

OFFICIAL STATEMENT

Dated: April 24, 2019



**Ratings: Fitch Ratings: "AAA"
S & P Global Ratings: "AAA"
(See "RATINGS" herein)**

NEW ISSUE: BOOK-ENTRY-ONLY

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

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$9,045,000

**CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)**

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2019

Dated: May 1, 2019

Due: May 1, as shown on page ii

(Interest to accrue from Date of Delivery)

Interest on the \$9,045,000 City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2019 (the "Bonds"), will accrue from the date of initial delivery (the "Delivery Date") and be payable May 1 and November 1 of each year, commencing November 1, 2019 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 BOKF, NA, Dallas, Texas. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and is payable to the registered owners appearing on the registration books of the Paying Agent/Registrar on the fifteenth day of the month preceding each interest payment date (the "Record Date"). Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed by United States mail, first class postage paid, by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "RECORD DATE FOR INTEREST PAYMENT" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The City of Carrollton, Texas (the "City"), intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but such system could be discontinued in the future. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein). **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1371 and 1502, as amended, Texas Government Code (jointly the "Act") and an ordinance (the "Bond Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City. In the Bond Ordinance, the City delegated the authority to certain City officials to execute a "Pricing Certificate" establishing the pricing terms for the Bonds. The Bond Ordinance and the Pricing Certificate are referred to herein as the "Ordinance." The Bonds constitute 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.**

The Bonds maturing on and after May 1, 2029, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of \$5,000, on May 1, 2028, or any date thereafter as described herein (see "THE BONDS – Optional Redemption" herein).

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas (see "LEGAL MATTERS"). The Bonds are expected to be available for delivery through DTC on or about May 21, 2019.

PIPER JAFFRAY & CO.

BAIRD

RAMIREZ & CO., INC.

RAYMOND JAMES

MATURITY SCHEDULE

\$9,045,000 Waterworks and Sewer System Revenue Bonds, Series 2019

<u>Maturity</u> <u>(5/1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Offering</u> <u>Yield⁽²⁾</u>	<u>CUSIP</u> <u>Suffix⁽¹⁾</u>	<u>Maturity</u> <u>(5/1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Offering</u> <u>Yield⁽²⁾</u>	<u>CUSIP</u> <u>Suffix⁽¹⁾</u>
2020	\$480,000	3.00%	1.60%	UB6	2028	\$615,000	5.00%	2.05%	UK6
2021	475,000	3.00%	1.63%	UC4	2029	645,000	4.00%	2.20% ⁽³⁾	UL4
2022	485,000	3.00%	1.67%	UD2	2030	675,000	4.00%	2.33% ⁽³⁾	UM2
2023	500,000	3.00%	1.71%	UE0	2031	700,000	4.00%	2.46% ⁽³⁾	UN0
2024	515,000	4.00%	1.78%	UF7	2032	730,000	4.00%	2.57% ⁽³⁾	UP5
2025	540,000	4.00%	1.84%	UG5	2033	755,000	4.00%	2.64% ⁽³⁾	UQ3
2026	560,000	5.00%	1.90%	UH3	2034	785,000	4.00%	2.69% ⁽³⁾	UR1
2027	585,000	5.00%	1.96%	UI9					

(Accrued Interest to be added from the Date of Delivery)

Optional Redemption... The Bonds maturing on and after May 1, 2029, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of \$5,000, on May 1, 2028, or any date thereafter as described herein (see “THE BONDS – Optional Redemption”).

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is included solely for the convenience of the registered owners of the Bonds, is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

⁽³⁾ Yield on maturities on and after 2029 is shown to first call date, May 1, 2028.

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

Kevin Falconer, Mayor

John Sutter, Mayor Pro Tem

Young Sung, Deputy Mayor Pro Tem

Steve Babick, Councilmember

Mike Hennefer, Councilmember

Pat Cochran, Councilmember

Frances Cruz, Councilmember

Glen Blanscet, Councilmember

APPOINTED OFFICIALS

Erin Rinehart, City Manager

Robert B. Scott, Assistant City Manager / CFO

Chrystal Davis, Assistant City Manager

Marc Guy, Assistant City Manager

Meredith Ladd, City Attorney

Laurie Garber, City Secretary

BOND COUNSEL AND ADVISORS

Norton Rose Fulbright US LLP, 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 UNITED STATES 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. See "FORWARD-LOOKING STATEMENTS" herein.

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

None of the City, the Financial Advisor, or 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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The cover page hereof, the section entitled “Official Statement Summary,” this Table of Contents and Appendices A, B and C attached hereto are part of this Official Statement.	

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, Texas (the “City”), a duly incorporated home-rule municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas, having a 2018 population of approximately 132,330.
The Bonds	\$9,045,000 Waterworks and Sewer System Revenue Bonds, Series 2019, dated May 1, 2019, maturing annually on May 1, in each of the years 2020 through 2034. Interest on the Bonds will be payable November 1 and May 1 of each year, commencing November 1, 2019, 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 make improvements and extensions to the System and (ii) to pay the costs of issuance of the Bonds (see “THE BONDS – Sources and Uses of Funds” herein).
Security for the Bonds	The Bonds are special obligations of the City, payable both as to principal and interest, solely from, 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	The Bonds maturing on and after May 1, 2029, are subject to optional redemption prior to maturity, in whole or in part, in integral multiples of \$5,000, on May 1, 2028, or any date thereafter as described herein (see “THE BONDS – Optional Redemption” herein).
Ratings	S&P Global Ratings, a division of S&P Global Inc., and Fitch Ratings have assigned municipal bond ratings of “AAA” and “AAA”, respectively, to the Bonds (see “RATINGS” herein).
Book-Entry-Only System	The Bonds will be initially deposited with and registered solely to Cede & Co., the nominee of The Depository Trust Company, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).
Continuing Disclosure	Pursuant to the Ordinance, the City is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the “MSRB”). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see “CONTINUING DISCLOSURE”).
Tax Exemption	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein.
Payment Record	The City has never defaulted on the payment of its System debt.
Legal Opinion	Norton Rose Fulbright US LLP, Dallas, Texas.
Delivery	When issued, anticipated to be on or about May 21, 2019.

