	276,667
Miscellaneous					843,382	76,001	919,383
Transfers					5,717,500	(5,717,500)	-
Total general revenues and transfers					94,577,197	(5,518,498)	89,058,699
Change in net assets					(2,337,373)	750,249	(1,587,124)
Net assets at beginning of year					324,843,653	151,938,278	476,781,931
Net assets at end of year					$ 322,506,280	$ 152,688,527	$ 475,194,807

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Balance Sheet
Governmental Funds
September 30, 2011

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 16,112,376	$ 5,379,755	$ 42,577,198	$ 32,996,610	$ 18,655,565	$ 115,721,504
Receivables (net, where applicable, of allowance for doubtful accounts):						
Ad valorem taxes	11,800	3,196	-	-	-	14,996
Sales taxes	2,021,452	-	-	-	-	2,021,452
Franchise fees	3,633,564	-	-	128,689	-	3,762,253
Accrued interest	18,446	-	15,627	11,738	6,462	52,273
Other	64,924	-	-	882,516	-	947,440
Prepaid items	-	-	-	-	46,500	46,500
Due from other governments	-	-	735,581	341,943	137,839	1,215,363
Total assets	$ 21,862,562	$ 5,382,951	$ 43,328,406	$ 34,361,496	$ 18,846,366	$ 123,781,781
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 5,282,325	$ 4,125	$ 2,097,327	$ 1,901,095	$ 915,664	$ 10,200,536
Arbitrage liability	-	-	-	-	-	-
Deferred revenue	-	-	-	52,539	115,543	168,082
Unearned revenue	9,193	-	870,952	-	118,883	999,028
Total liabilities	5,291,518	4,125	2,968,279	1,953,634	1,150,090	11,367,646
Fund balances:						
Restricted for:						
Debt service	-	5,378,826	-	-	-	5,378,826
Streets and drainage	-	-	13,584,454	-	-	13,584,454
Public facilities	-	-	-	4,636,293	-	4,636,293
Other capital projects	-	-	-	120,994	5,664,101	5,785,095
Other purposes	-	-	-	-	1,888,906	1,888,906
Committed to:						
Transit oriented development	-	-	-	8,380,396	-	8,380,396
Street rehabilitation	-	-	7,968,067	-	-	7,968,067
Other capital projects	-	-	-	-	1,137,230	1,137,230
Assigned to:						
Encumbrances	323,650	-	-	-	-	323,650
Streets and drainage	-	-	18,807,606	-	-	18,807,606
Public facilities	-	-	-	19,270,179	-	19,270,179
Other capital projects	-	-	-	-	8,716,872	8,716,872
Other purposes	-	-	-	-	289,167	289,167
Unassigned	16,247,394	-	-	-	-	16,247,394
Total fund balances	16,571,044	5,378,826	40,360,127	32,407,862	17,696,276	112,414,135
Total liabilities and fund balances	$ 21,862,562	$ 5,382,951	$ 43,328,406	$ 34,361,496	$ 18,846,366	$ 123,781,781

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, 2011

Total fund balance - total governmental funds		$ 112,414,135
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.		1,003,633
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.		376,876,500
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		168,082
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.		(910,169)
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	$ 22,521,265	
Accounts payable	(414,287)	
Net amount allocated to business-type activities	(125,907)	21,981,071
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	$ 14,222,705	
Due in more than one year	176,234,253	
Deferred charges	(1,429,986)	(189,026,972)
Net assets of governmental activities		$ 322,506,280

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, 2011

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Ad valorem	$ 31,409,995	$18,611,211	$ 3,071,425	$ -	$ 1,271,093	$ 54,363,724
Penalty and interest	241,231	146,358	-	-	-	387,589
Sales	21,564,480	-	-	-	-	21,564,480
Occupancy	-	-	-	-	195,870	195,870
Franchise fees	10,312,203	-	-	295,331	-	10,607,534
Assessments	-	-	-	-	129,960	129,960
Charges for services	4,192,998	-	-	-	213,617	4,406,615
Intergovernmental	4,542	-	3,960,687	1,259,853	925,650	6,150,732
Licenses and permits	1,740,590	-	-	-	249,748	1,990,338
Fines and forfeitures	4,392,475	-	-	123,673	428,885	4,945,033
Investment income	218,182	5,743	140,198	120,513	59,133	543,769
Miscellaneous	317,509	-	340,690	144,545	40,638	843,382
Total revenues	74,394,205	18,763,312	7,513,000	1,943,915	3,514,594	106,129,026
Expenditures:						
Current:						
General government and administration	13,234,778	-	-	-	-	13,234,778
Public safety	42,566,309	-	-	-	448,908	43,015,217
Development services	9,381,002	-	-	-	-	9,381,002
Cultural and recreational	10,205,195	-	-	-	388,677	10,593,872
Capital outlay	-	-	9,404,342	8,749,421	4,871,834	23,025,597
Debt service:						
Principal retirement	-	12,110,000	-	-	-	12,110,000
Interest and fiscal charges	-	7,321,573	-	-	-	7,321,573
Total expenditures	75,387,284	19,431,573	9,404,342	8,749,421	5,709,419	118,682,039
Excess (deficiency) of revenues over expenditures	(993,079)	(668,261)	(1,891,342)	(6,805,506)	(2,194,825)	(12,553,013)
Other financing sources (uses):						
Bonds issued	-	-	8,150,100	2,735,000	4,114,900	15,000,000
Premium on bonds issued	-	182,284	96,250	-	-	278,534
Sale of capital assets	-	-	-	809,107	-	809,107
Transfers in	5,632,014	-	538,768	4,421,423	690,000	11,282,205
Transfers out	(4,821,423)	-	(200,000)	(90,000)	(39,963)	(5,151,386)
Total other financing sources (uses)	810,591	182,284	8,585,118	7,875,530	4,764,937	22,218,460
Net change in fund balances	(182,488)	(485,977)	6,693,776	1,070,024	2,570,112	9,665,447
Fund balances at beginning of year	16,753,532	5,864,803	33,666,351	31,337,838	15,126,164	102,748,688
Fund balances at end of year	$ 16,571,044	$ 5,378,826	$ 40,360,127	$ 32,407,862	$ 17,696,276	$ 112,414,135