OFFICIAL STATEMENT RELATING TO
CITY OF CARROLLTON, TEXAS
\$9,045,000
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2019

INTRODUCTION

This Official Statement, including the Appendices hereto, has been prepared by the City of Carrollton, Texas (the “City”), in connection with the offering by the City of its Waterworks and Sewer System Revenue Bonds, Series 2019 (the “Bonds”) identified on the cover page hereof.

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1371 and 1502, as amended, Texas Government Code (jointly the “Act”), and an ordinance (the “Bond Ordinance”) authorizing the issuance of the Bonds adopted by the City Council of the City. In the Bond Ordinance, the City delegated the authority to certain City officials to execute a “Pricing Certificate” establishing the pricing terms for the Bonds. The Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the “Ordinance.” 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 from the City’s financial advisor, RBC Capital Markets, LLC, Dallas, Texas

THE BONDS

General Description

The Bonds will be dated May 1, 2019 (the “Dated Date”), will be issued in fully registered form, and will be issued in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from the date of initial delivery, and interest will be paid semiannually, on each November 1 and May 1 commencing November 1, 2019, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts and bear interest at per annum rates as set forth on the inside front cover page hereof.

Principal and interest will be paid by BOKF, NA, Dallas, Texas (the “Paying Agent/Registrar”). Subject to the requirements associated with the use of the Book-Entry-Only System, interest will be paid by check dated as of the interest payment date and mailed by United States mail, 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 payment 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 the Act, and the Ordinance.

Purpose

The Bonds are being issued for the purpose of (i) making improvements and extensions to the System and (ii) paying the costs of issuance of the Bonds (see “THE BONDS – Sources and Uses of Funds” herein).

Security and Source of Payment

The Bonds constitute special obligations of the City, and 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 and a wastewater treatment contract with the Trinity River Authority of Texas, and the payments under such agreements constitute Maintenance and Operating 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, the City has outstanding bonds secured by and payable from Net Revenues on parity with the Bonds (the "Previously Issued Bonds") as follows:

<u>Dated Date</u>	<u>Outstanding Amount</u>	<u>Series Description</u>
05/01/2012	\$5,625,000	Waterworks and Sewer Systems Revenue Refunding and Improvements Bonds, Series 2012

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 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 ordinance authorizing the issuance of the Previously Issued Bonds, the amount currently on deposit to the credit of the Reserve Fund is an amount equal to at least \$1,237,640 (the "Current Reserve") as of the end of fiscal year 2018. 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 will decrease to \$1,153,969. 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 all necessary and reasonable 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

The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after May 1, 2029, in whole or in part in on May 1, 2028 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.

The City reserves the right, in the case of an optional redemption of the Bonds, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption having been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default under the terms of the Ordinance. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available, in part or in whole, on or before the redemption date shall not constitute an event of default.

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

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

Limitation on Transfer of Bonds

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

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2)

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

Amendments

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

Sources and Uses of Funds

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

Sources of Funds	
Principal Amount of Bonds	\$9,045,000.00
Reoffering Premium	<u>1,087,003.65</u>
Total Sources of Funds	<u>\$10,132,003.65</u>
Uses of Funds	
Deposit to the Construction Fund	\$10,000,000.00
Underwriters' Discount	52,828.95
Costs of Issuance	<u>79,174.70</u>
Total Uses of Funds	<u>\$10,132,003.65</u>

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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that the sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in the private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, including the Bonds, but the City has not waived sovereign immunity in connection with the issuance of the Bonds. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

RECORD DATE FOR INTEREST PAYMENT

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

BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely

basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 BOKF, NA, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

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

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 2043 and provides that it may be extended for such additional periods as the parties agree upon. Currently the demand charge is set for 41 million gallons per day ("MGD") with budgeted increase (if required) to approximately 45 MGD. The City obtains 100% of its water supply from DWU. A city-owned well (Trinity Sands Aquifer) within the City can be utilized for emergency and peaking purposes. The City accesses the DWU water supply through four intakes with a maximum projected demand of 123 MGD.

The City of Dallas/DWU has completed an updated master plan: 2014 Dallas Long Range Water Supply Plan to 2070 and Beyond, conducted by HDR 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. 2018-19 rates are \$.3650 per 1,000 gallons and \$276,434 per MGD for rate-of-flow demand charges. Total water purchase charges are budgeted for fiscal year 2018-19 at \$13,991,703 for the combined demand and volume charges.

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 in the last 10 years has been 41,609,000 gallons in 2015. 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 36.5.0 MG of ground storage. The water distribution system served 33,609 residential and 4,077 commercial meter connections for fiscal year 2017-18 with an overall system average consumption of 20.7 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 58 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 impact fee and the wastewater capital improvements program. The Master Sanitary Sewer Plan has been completed. With the City reaching 97% development and with no capacity problems identified, the plan has not been updated since. However, contributions from any new development are evaluated with the City's wastewater model to ensure that the system can handle the additional flow.

The City continues a proactive program of replacing wastewater mains, which have reached the limit of useful life. This program replaces approximately 10,000 linear feet of wastewater mains annually. The City's sewer rehabilitation program consists mainly of replacing the existing clay tile sanitary sewer lines in targeted neighborhoods. Normally, one to five subdivisions are under reconstruction in any years. These projects consist of completely replacing the existing main lines, manholes and service lines within the right of way. The water main replacements have resulted in reduced leaks in the system, and decreased pavement deterioration. The wastewater main replacement projects has decreased backups, overflows and the rainfall-induced infiltration and inflow in the system. Overall, these programs are essential for improving utility system reliability and reducing sanitary sewer overflows.

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. Provisions in the contract extend contractual obligations until the final maturity of outstanding debt. 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, including the Bonds and other Bonds Similarly Secured. 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 2018 was \$12,222,326. The City's estimated average flows to TRA for 2018 were 13.7 MGD. For fiscal year 2019, TRA estimates Carrollton's payment at \$13,143,744 based on projected flows of 12.05 MGD which represents 8.82% of total flows. The City, based on its own analysis, has budgeted \$14,632,306 for wastewater treatment services for fiscal year 2019. This higher amount takes into consideration recent meter reads which suggest that Carrollton's share of total flows could be in the range of 9.3% to 9.8% of total flows.

The City is one of twenty-one contract customers of the TRA's CRWS which make up the TRA Central Treatment System enterprise fund. CRWS 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.

CRWS includes a treatment plant, located in west Dallas, and more than 210 miles of collection system pipeline. CRWS is capable of providing complete treatment for monthly average flows of 134 million gallons per day and removes 99 percent of conventional pollutants from raw wastewater. The treatment system can handle daily maximum flows of 162 MGD treatment capacity and a two-hour peak flow maximum of 405 MGD. CRWS also has the mechanical dewatering capability of processing 232 dry tons of sludge daily. The current capital improvements plan identifies treatment plant improvements to update equipment and to increase efficiency, and the rehabilitation and construction of several segments of the pipeline interceptor system to update infrastructure and increase capacity.

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. (See "Tables A-9 in APPENDIX A – FINANCIAL INFORMATION REGARDING THE CITY" for information concerning billing rates).

CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT

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

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

The 2019-23 CIP reflects the potential expenditure of approximately \$18 million in System capital expenditures over the five year planning period, with waterworks and sewer system revenue bonds providing approximately \$10 million of the funding, through the sale of the Bonds, and "pay as you go" monies providing \$8 million of the funding.

The City completed a study of both the water and wastewater distribution systems in 2001 which identified water storage and distribution requirements and sanitary sewer needs for meeting the City's needs for the ultimate projected growth. Since that time the City has actively replaced and constructed new water facilities as identified in the study which has included new water transmission lines, rehabilitation of a major pump station, rehabilitated two elevated storage tanks and replaced one in total, increased capacity in the City's central pump station, constructed a booster pump station to increase water pressure in the Golden Bear area, replaced residential lines throughout the City with neighborhood reconstruction projects and updated the Supervisory Control and Data Acquisition system ("SCADA") which monitors the City's pump stations and storage tanks.

Wastewater improvements have included replacing all of the old interceptor lines with larger lines to accommodate the build out population in the City's four sewer sheds (Hutton, Furneaux, Dudley and Indian Creek), the rehabilitation of 5 lift stations which included pump, motor and electrical systems, replaced residential lines throughout the city with neighborhood reconstruction projects and updated the SCADA system which monitors the lift stations.

Funding for these improvements in the past years has come from pay-as-you-go operational expenses. This program is funded through the annual utility budget, currently at \$900,000, \$1.9 million and \$2.9 million for fiscal year 2019, 2020, and 2021, respectively. This funding has improved overall system performance allowing the City to replace and repair water lines and sanitary sewer lines and related facilities. The water main replacements have resulted in reduced leaks in the system, and decreased pavement deterioration. The wastewater main replacement projects have eliminated most of the city's "30-day lines" which require cleaning every 30 days to eliminate potential backups and overflows and decreased the amount of rainfall induced infiltration and inflow in the system which has decreased wastewater treatment costs.

The Bonds are part of the CIP and will cover costs related to the replacement of the Josey Lane elevated storage tank which will be increased from 1.5 million gallons (MG) to 2.0 MG, a miscellaneous water and sewer line replacement project and the replacement of lines in planned arterial and residential street reconstruction 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 fiscal year 2019 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 Utility 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. For fiscal year 2019, the City has budgeted for \$2,590,541 in PILOT transfers. 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 2019, this transfer is budgeted at \$1,674,313); to the Administrative Services Fund, Risk Management Fund, Fleet Fund and Public Works Administrative Fund to cover allocated overhead charges (for fiscal year 2019, this transfer is budgeted at \$4,174,446); and to the Capital Projects Fund to cover pay-as-you-go capital improvements (for fiscal year 2019, this transfer is budgeted at \$900,000).

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.

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

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

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

"Bonds" - The "City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2019" 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” - Unless otherwise modified in the Pricing Certificate, the term “Government Obligations” shall mean (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, (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 in the Ordinance.

“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 Bonds, Series 2012”, dated May 1, 2012, originally issued in the principal amount of \$10,535,000.

“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.

Pledge. 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 Texas Government Code, Chapter 1208, as amended.

Texas Government Code, Chapter 1208, as amended, 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 Texas Business and Commerce Code, Chapter 9, as amended, 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 Texas Business and Commerce Code, Chapter 9, as amended, and enable a filing to perfect the security interest in said pledge to occur.

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.

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

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

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

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 will be stated in the Pricing Certificate (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 as specified in the Pricing Certificate (the "Required Reserve") which amount is hereby found to equal or exceed the Average Annual Debt Service for the Bonds and the Previously Issued Bonds (calculated on a fiscal year basis as of the date the Bonds are to be delivered). If required, the difference between the Required Reserve and the Current Reserve will be accumulated by a deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the 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 Bonds, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Bonds.

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).

Notwithstanding the above and foregoing, at such time as the Previously Issued Bonds are no longer outstanding, the Average Annual Debt Service shall also be calculated at the end of each fiscal year and the Required Reserve shall be adjusted accordingly.

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 herein), 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.

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

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.

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 or her 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.

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).

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.

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.

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.

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.

Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remain Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by V.T.C.A., Government Code, Chapter 1502 or other applicable law. The Holder of any Bonds or any duly authorized agent or agents of such Holders shall have the right at

all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that following the close of each fiscal year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

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

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

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.

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.

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.

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 (see “APPENDIX A – Table 11– Current Investments”).