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, 2011

Net change in fund balances - total governmental funds		$ 9,665,447
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.		146,494
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.		16,636,579
The net effect of various transactions involving capital assets.		
Capital contributions	$ 1,055,861	
Asset retirements/disposals	(562,191)	493,670
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.		(27,458,304)
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	$ (15,000,000)	
Premium on bonds issued	(278,534)	
Bond principal retirement	12,110,000	
Amortization of deferred charges	(101,545)	
Amortization of bond premiums/discounts	459,886	
Amortization of bond refunding losses	(258,808)	(3,069,001)
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.		276,088
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.		(79,084)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities anc 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.		(9,819)
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	$ (445,497)	
Net of amount allocated to business activities	118,639	
Depreciation expense	1,387,415	1,060,557
Change in net assets of governmental activities		$ (2,337,373)

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, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
Revenues:						
Taxes:						
Ad valorem	$ 31,122,017	$ 31,350,000	$ 31,409,995	$ -	$ 31,409,995	$ 59,995
Penalty and interest	250,000	235,000	241,231	-	241,231	6,231
Sales	20,084,000	20,899,000	21,564,480	-	21,564,480	665,480
Franchise fees	9,488,239	9,133,500	10,312,203	-	10,312,203	1,178,703
Charges for services	4,678,975	4,354,641	4,192,998	-	4,192,998	(161,643)
Intergovernmental	-	-	4,542	-	4,542	4,542
Licenses and permits	1,547,377	1,857,125	1,740,590	-	1,740,590	(116,535)
Fines and forfeitures	3,953,627	4,456,160	4,392,475	-	4,392,475	(63,685)
Investment income	390,000	224,000	218,182	6,924	225,106	1,106
Miscellaneous	503,552	311,000	317,509	-	317,509	6,509
Total revenues	72,017,787	72,820,426	74,394,205	6,924	74,401,129	1,580,703
Expenditures:						
Current:						
General government and administration	14,595,126	14,084,761	13,234,778	30,896	13,265,674	819,087
Public safety	42,535,623	42,342,522	42,566,309	(2,483)	42,563,826	(221,304)
Development services	9,927,570	9,502,015	9,381,002	13,098	9,394,100	107,915
Cultural and recreational	10,796,506	10,282,943	10,205,195	36,956	10,242,151	40,792
Total expenditures	77,854,825	76,212,241	75,387,284	78,467	75,465,751	746,490
Deficiency of revenues under expenditures	(5,837,038)	(3,391,815)	(993,079)	(71,543)	(1,064,622)	2,327,193
Other financing sources (uses):						
Sale of capital assets	-	-	-	-	-	-
Transfers in	5,908,031	5,831,506	5,632,014	289,001	5,921,015	89,509
Transfers out	(656,637)	(4,821,423)	(4,821,423)	-	(4,821,423)	-
Total other financing sources (uses)	5,251,394	1,010,083	810,591	289,001	1,099,592	89,509
Net change in fund balances	(585,644)	(2,381,732)	(182,488)	217,458	34,970	2,416,702
Fund balances at beginning of year	16,218,137	16,218,137	16,753,532	(535,395)	16,218,137	-
Fund balances at end of year	$ 15,632,493	$ 13,836,405	$ 16,571,044	$ (317,937)	$ 16,253,107	$ 2,416,702

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Assets					
Current Assets:					
Cash and cash equivalents	$ 25,815,817	$ 673,992	$ 366,459	$ 26,856,268	$ 22,193,957
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	4,818,422	-	774,618	5,593,040	-
Accrued interest	11,420	262	714	12,396	8,546
Other	-	82,331	-	82,331	219,602
Inventories	-	-	-	-	95,860
Prepaid items	-	-	-	-	3,300
Restricted assets:					
Cash and cash equivalents	3,244,390	-	-	3,244,390	-
Total current assets	33,890,049	756,585	1,141,791	35,788,425	22,521,265
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,775,052	-	-	1,775,052	-
Deferred charges	188,449	10,748	-	199,197	-
Net pension asset	42,920	-	-	42,920	3,452
Capital assets:					
Land	1,372,868	995,000	-	2,367,868	-
Buildings	18,038,700	1,524,956	-	19,563,656	176,409
Equipment	2,990,716	814,417	1,460,303	5,265,436	15,972,034
Intangibles	729,892	-	-	729,892	104,714
Improvements	-	11,294,344	-	11,294,344	-
Infrastructure	219,635,238	-	-	219,635,238	-
Accumulated depreciation	(102,064,340)	(11,630,097)	(661,511)	(114,355,948)	(10,747,040)
Total capital assets, net of accumulated depreciation	140,703,074	2,998,620	798,792	144,500,486	5,506,117
Total noncurrent assets	142,709,495	3,009,368	798,792	146,517,655	5,509,569
Total assets	176,599,544	3,765,953	1,940,583	182,306,080	28,030,834
Liabilities					
Current liabilities:					
Accounts payable	2,183,310	31,219	748,186	2,962,715	414,287
Estimated health claims payable	-	-	-	-	828,000
Customer deposits payable	2,182,347	-	-	2,182,347	-
Revenue bonds payable	1,636,754	-	-	1,636,754	-
Certificates of obligation payable	-	290,000	-	290,000	-
Compensated absences	52,351	-	-	52,351	1,401
Accrued interest	387,043	15,847	-	402,890	-
Total current liabilities	6,441,805	337,066	748,186	7,527,057	1,243,688
Noncurrent liabilities:					
Revenue bonds payable	19,848,764	-	-	19,848,764	-
Certificates of obligation payable	-	1,750,000	-	1,750,000	-
Compensated absences	617,639	-	-	617,639	18,247
Long-term risk liability	-	-	-	-	2,395,312
Total noncurrent liabilities	20,466,403	1,750,000	-	22,216,403	2,413,559
Total liabilities	26,908,208	2,087,066	748,186	29,743,460	3,657,247
Net Assets					
Invested in capital assets, net of related debt	119,213,966	958,620	798,792	120,971,378	5,506,117
Restricted for:					
Revenue bond retirement	1,775,052	-	-	1,775,052	-
Unrestricted	28,702,318	720,267	393,605	29,816,190	18,867,470
Total net assets	$ 149,691,336	$ 1,678,887	$ 1,192,397	152,562,620	$ 24,373,587

Reconciliation to government-wide statement of net assets:	
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds	125,907
Net assets of business-type activities	$ 152,688,527

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, 2011

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	$ 37,070,326	$ 986,300	$ 7,174,814	$ 45,231,440	$ 14,847,205
Miscellaneous	76,001	-	-	76,001	-
Total operating revenues	37,146,327	986,300	7,174,814	45,307,441	14,847,205
Operating expenses:					
Personal services	3,510,275	-	-	3,510,275	134,228
Supplies and services	19,327,695	115,727	5,008,708	24,452,130	13,372,808
Utilities	948,136	-	-	948,136	34,892
Allocations	1,062,926	11,286	80,419	1,154,631	66,467
Depreciation	7,667,043	599,578	146,030	8,412,651	1,387,415
Total operating expenses	32,516,075	726,591	5,235,157	38,477,823	14,995,810
Income (loss) from operations	4,630,252	259,709	1,939,657	6,829,618	(148,605)
Nonoperating revenues (expenses):					
Investment income	105,949	3,725	6,749	116,423	83,260
Gain (loss) on sale/retirement of capital assets	6,578	4,280	-	10,858	23,173
Interest expense	(1,025,940)	(143,042)	(6,935)	(1,175,917)	-
Total nonoperating revenues (expenses)	(913,413)	(135,037)	(186)	(1,048,636)	106,433
Income (loss) before contributions and transfers	3,716,839	124,672	1,939,471	5,780,982	(42,172)
Capital contributions	805,406	-	-	805,406	-
Transfers in	12,132	-	-	12,132	20,919
Transfers out	(3,346,964)	(290,000)	(2,092,668)	(5,729,632)	(424,244)
Change in net assets	1,187,413	(165,328)	(153,197)	868,888	(445,497)
Net assets at beginning of year	148,503,923	1,844,215	1,345,594		24,819,084
Net assets at end of year	$ 149,691,336	$ 1,678,887	$ 1,192,397		$ 24,373,587

Reconciliation to government-wide statement of activities:	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(118,639)
Change in net assets of business-type activities	$ 750,249