Investment Authority and Investment Practices of the City

Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State 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 are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) 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 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 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, an entity as described by Section 2257.041(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) as custodian for the City with respect to the certificates of deposit; (10) 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; (11) securities lending programs if (i) the securities loaned under the program are 100% 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described

in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name 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; and (iv) the agreement to lend securities has a term of one year or less, (12) 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, (13) 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, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. 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 AAA-m or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS

Self-Insurance

The City administers a Self-Insured Retention (“SIR”) program within its Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas: (a) general liability, law enforcement liability, and errors and omissions with a \$50,000 per occurrence retention and a \$2,000,000 per occurrence and a \$4,000,000 policy aggregate limit on coverage, (b) worker’s compensation liability with a \$100,000 per occurrence retention and statutory limit on coverage, (c) property loss with \$25,000 per occurrence retention and a \$192,233,681 limit on coverage, (d) automobile liability with a \$50,000 per occurrence retention and a \$1,000,000 per occurrence limit on coverage, and (e) automobile physical damage liability with a \$10,000 retention and an actual cash value or agreed value as a scheduled limit on coverage.

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2017, the loss reserve was \$1,547,691. During fiscal year 2018, there were claims and changes in estimates of \$687,879 and claim payments of \$1,002,846. The loss reserve as of the end of fiscal year 2018 was estimated at \$1,232,724. (See “Note 10 – APPENDIX B - GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018”).

Employee Health Plan

The City maintains the Employee Health and Disability Fund for employees and dependents, which is self-insured by the City. Revenues are recognized from payroll deductions and from City contributions with long-term disability claims in excess of one year covered through the third-party insurance policies. In addition, excess insurance of up to \$1,014,673 has been obtained for an individual employee’s health care claims exceeding \$225,000 and for health claims in the aggregate exceeding \$7,006,659. At September 30, 2018, there was a liability of \$1,440,000 in such fund, which represents estimated claims incurred but not yet reported. (See “Note 10 – APPENDIX B - GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018”).

Pension and Retirement Fund

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

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

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

The City adopted various benefit reductions effective January 1, 2009, including reducing USC from 100% to 75%, dropping the transfer feature of USC, 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 above the actuarially determined contribution if certain conditions are met.

Summary of plan provisions for the City:

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

Under the state law governing TMRS, the actuary annually determines the City contribution rate per TMRS funding policy and per state statutes on a calendar-year basis. 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, 2016 valuation is effective for rates beginning January 1, 2018). If a change in plan provisions is elected by the City, this rate can change. For fiscal year 2018, the City made contributions of 12.94% for the months in calendar year 2017 and for the months in calendar year 2018, which provided for an additional voluntary

contribution of .5 percentage points over the required contribution required of 12.44% for the months in 2017 and .56 percentage points over the actuarially required contribution of 12.38% for the months in 2018.

As of December 31, 2017, the most recent actuarial valuation date, the plan was 98.8% on a funding valuation basis per General Accepted Accounting Principles. The actuarial accrued liability for benefits was \$414,941,180, and the actuarial value of assets was \$393,485,849 resulting in an unfunded actuarial accrued liability (“UAAL”) of \$21,455,331. The covered payroll (annual payroll of active employees covered by the plan) was \$56,485,201, and the ratio of the UAAL to the covered payroll was 37.98%. (See “Note 7 – APPENDIX B - GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018” and 2017 TMRS Comprehensive Annual Financial Report at www.tmr.org).

Other Post-Employment Benefits

In addition to the TMRS pension benefits, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (TMRS, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit retiree 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.

In 2009 the City closed its retiree health plan. Grandfathered employees are able to retire, and if they choose to remain on the healthcare plan, they pay both the employee and employer premium that is applicable to active employees. Non-grandfathered retirees who stay on the plan, must pay both, the employee and employer premium at the higher “age based” rate, which is designed to pay the full cost of coverage. To help offset the higher premiums, non-grandfathered employees receive annual contributions from the City beginning at 10 years of service into an individual Retiree Health Savings Account.

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 2018 were \$7,837 to \$24,439 per year depending on coverage levels selected. In fiscal year 2018, total member contributions were \$380,906. The City contributions to the plan for fiscal year 2018, which are also equal to claims paid in excess of premiums collected, were \$1,458,892. As of December 31, 2017, the most recent actuarial valuation date, the City’s total OPEB liability for benefits was \$19,167,307, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2018 was \$2,658,886, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 721%. (See “Note 13 – APPENDIX B - GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2018”).

Deferred Compensation Payable

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

RATINGS

The Bonds are rated “AAA” by S&P Global Ratings, a division of S&P Global Inc., 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 none of the City, the Underwriters, or the Financial Advisor makes any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A credit rating on a security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time

PENDING LITIGATION

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

LEGAL MATTERS

The City will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the initial Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of 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. The customary closing papers, including a certificate of the City to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or

security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriters. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP has reviewed the information in this Official Statement appearing under the captions or subcaptions "THE BONDS" (except the subcaption "Sources and Uses of Funds"), "RECORD DATE FOR INTEREST PAYMENT", "REGISTRATION, TRANSFER AND EXCHANGE", "SELECTED PROVISIONS OF THE ORDINANCE", "LEGAL MATTERS" (except the last four sentences of the first paragraph thereof), "TAX MATTERS", "LEGAL INVESTMENTS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE" (except for the subcaption "Compliance with Prior Undertakings") and such firm is of the opinion that the information contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain matters will be passed on by McCall, Parkhurst & Horton L.L.P., counsel to the Underwriters. The legal fee to be paid to McCall, Parkhurst & Horton L.L.P. is contingent on 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. 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.

In rendering the foregoing opinion, 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 financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

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

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

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

LEGAL INVESTMENTS IN TEXAS

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FORWARD LOOKING STATEMENTS 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

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices shown on page ii of this Official statement, at an underwriting discount of \$52,828.95.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under 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.

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

Piper Jaffray & Co., one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co sells.

FINANCIAL ADVISOR

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

CONTINUING DISCLOSURE

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

Annual Reports

The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City ending in or after 2019, financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A, and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix B hereto or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties. 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”.

As used above, the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. 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 jurisdiction has been assumed by leaving the City Council and officials or officers of the City 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 SEC Rule 15c2-12, 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 Pricing Certificate approves the Official Statement and authorizes its use and distribution by the Underwriters in connection with its offering of the Bonds.