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

	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	$ 36,657,605	$1,006,926	$ 7,193,477	$ 44,858,008	$ -
Cash received from employees for services	-	-	-	-	1,892,355
Cash received from other funds for services	-	-	-	-	12,988,110
Cash received from loss claim recoveries	-	-	-	-	476,001
Other operating cash receipts	76,001	-	-	76,001	-
Cash payments to suppliers for goods and services	(20,235,967)	(97,715)	(5,078,111)	(25,411,793)	(4,971,240)
Cash payments to employees for services	(3,109,788)	-	-	(3,109,788)	(138,084)
Cash payment for loss claims	-	-	-	-	(8,198,040)
Cash payments to other funds for services	(1,278,923)	(10,693)	(67,242)	(1,356,858)	(73,158)
Net cash provided by operating activities	12,108,928	898,518	2,048,124	15,055,570	1,975,944
Cash flows from noncapital financing activities:					
Transfers from other funds	-	-	-	-	10,925
Transfers to other funds	(3,346,964)	(290,000)	(2,092,668)	(5,729,632)	(412,112)
Net cash used by noncapital financing activities	(3,346,964)	(290,000)	(2,092,668)	(5,729,632)	(401,187)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(3,668,826)	(438,109)	-	(4,106,935)	(955,497)
Proceeds from sale of capital assets	7,259	4,280	-	11,539	129,303
Interest paid on bonds	(1,008,009)	(143,275)	-	(1,151,284)	-
Interest paid on interfund loan	-	-	(6,935)	(6,935)	-
Retirement of bonds	(1,930,000)	(275,000)	-	(2,205,000)	-
Retirement of interfund loan	-	-	(282,066)	(282,066)	-
Capital contributions	491,800	-	-	491,800	-
Net cash used by capital and related financing activities	(6,107,776)	(852,104)	(289,001)	(7,248,881)	(826,194)
Cash flows from investing activities:					
Interest on cash and cash equivalents	115,454	4,215	6,874	126,543	91,798
Net increase (decrease) in cash and cash equivalents	2,769,642	(239,371)	(326,671)	2,203,600	840,361
Cash and cash equivalents, October 1	28,065,617	913,363	693,130	29,672,110	21,353,596
Cash and cash equivalents, September 30	$ 30,835,259	$ 673,992	$ 366,459	$ 31,875,710	$ 22,193,957

(Continued)

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

	Business -Type Activities- Enterprise Funds				Governmental Activities-
	Water and Sewer	Golf Course	Sanitation	Total	Internal Service Funds
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	$ 4,630,252	$ 259,709	$ 1,939,657	$ 6,829,618	$ (148,605)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:					
Depreciation	7,667,043	599,578	146,030	8,412,651	1,387,415
Provision for doubtful accounts	61,893	-	13,177	75,070	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(622,786)	-	18,663	(604,123)	-
(Increase) decrease in other receivables	-	20,626	-	20,626	(149,281)
Increase in inventories	-	-	-	-	(45,253)
Decrease in prepaid items	-	-	-	-	43,128
Increase in net pension asset	(6,365)	-	-	(6,365)	(386)
Increase (decrease) in accounts payable	203,019	18,605	(69,403)	152,221	(129,027)
Decrease in estimated health claims payable	-	-	-	-	(29,000)
Increase in deposits	210,065	-	-	210,065	-
Decrease in liability for compensated absences	(34,193)	-	-	(34,193)	(7,653)
Increase in long-term risk liability	-	-	-	-	1,054,606
Net cash provided by operating activities	$ 12,108,928	$ 898,518	$ 2,048,124	$ 15,055,570	$ 1,975,944

Noncash investing, capital and financing activities:

During the past year, the Enterprise Funds received $313,606 noncash capital contributions from developers consisting of water and sewer infrastructure. Additionally, the Internal Service Funds transferred assets with a net value of $12,132 to the Enterprise Funds and received assets with a net value of $9,994 from the to the Governmental Activities.

	Water and Sewer	Golf Course	Sanitation	Total	Internal Service Funds
Reconciliation of total cash and cash equivalents:					
Current assets:					
Cash and cash equivalents	$ 25,815,817	$ 673,992	$ 366,459	$ 26,856,268	$ 22,193,957
Restricted assets - cash and cash equivalents	3,244,390	-	-	3,244,390	-
Noncurrent assets:					
Restricted assets - cash and cash equivalents	1,775,052	-	-	1,775,052	-
Total cash and cash equivalents	$ 30,835,259	$ 673,992	$ 366,459	$ 31,875,710	$ 22,193,957

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) and by the Financial Accounting Standards Board (when applicable). 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 payments received from the contractor and improvements made to the City's golf course, including administration, operation and maintenance.

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

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

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

D. Measurement Focus/Basis of Accounting

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net 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, Cash Equivalents and Investments

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, 2011, the City allocated $2,410,793 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	$ 5,379,755
Bond construction account	25,354,888
Other Capital Project Funds	2,046,837
Special Revenue Funds	1,983,804
	34,765,284
Business-type activities	
Revenue bond accrued interest payable	387,043
Current maturities of revenue bonds	675,000
Reserve for revenue bond retirement	1,775,052
Customer deposits	2,182,347
	5,019,442
Total Restricted cash and investments	$ 39,784,726

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

Sick Leave:

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

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 assignment of fund balance (GAAP), unrealized investment gain (loss) is recognized for GAAP basis only and interfund loan transactions treated as transfers for budget basis.