Robert Scott

Pricing Officer

APPENDIX A

FINANCIAL INFORMATION REGARDING THE SYSTEM

TABLE 1
WATERWORKS AND SEWER SYSTEM REVENUE BONDS
OUTSTANDING DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Existing Debt			The Bonds			Total Debt Service Requirements
	Principal	Interest	Service	Principal	Interest	Total	
2019	\$ 1,125,000	\$ 203,950	\$ 1,328,950	\$ -	\$ -	\$ -	\$ 1,328,950
2020	1,175,000	158,950	1,333,950	480,000	340,000	820,000	2,153,950
2021	1,220,000	111,950	1,331,950	475,000	345,600	820,600	2,152,550
2022	1,265,000	63,150	1,328,150	485,000	331,350	816,350	2,144,500
2023	840,000	25,200	865,200	500,000	316,800	816,800	1,682,000
2024	-	-	-	515,000	301,800	816,800	816,800
2025	-	-	-	540,000	281,200	821,200	821,200
2026	-	-	-	560,000	259,600	819,600	819,600
2027	-	-	-	585,000	231,600	816,600	816,600
2028	-	-	-	615,000	202,350	817,350	817,350
2029	-	-	-	645,000	171,600	816,600	816,600
2030	-	-	-	675,000	145,800	820,800	820,800
2031	-	-	-	700,000	118,800	818,800	818,800
2032	-	-	-	730,000	90,800	820,800	820,800
2033	-	-	-	755,000	61,600	816,600	816,600
2034	-	-	-	785,000	31,400	816,400	816,400
Totals	\$ 5,625,000	\$ 563,200	\$ 6,188,200	\$ 9,045,000	\$ 3,230,300	\$ 12,275,300	\$ 18,463,500

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

	Fiscal Year Ended 9/30				
	2018	2017	2016	2015	2014
Revenues	\$ 45,476,534	\$ 40,014,788	\$ 37,738,309	\$ 35,668,929	\$ 34,102,074
Expenses:					
Personal Services	4,206,038	3,989,218	4,160,938	3,740,948	3,683,454
Supplies and Services	29,415,211	26,136,178	23,785,815	21,505,088	21,764,025
Utilities	890,563	946,111	874,429	858,560	694,054
Allocations	810,228	1,222,871	1,209,405	1,175,733	1,195,384
Provision for Doubtful accounts	102,478	39,523	44,919	44,450	47,877
Transfers Out	3,970,635	3,658,286	3,663,133	3,587,841	3,651,703
Total Expenses	39,395,153	35,992,187	33,738,639	30,912,620	31,036,497
Net Revenue Available for Debt Service	\$ 6,081,381	\$ 4,022,601	\$ 3,999,670	\$ 4,756,309	\$ 3,065,577
Customer Count Water/Sewer	37,686	37,168	36,841	38,975	36,055
Average Annual Debt Service	\$ 1,237,640	\$ 1,385,524	\$ 1,426,329	\$ 1,460,318	\$ 1,488,696
Coverage	4.91 x	2.90 x	2.80 x	3.26 x	3.32 x
Current Year Debt Service, Fiscal Year Ended 9/30/19					\$ 1,328,950
Coverage of Fiscal Year Debt Service at 9/30/18 by Net Revenue Available					4.58 x
Average Annual Debt Service, including the Bonds - FY2019 - FY2034					\$ 1,153,969
Coverage of Average Annual Debt Service at 9/30/18 by Net Available					5.27 x
Maximum Annual Debt Service, including the Bonds - FY2019 - FY2034					\$ 2,153,950
Coverage of Maximum Annual Debt Service at 9/30/18 Net Available					2.82 x

TABLE 3
FUND BALANCES
(As of September 30, 2018)

Reserve Fund	\$ 1,237,640
Interest and Sinking Fund	553,729
Total Fund Balances	\$ 1,791,369

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

	<u>2017-18</u> <u>Actual ⁽¹⁾</u>	<u>2018-19</u> <u>Adopted Budget ⁽¹⁾⁽²⁾</u>
<u>Beginning Operating Funds</u>	\$ 10,626,415	\$ 10,323,043
<u>Revenues</u>		
Water Sales & Charges	27,814,740	26,799,388
Sewer Sales & Charges	15,848,910	15,725,540
Rate Increase	-	2,510,351
Tag & Reconnect Fees	527,845	395,000
Industrial Surcharge	505,229	465,000
Backflow Prevention Charges	192,530	175,000
Investment Income	173,624	200,000
Miscellaneous	124,114	220,000
Miscellaneous	-	-
Total Revenues	<u>\$ 45,186,992</u>	<u>\$ 46,490,279</u>
<u>Total Funds Available</u>	<u>\$ 55,813,407</u>	<u>\$ 56,813,322</u>
<u>Expenditures</u>		
Personal Services	3,374,669	4,482,098
Supplies and Services	28,917,249	31,062,920
Utilities	883,461	869,226
Allocations	3,837,890	4,174,446
Capital Outlay	59,698	-
Canceled Encumbrances	-	-
Transfers Out	9,955,817	5,164,854
Total Expenditures	<u>\$ 47,028,784</u>	<u>\$ 45,753,544</u>
<u>Ending Operating Funds</u>	<u>\$ 8,784,623</u>	<u>\$ 11,059,778</u>

⁽¹⁾ Budget basis.

⁽²⁾ Includes a projected average increase of 7.1% on water and sewer revenues based on rates effective January 1, 2019.