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	$ 34,970
Beginning of year adjustment for encumbrances recognized as expenditures	(245,183)
End of year adjustment for encumbrances not recognized as expenditures	323,650
Unrealized investment loss recognized for GAAP basis only	(13,859)
Interfund loan payments treated as transfers for budget basis	(282,066)
Net change in fund balances -GAAP basis	$ (182,488)

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. On November 9, 2010, the FDIC issued a Final Rule implementing Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account at all FDIC-insured institutions. The unlimited insurance coverage is available to all depositors, including consumers, businesses, and government entities at all FDIC banks including the City's depository JPMorgan Chase. All of the City of Carrollton deposits are covered by Section 343 of the Dodd Frank Act, making the City's requirement for collateral at the FDIC not necessary until December 31, 2012. Due to JPMorgan Chase N.A. contractual obligation to the City, the collateral value held at the Federal Reserve Bank in the City's name at year end was $8,009,375.

At September 30, 2011, the carrying amount of the City's deposits was a credit balance of $226,180, primarily consisting of outstanding checks, and the respective bank balances totaled $2,420,585. The City's cash on hand totaled $36,425.

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, 2011, are:

Investments:	Fair Value	Effective Duration (in years)	Credit Risk
Coupon Treasuries	$ 2,017,420	1.885	AA+
Coupon Agencies	88,914,034	0.111	AAA
Discount Agencies	3,999,876	0.156	AAA
Government Pools	75,049,596	0.000	AAA
Total Fair Value	$169,980,926		
Portfolio Duration:		0.083	

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, 2011, 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, 2011, the City minimized credit risk losses due to default of a security issuer or backer, by;

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

(4) CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Governmental activities				
Capital assets not being depreciated:				
Land	$ 105,066,469	$ 476,035	$ (560,045)	$ 104,982,459
Construction in progress	63,586	1,485,112	-	1,548,698
Total capital assets not being depreciated	105,130,055	1,961,147	(560,045)	106,531,157
Capital assets being depreciated:				
Buildings	54,852,413	590,499	-	55,442,912
Equipment	24,659,735	2,011,661	(1,582,679)	25,088,717
Intangibles	6,080,654	23,907	-	6,104,561
Improvements	37,883,511	971,786	-	38,855,297
Infrastructure	305,066,249	13,093,750	(29,664,628)	288,495,371
Total capital assets being depreciated	428,542,562	16,691,603	(31,247,307)	413,986,858
Less accumulated depreciation for:				
Buildings	(28,514,654)	(1,938,568)	-	(30,453,222)
Equipment	(15,043,260)	(2,330,233)	1,407,919	(15,965,574)
Intangibles	(4,017,651)	(575,661)	(17,156)	(4,610,468)
Improvements	(9,265,258)	(1,506,657)	-	(10,771,915)
Infrastructure	(90,397,779)	(21,107,185)	29,664,628	(81,840,336)
Total accumulated depreciation	(147,238,602)	(27,458,304)	31,055,391	(143,641,515)
Total capital assets being depreciated, net	281,303,960	(10,766,701)	(191,916)	270,345,343
Governmental activities capital assets, net	$ 386,434,015	$ (8,805,554)	$ (751,961)	$ 376,876,500

	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	5,155,393	389,827	(279,784)	5,265,436
Intangibles	729,892	-	-	729,892
Improvements	11,178,031	116,313	-	11,294,344
Infrastructure	215,720,785	3,914,453	-	219,635,238
Total capital assets being depreciated	252,347,757	4,420,593	(279,784)	256,488,566
Less accumulated depreciation for:				
Buildings	(14,719,982)	(279,168)	-	(14,999,150)
Equipment	(3,021,079)	(402,124)	273,592	(3,149,611)
Intangibles	(678,590)	(21,294)	-	(699,884)
Improvements	(9,085,850)	(555,800)	-	(9,641,650)
Infrastructure	(78,711,388)	(7,154,265)	-	(85,865,653)
Total accumulated depreciation	(106,216,889)	(8,412,651)	273,592	(114,355,948)
Total capital assets being depreciated, net	146,130,868	(3,992,058)	(6,192)	142,132,618
Business-type activities capital assets, net	$ 148,498,736	$ (3,992,058)	$ (6,192)	$ 144,500,486

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

Governmental activities:	
General government and administration	$ 2,221,631
Public safety	1,478,777
Development services	21,370,515
Cultural and recreational	2,387,381
Total depreciation expense - Governmental activities	$ 27,458,304
Business-type activities:	
Water and sewer	$ 7,667,043
Golf course	599,578
Sanitation	146,030
Total depreciation expense - Business-type activities	$ 8,412,651

The City has active construction projects as of September 30, 2011. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	$ 44,936,080
Traffic	2,787,231
Parks and Recreation	10,322,361
General Facilities	35,470,409
Community Development	5,210,973
Tax Increment Reinvestment Zone	199,228
Water and Sewer	12,700,408
Golf Course	315,100
Total	$ 111,941,790

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.

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

At September 30, 2011, general obligation bonds and certificates of obligation currently outstanding are as follows:

	Interest Rate %	Issue Date	Maturity Date	Outstanding
General Obligation Bonds:				
Improvement and Refunding, Series 2002	4 - 5.25	04/15/2002	08/15/2022	$ 5,375,000
Improvement, Series 2003	3 - 4.25	06/01/2003	08/15/2023	10,630,000
Improvement and Refunding, Series 2005	3 - 5.25	02/15/2005	08/15/2025	42,820,000
Improvement, Series 2006	4 - 6	06/01/2006	08/15/2026	19,095,000
Improvement, Series 2007	4 - 5.25	08/01/2007	08/15/2027	17,950,000
Improvement and Refunding, Series 2009	2 - 5	04/15/2009	08/15/2029	33,295,000
Improvement and Refunding, Series 2010	2.25 - 4.125	04/15/2010	08/15/2030	26,615,000
Improvement, Series 2011	3 - 4.25	04/15/2011	08/15/2030	14,710,000
				$ 170,490,000
Certificates of Obligation:				
Tax and Golf Course Surplus Revenue, Series 2002	5 - 6.25	05/15/2002	08/15/2017	$ 2,040,000

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	Interest	Total
2012	$ 12,415,000	$ 7,281,354	$ 19,696,354
2013	12,215,000	6,864,523	19,079,523
2014	12,670,000	6,401,147	19,071,147
2015	12,600,000	5,851,110	18,451,110
2016	12,180,000	5,336,248	17,516,248
2017-2021	54,740,000	19,248,786	73,988,786
2022-2026	38,580,000	8,704,531	47,284,531
2027-2030	15,090,000	1,490,262	16,580,262
Total	$ 170,490,000	$ 61,177,961	$ 231,667,961

Certificates of Obligation

Year Ending September 30	Business-type Activities Principal	Interest	Total
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	370,000	47,813	417,813
2017	395,000	24,687	419,687
Total	$ 2,040,000	$ 468,338	$ 2,508,338

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, 2011.

At September 30, 2011, 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	04/15/2002	05/01/2022	$ 5,365,000
Waterworks and Sewer System Revenue Improvements, Series 2003	3 - 5	06/01/2003	05/01/2023	3,195,000
Waterworks and Sewer System Revenue Improvements, Series 2005	2.5 - 4.2	02/15/2005	05/01/2025	7,760,000
Waterworks and Sewer System Revenue Improvements, Series 2007	4.375 - 5	08/01/2007	05/01/2027	4,985,000
				$ 21,305,000

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

Year Ending September 30	Business-type Activities Principal	Interest	Total
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	1,335,000	657,003	1,992,003
2017-2021	7,580,000	2,387,875	9,967,875
2022-2026	5,625,000	737,256	6,362,256
2027	430,000	21,500	451,500
Total	$ 21,305,000	$ 7,095,829	$ 28,400,829

Bonds Authorized and Unissued –

At September 30, 2011, the City had $36,897,000 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, 2011, $2,545,000 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.

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

Transactions for the year ended September 30, 2011 are summarized as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Governmental type activities					
Bonds payable:					
General obligation bonds	$ 167,165,000	$ 15,000,000	$ (11,675,000)	$ 170,490,000	$ 12,415,000
Certificates of obligation	435,000	-	(435,000)	-	-
Less deferred amounts:					
For discounts and premiums	5,780,040	445,284	(459,886)	5,765,438	467,090
On refunding	(2,413,735)	-	258,808	(2,154,927)	(258,808)
Total bonds payable	170,966,305	15,445,284	(12,311,078)	174,100,511	12,623,282
Compensated absences	13,416,876	723,632	(1,007,373)	13,133,135	771,423
Health claims liability	857,000	6,006,703	(6,035,703)	828,000	828,000
Long-term risk liability	1,340,706	2,584,671	(1,530,065)	2,395,312	-
Total governmental activities	$ 186,580,887	$ 24,760,290	$ (20,884,219)	$ 190,456,958	$ 14,222,705
Business type activities					
Bonds payable:					
Revenue bonds payable	$ 23,235,000	$ -	$ (1,930,000)	$ 21,305,000	$ 1,620,000
Certificates of obligation	2,315,000	-	(275,000)	2,040,000	290,000
Less deferred amounts:					
For discounts and premiums	197,272	-	(16,754)	180,518	16,754
On refunding	(51,927)	-	51,927	-	-
Total bonds payable	25,695,345	-	(2,169,827)	23,525,518	1,926,754
Compensated absences	704,183	4,642	(38,835)	669,990	52,351
Total business-type activities	26,399,528	4,642	(2,208,662)	24,195,508	1,979,105
Total government	$ 212,980,415	$ 24,764,932	$ (23,092,881)	$ 214,652,466	$ 16,201,810