TABLE 5
UTILITY PLANT IN SERVICE
(As of September 30, 2018)

Land	\$ 1,382,918
Utility Plant	263,847,916
Equipment and Intangibles	6,272,714
Construction in Progress	122,412
Total Capital Assets	<u>271,625,960</u>
Less Accumulated Depreciation	(154,489,548)
Net Utility Plant in Service	<u>\$ 117,136,412</u>

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

	Fiscal Year Ended 9/30				
	2018	2017	2016	2015	2014
Water & Wastewater					
System in Service	\$ 271,625,960	\$ 267,226,393	\$ 264,861,970	\$ 262,394,907	\$ 257,307,793
Reserve for Depreciation	(154,489,548)	(146,879,329)	(139,366,148)	(132,053,043)	(124,943,330)
Net plant in Service	<u>117,136,412</u>	<u>120,347,064</u>	<u>125,495,822</u>	<u>130,341,864</u>	<u>132,364,463</u>
Construction Funds Net Assets	<u>12,771,838</u>	<u>12,594,277</u>	<u>10,930,257</u>	<u>9,882,200</u>	<u>9,975,764</u>
Net Plant in Service and Coming on Line	<u>129,908,250</u>	<u>132,941,341</u>	<u>136,426,079</u>	<u>140,224,064</u>	<u>142,340,227</u>
Plus Other Assets/Deferred Outflows of Resources	425,502	1,167,529	1,438,770	537,237	258,338
Plus Operating Working Capital Assets and Deferred Outflows of Resources Net of Current Liabilities and Debt Reserves	<u>10,190,230</u>	<u>11,351,689</u>	<u>12,195,938</u>	<u>12,528,176</u>	<u>12,779,879</u>
	<u>140,523,982</u>	<u>145,460,559</u>	<u>150,060,787</u>	<u>153,289,477</u>	<u>155,378,444</u>
Long Term Debt	4,854,536	10,710,117	12,169,237	13,578,357	14,937,477
Less Debt Reserves	(1,237,640)	(1,385,524)	(1,426,329)	(1,460,318)	(1,488,696)
Net Long Term Debt	<u>3,616,896</u>	<u>9,324,593</u>	<u>10,742,908</u>	<u>12,118,039</u>	<u>13,448,781</u>
Plus Other Liabilities/ Deferred Inflows of Resources	<u>1,141,541</u>	<u>1,857,549</u>	<u>2,027,075</u>	<u>1,006,277</u>	<u>589,837</u>
Total Obligations And Deferred Inflows of Resources	4,758,437	11,182,142	12,769,983	13,124,316	14,038,618
City's Equity in System	<u>\$135,765,545</u>	<u>\$134,278,417</u>	<u>\$137,290,804</u>	<u>\$140,165,161</u>	<u>\$141,339,826</u>
% Equity	96.61%	92.31%	91.49%	91.44%	90.96%

TABLE 7
TOP TEN WATER CUSTOMERS
(As of September 30, 2018)

<u>Name</u>	<u>Type</u>	<u>Revenues</u>	<u>% Total Water Revenues⁽¹⁾</u>
1. Carrollton-Farmers Branch ISD	School District	\$ 558,055	2.01%
2. Lewisville ISD	School District	275,484	0.99%
3. Rudy's Tortillas	Manufacturing	150,932	0.54%
4. Frankel Family Trust	Manufacturing	134,657	0.48%
5. Western Extrusions Inc.	Apartments	134,650	0.48%
6. Autumn Chase Apartments	Apartments	125,210	0.45%
7. Mansions at Sunset Ridge	Apartments	116,292	0.42%
8. Dawntree Apartments	Apartments	103,104	0.37%
9. Meridian Apartments	Apartments	101,880	0.37%
10. Prologis	Manufacturing	95,822	0.34%
TOTAL		\$ 1,796,086	6.46%

⁽¹⁾Total water revenues from October 1, 2017 through September 30, 2018 = \$ 27,814,740
Source: City of Carrollton Utility Customer Service Department.

TABLE 8
WATER USAGE

<u>Fiscal Year Ended 9/30</u>	<u>Average Daily Use In Gallons</u>	<u>Maximum Daily Use In Gallons</u>	<u>Total Gallons for Year</u>
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
2012	20,808,000	40,680,000	7,594,764,000
2013	20,171,000	38,388,000	7,362,343,000
2014	18,890,000	32,262,000	6,954,726,000
2015	19,548,000	41,609,000	7,151,918,000
2016	19,524,000	35,439,000	7,126,366,000
2017	19,753,000	29,339,000	7,209,845,000
2018	20,711,000	37,720,000	7,578,297,000

Source: City of Carrollton Water Distribution Department.

TABLE 9
WATER AND WASTEWATER RATES⁽¹⁾

Monthly Water Rates:

Minimum monthly charge, including the first 2,000 gallons of use:

Single-family residential domestic and irrigation use	\$	13.34
Commercial (including apartments and portable meters), industrial and commercial irrigation use:		
5/8" meter	\$	13.62
1" meter		20.97
1.5" meter		33.29
2" meter		48.04
3" meter		87.36
4" meter		131.59
6" meter		254.53
8" meter		402.06
10" meter		574.14
Fire Line regardless of size		74.16

Use over the 2,000 gallons included in the minimum monthly charge:

Single-family residential domestic use:		
Meter Readings from October through April:		
All Over 2,000 gallons (per 1,000 gallons)	\$	3.34
Meter Readings from May through September:		
Next 8,000 gallons (per 1,000 gallons)		3.34
All Over 10,000 gallons (per 1,000 gallons)		4.50
All Over 25,000 gallons (per 1,000 gallons)		5.63
Irrigation use:		
Next 23,000 gallons (per 1,000 gallons)	\$	3.43
Next 25,000 gallons (per 1,000 gallons)		4.10
Next 50,000 gallons (per 1,000 gallons)		4.65
Next 100,000 gallons (per 1,000 gallons)		5.24
All use over 200,000 gallons (per 1,000 gallons)		5.85
Commercial use (including apartments and portable meters):		
All use over 2,000 gallons (per 1,000 gallons)	\$	2.31
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)	\$	2.03

Monthly Sewer Rates:

Residential use:		
First 2,000 gallons, minimum	\$	15.35
All use over 2,000 gallons (per 1,000 gallons)		3.20
Commercial (including apartments), Industrial and Irrigation minimum monthly charges, including the first 2,000 gallons of use:		
5/8" meter	\$	15.35
1" meter		22.22
1.5" meter		33.62
2" meter		47.28
3" meter		83.78
4" meter		124.78
6" meter		238.71
8" meter		375.45
10" meter		534.97
Commercial and Industrial use:		
All use over 2,000 gallons (per 1,000 gallons)	\$	3.20

⁽¹⁾ Rates effective January 1, 2019.