(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, 2011, 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, 2011, 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 administered by Texas Municipal Retirement System (TMRS), an agent, multiple-employer public employee retirement system. The City has adopted plan provisions among the options available in the 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. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Beginning in 2007, TMRS began undergoing a series of changes to better position itself relative to the types of benefits its member cities had contracted for, the current investment environment and the most efficient fund structure for providing those benefits. These changes included switching actuarial methods, tightening assumptions, migrating from a 100% fixed income portfolio to a more diversified portfolio and combining three legally separate employee, employer and retiree trust funds into one pension trust fund. As a result of these changes, the City believes that TMRS is much better positioned to provide the contracted benefits at a very stable and predictable contribution rate. It also believes that the actuarially accrued liability currently calculated is a better estimate of the City's true obligations as compared to the estimates calculated prior to 2007. These changes have, however, resulted in significant volatility in both calculated liabilities and in calculated contribution rates. During this time of volatility, the City employed various strategies for keeping rates affordable while paying down liabilities. These strategies included longer amortization periods for the mandatory contribution calculation but providing additional voluntary contributions based on specific criteria resulting in a net pension asset at year end.

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

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

The City does not participate in Social Security.

Funding Policy:

Under the state law governing TMRS, the actuary annually determines the City contribution rate per GAAP and per state 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 16.73% of covered payroll for the months in calendar year 2010, and 16.88% for the months in calendar year 2011. 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, 2009 valuation is effective of rates beginning January 1, 2011). If a change in plan provisions is elected by the City, this rate can change. For the months in calendar year 2010, the City made 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 closed amortization period and was as .01 percentage points over than the actuarially required contribution of 16.73% required by GAAP. For the months in calendar year 2011, the City continued to make contributions of 16.74% which provided for an additional voluntary contribution of .46 percentage points over the statutorily required rate of 16.28% based on a 38-year amortization period and was .14 percentage points under the actuarially required contribution rate of 16.88% required by GAAP. Additionally, the City made an additional year-end voluntary contribution for fiscal year 2011.

Annual Pension Cost and Net Pension Asset:

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

Annual Required Contribution (ARC)	$7,807,248
Contributions Made – statutorily required monthly	(7,519,347)
Contributions Made – voluntary monthly	(241,146)
Contributions Made – voluntary year end	(200,000)
Increase in net pension asset	(153,245)
Net Pension Asset, beginning of the year	893,308
Net Pension Asset, end of the year	$1,046,553

Three-Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Obligation) Asset
2009	$7,555,564	99%	$ 635,316
2010	7,797,214	103	893,308
2011	7,807,248	103	1,046,553

Funding Status and Funding Progress:

In June 2011, Senate Bill 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report.

As of December 31, 2010, the most recent actuarial valuation date, the plan was 91.7% funded after the restructuring of the TMRS funds. The actuarial accrued liability for benefits was $281,246,707, and the actuarial value of assets was $257,904,344, resulting in an unfunded actuarial accrued liability (UAAL) of $23,342,363. The covered payroll (annual payroll of active employees covered by the plan) was $45,234,987, and the ratio of the UAAL to the covered payroll was 51.6%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial Valuation Date	December 31, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	27 Years – Closed Period
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by age and service
Payroll growth	3%
Inflation Rate	3%
Cost-of-Living Adjustments	1.5%

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

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

(8) INTERFUND TRANSFERS:

Interfund transfers during the year ended September 30, 2011, were as follows:

	Transfers In						
	General Fund	Streets and Drainage	General and Public Facilities	Non-Major Govern-mental	Internal Service	Water and Sewer	Total
Transfers Out							
General Fund	$ -	$ -	$ 4,221,423	$ 600,000	$ -	$ -	$ 4,821,423
Streets and Drainage	-	-	200,000		-	-	200,000
General and Public Facilities	-	-	-	90,000	-	-	90,000
Non-Major Governmental	39,963	-		-	-	-	39,963
Internal Service	412,112	-	-	-	-	12,132	424,244
Governmental Activities Entity-wide					9,994	-	9,994
Water and Sewer	3,336,039	-	-	-	10,925	-	3,346,964
Golf Course	290,000	-	-	-	-	-	290,000
Sanitation	1,553,900	538,768	-	-	-	-	2,092,668
Total	$ 5,632,014	$ 538,768	$ 4,421,423	$ 690,000	$ 20,919	$ 12,132	$ 11,315,256

Transfers are primarily used to move funds from:

- The Proprietary Funds to the General Fund for an allocated amount of administrative services.
- The Water and Sewer Fund to the General Fund for a payment in lieu of taxes.
- Sanitation Fund to the Streets and Drainage capital project fund for alley improvements.
- The General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.
- The Streets and Drainage 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, 2011, was $11,082,248.

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, 2011, was $5,904,861.

(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, Law Enforcement Liability, Errors and Omissions	$50,000 per occurrence	$2,000,000 per occurrence and $4,000,000 policy aggregate
Workers' Compensation	$100,000 per occurrence	Statutory
Property Loss	$10,000 per occurrence	$134,535,933
Automobile Liability	$50,000 per occurrence	$1,000,000 per occurrence
Automobile Physical Damage	$10,000	Actual cash value or agreed value as scheduled

All funds of the City participate in the program and make payments to the Risk Management Fund based on biennial actuarial estimates of the amounts needed to pay prior and current-year claims. As of the end of fiscal year 2011, a biennial actuarial analysis determined that the loss reserve was $2,395,312 which represents the discounted present value of expected losses using an expected future investment yield assumption of 3% and includes claims incurred but not yet reported.