TABLE 10
COMPARATIVE WATER AND WASTEWATER SYSTEM OPERATING STATEMENT

	Fiscal Year Ended 9/30				
	2018	2017	2016	2015	2014
Operating revenues:					
Charges for services	\$ 45,005,225	\$ 39,630,140	\$ 37,361,058	\$ 35,301,330	\$ 33,789,304
Miscellaneous	224,795	197,032	204,467	174,697	159,535
Total operating revenues	<u>45,230,020</u>	<u>39,827,172</u>	<u>37,565,525</u>	<u>35,476,027</u>	<u>33,948,839</u>
Operating expenses:					
Personal services	4,206,038	3,989,218	4,160,938	3,740,948	3,683,454
Supplies and Services	29,517,689	26,175,701	23,830,734	21,549,538	21,811,902
Utilities	890,563	946,111	874,429	858,560	694,054
Allocations	810,228	1,222,871	1,209,405	1,175,733	1,195,384
Depreciation	7,628,552	7,595,388	7,443,949	7,291,949	8,077,819
Total operating expenses	<u>43,053,070</u>	<u>39,929,289</u>	<u>37,519,455</u>	<u>34,616,728</u>	<u>35,462,613</u>
Income (loss) from operations	<u>2,176,950</u>	<u>(102,117)</u>	<u>46,070</u>	<u>859,299</u>	<u>(1,513,774)</u>
Nonoperating revenues (expenses):					
Investment earnings net of change in fair va	246,514	187,616	172,784	192,902	153,235
Gain on sale/retirement of capital assets	4,232	21,514	37,256	29,757	95,377
Interest expense	(236,632)	(426,206)	(477,678)	(521,786)	(573,215)
Total nonoperating revenues/(expenses)	<u>14,114</u>	<u>(217,076)</u>	<u>(267,638)</u>	<u>(299,127)</u>	<u>(324,603)</u>
Income (loss) before contributions and transfers	2,191,064	(319,193)	(221,568)	560,172	(1,838,377)
Capital contributions	3,266,699	965,092	1,003,684	2,027,734	2,104,033
Transfers in	-	-	6,660	-	-
Transfers out	(3,970,635)	(3,658,286)	(3,663,133)	(3,587,841)	(3,651,703)
Change in net position	1,487,128	(3,012,387)	(2,874,357)	(999,935)	(3,386,047)
Net position at beginning of year, as previously reported	134,278,417	137,290,804	140,165,161	141,339,826	144,725,873
Impact of change in accounting principle	-	-	-	(174,730)	-
Net position at beginning of year, as restated	<u>134,278,417</u>	<u>137,290,804</u>	<u>140,165,161</u>	<u>141,165,096</u>	<u>144,725,873</u>
Net position at end of year	<u>\$ 135,765,545</u>	<u>\$ 134,278,417</u>	<u>\$ 137,290,804</u>	<u>\$ 140,165,161</u>	<u>\$ 141,339,826</u>

Notes:

The City implemented GASB Statement No. 65 in fiscal year 2014. The amounts for all fiscal years presented have been restated for the effects of this standard.

The City implemented GASB Statement No. 68 in fiscal year 2015. The amounts for all prior fiscal years presented have not been restated for the effects of this standard.

The City implemented GASB Statement No. 75 in fiscal year 2018. The amounts for all prior fiscal years presented have not been restated for the effects of this standard.

TABLE 11
CURRENT INVESTMENTS

As of February 28, 2019 the following percentages of the City's investable funds were invested in the following investment categories and the weighted average maturity of the total City portfolio was 0.58 years.

<u>Type of Investment</u>	<u>Amortized Value</u>	<u>Percentage</u>
Coupon Agencies	\$ 149,463,224	54.44%
Discount Agencies	1,997,148	0.73%
Treasury Notes	22,824,576	8.31%
Municipal Bonds	3,566,897	1.30%
Government Pools ⁽¹⁾	<u>96,687,878</u>	<u>35.22%</u>
Total Securities	<u>\$ 274,539,723</u>	<u>100.00%</u>

⁽¹⁾The City's government pool investments are in the Texas Local Government Investment Pool ("TexPool"), TexasTERM Local Government Investment Pool (TexasTERM), the Local Government Investment Cooperative ("LOGIC") and Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS). TexPool, TexasTERM, LOGIC and Texas CLASS are rated AAAM by S&P and operate in a manner consistent with Chapter 2256, Texas Government Code, referred to as the Public Funds Investment Act.

APPENDIX B

**GENERAL PURPOSE EXTERNAL FINANCIAL
STATEMENTS FROM THE CITY OF CARROLLTON, TEXAS
WITH REPORT OF EXAMINATION FOR THE YEAR ENDED
SEPTEMBER 30, 2018 BY GRANT THORNTON LLP,
CERTIFIED PUBLIC ACCOUNTANTS, DALLAS, TEXAS
AS EXCERPTED FROM THE SEPTEMBER 30, 2018
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Emphasis of a matter

As discussed in Note 13 to the financial statements, the City adopted new accounting and reporting guidance in 2018 for other post-employment benefits. Our opinion is not modified with respect to this matter.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16, the Texas Municipal Retirement System Schedule of Changes in Net Pension Liability and Related Ratios on page 65, the Texas Municipal Retirement System Schedule of Contributions on pages 66 and 67, and the Schedule of Changes in the City's Total OPEB Liability and Related Ratios on page 68 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

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

Other information

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

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 26, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dallas, Texas
February 26, 2019

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

February 26, 2019

As management of the City of Carrollton (City), we offer this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2018. 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. This allows the City's tax base, service levels, assets and desirability to be maintained not just for the current year but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses/expenditures higher or lower than the previous year? Has net position (containing both short and long term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, (pages i-vii of this report) and the statistical section (pages 113-136 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 Report of Independent Certified Public Accountants describes the auditors' association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The net position of the City at the close of the most recent fiscal year was \$529,904. This number must be viewed in the context that the vast majority of the City's net position of \$380,910 (71.9%) is the net investment in capital assets and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$8,806 (1.7%). The remaining \$140,188 (26.4%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position decreased by \$865 in fiscal year 2018.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$174,968. Within this total \$616 is non-spendable for prepaid items, \$30,410 is restricted by specific legal requirements, such as by debt covenants and \$114,425 has been committed and assigned to specific types of expenditures. The remaining \$29,517 is unassigned fund balance in the General Fund and can be used for any lawful purpose.
- The City's long-term liabilities decreased by \$1,314 due primarily to the reduction in pension liability partially offset by the increase in total OPEB liability and the issuance of bonds for capital improvement.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