Changes in this reserve amount in fiscal years 2010 and 2011 were as follows:

	Balance at Beginning of Fiscal Year	Current-year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2009-2010	$ 1,340,706	$ 1,780,400	$ 1,780,400	$ 1,340,706
2010-2011	$ 1,340,706	$ 2,213,650	$ 1,159,044	$ 2,395,312

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 $10,019,303. Revenues are recognized from payroll deductions and City contributions. At September 30, 2011, a liability of $828,000 has been recorded, which represents estimated claims incurred but not yet reported. Changes in this claims liability during fiscal years 2010 and 2011 were as follows:

	Balance at Beginning of Fiscal Year	Current-year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2009-2010	$ 1,615,000	$ 6,119,104	$ 6,877,104	$ 857,000
2010-2011	$ 857,000	$ 6,006,703	$ 6,035,703	$ 828,000

There have been no significant reductions in insurance coverage during the fiscal year 2011.

(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 affect the City's financial position, results of operations, or cash flows. Construction commitments are discussed in note 4.

The City is subject to a proposed agreed order with the Texas Commission on Environmental Quality related to unauthorized sanitary sewer overflow and drinking water discharges. This proposed agreed order allows the City to apply the penalty against a capture net on the Josey Lake Inlet. The financial statements include a liability for $23,600 at September 30, 2011 in the Water and Sewer fund.

In 2009, the City entered into a disposition and development agreement with TCC High Street Development, LLC (TCC). This agreement included a public construction incentive agreement for a mixed use catalyst development in Downtown Carrollton known as the "Union at Carrollton Square". The incentives include a commitment to fund the construction of a parking garage and public infrastructure in conjunction with the private development for a total amount of $10,070,096. In 2011, this agreement was amended in recognition of the extraordinarily tight lending conditions for these types of projects. This amendment required the City to fund an additional $3,160,500 as a security incentive for TCC's lender for recourse and cost overruns. These funds may be returned to the City at the sale of the property if certain conditions are met (i.e. the project is constructed within budget and/or the lender reduces their recourse requirements as the project leases apartments) and take precedent over profit pay out. Additionally, the amended agreement calls for the City to receive 50% of the profit when the property is sold. The $3,160,500 paid to TCC for their lender's security and cost overrun reserve requirements during fiscal year 2011 has been treated as an expense of the period due to the uncertainty of future recovery.

(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 2011 were $6,211 to $31,620 per year depending on coverage levels selected. In fiscal year 2011, total member contributions were $420,546. The City contributions to the plan for fiscal year 2011, 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 2010 and 2011 were as follows:

Fiscal Year	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$534,041	100%	-
2011	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 2011 was \$8,585,896, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 62.7%.

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the City chose to close its program as of January 1, 2009 and to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero. It is important to note; however, that the net assets available in the Employee Health and Disability Fund as of September 30, 2011 exceed 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.

CITY OF CARROLLTON, TEXAS
Required Supplementary Information
Texas Municipal Retirement System
Schedule of Funding Progress
Last Ten 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%
2011	257,904,344	281,246,707	91.7%	23,342,363	45,234,987	51.6%

* 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 for years 2002-2008. Beginning in 2009, actuarial value of assets is calculated using 10-year smoothing.

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.

Fiscal Year 2011 includes the impact of Senate Bill 350 enacted by the Texas Legislature in June 2011. This legislation provided a restructuring of the Texas Municipal Retirement System funds effective December 31, 2010.

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
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%
2011	-	5,380,780	0.0%	5,380,780	8,585,896	62.7%

* Fiscal Year 2009 of December 31 2007 actuarial valuation. Fiscal Year 2010 and 2011 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 WW&SS REVENUE REFUNDING BONDS, SERIES 2012 OF FULBRIGHT & JAWORSKI L.L.P., DALLAS, TEXAS

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

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Carrollton, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 2012", dated May 1, 2012, in the principal amount of $10,535,000 (the "Bonds"), we have examined into their issuance by the City of Carrollton, Texas (the "City"), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Bonds mature on May 1 in each of the years specified in the pricing certificate (the "Pricing Certificate") executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Bond Ordinance" and, jointly with the Pricing Certificate, the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Bonds, including the Ordinance, the Special Escrow Agreement (the "Escrow Agreement") between the City and U. S. Bank National Association (the "Escrow Agent") and a special report of Grant Thornton LLP, Certified Public Accountants (the "Accountants"), (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 the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding special obligations of the City, in accordance with the terms thereof, and, together with the outstanding Previously Issued Bonds (identified and defined in the Ordinance), are payable solely from and equally and ratably secured by a first lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer

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System, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. The Ordinance provides certain conditions under which the City may issue additional obligations payable from the same source and secured in the same manner as the Bonds.

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

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

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