- The City has continued to see a consistent and robust growth in its revenues. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, development services, and cultural and recreation. The business-type activities of the City include Water and Sewer, Golf Course and Sanitation operations. The government-wide financial statements can be found on pages 17-18 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. Funds are also the primary focus of the annual budget process. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

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

The City maintains 11 governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Streets and Drainage, and General and Public Facilities funds, all of which are considered to be major funds. Data from the other seven 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 19-23.

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

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Golf Course, and Sanitation funds, since all are considered to be major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in the Comprehensive Annual Financial Report. The basic proprietary fund financial statements can be found on pages 24-27 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 29-64.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position and especially net position by category may serve over time as a useful indicator of a government's financial position. The City's net position was \$529,904 as of September 30, 2018.

The largest portion of the City's net position \$380,910 (71.9%) 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.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

An additional portion of the City's net position of \$8,806 (1.7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$140,188 (26.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON'S NET POSITION

(Amounts in Thousands)

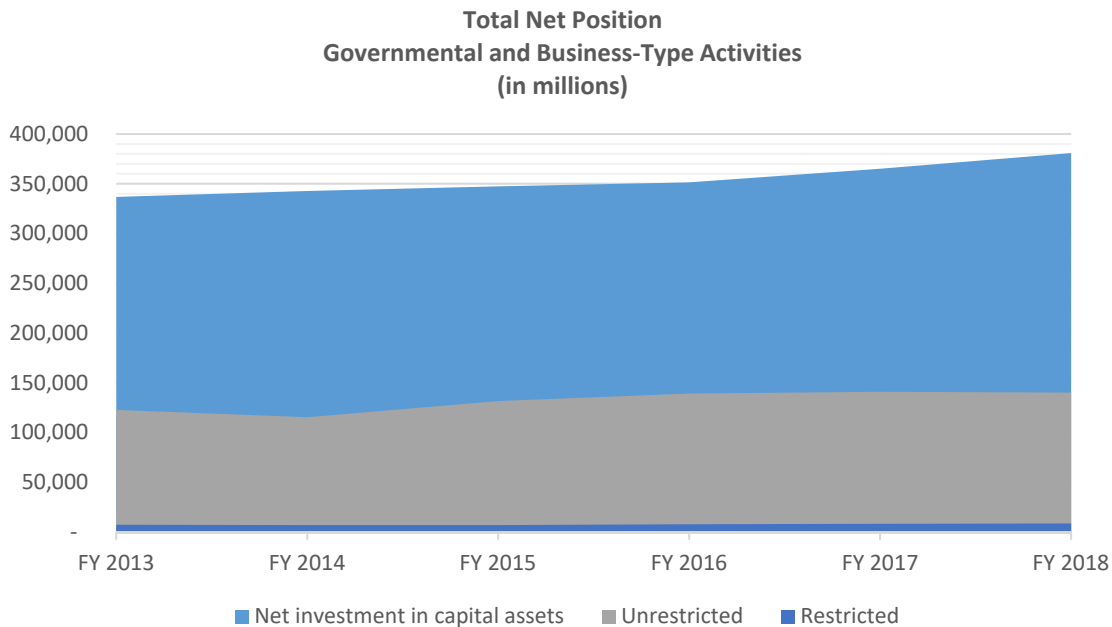
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Current and other assets	\$ 180,359	\$ 204,011	\$ 33,637	\$ 35,421	\$ 213,996	\$ 239,432
Capital assets, net	425,749	438,711	122,635	119,421	548,384	558,132
Total Assets	<u>606,108</u>	<u>642,722</u>	<u>156,272</u>	<u>154,842</u>	<u>762,380</u>	<u>797,564</u>
Deferred outflows of resources	<u>24,046</u>	<u>8,613</u>	<u>1,168</u>	<u>425</u>	<u>25,214</u>	<u>9,038</u>
Long term liabilities	234,320	237,778	14,024	9,252	248,344	247,030
Other liabilities	<u>17,795</u>	<u>12,684</u>	<u>5,614</u>	<u>6,187</u>	<u>23,409</u>	<u>18,871</u>
Total Liabilities	<u>252,115</u>	<u>250,462</u>	<u>19,638</u>	<u>15,439</u>	<u>271,753</u>	<u>265,901</u>
Deferred inflows of resources	<u>1,442</u>	<u>10,092</u>	<u>69</u>	<u>705</u>	<u>1,511</u>	<u>10,797</u>
Net Position:						
Net investment in capital assets	253,790	266,336	111,163	114,574	364,953	380,910
Restricted	6,939	7,568	1,385	1,238	8,324	8,806
Unrestricted	<u>115,868</u>	<u>116,877</u>	<u>25,185</u>	<u>23,311</u>	<u>141,053</u>	<u>140,188</u>
Total Net Position	<u>\$ 376,597</u>	<u>\$ 390,781</u>	<u>\$ 137,733</u>	<u>\$ 139,123</u>	<u>\$ 514,330</u>	<u>\$ 529,904</u>

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

As of September 30, 2018, the City has positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.



The current and other assets increased in the Governmental activities by \$23,652 and in the Business-type activities by \$1,784. Increase in the Governmental activities assets is primarily due to unspent proceeds from issuance of debt and accumulation of other funds for future capital purchases. Increase in the Business-type activities is also primarily due to unspent proceeds from issuance of debt.

The City's long-term liabilities decreased by \$1,314 due primarily to the decrease in pension liabilities partially offset by the increase in total OPEB liability and the issuance of bonds for capital improvement.

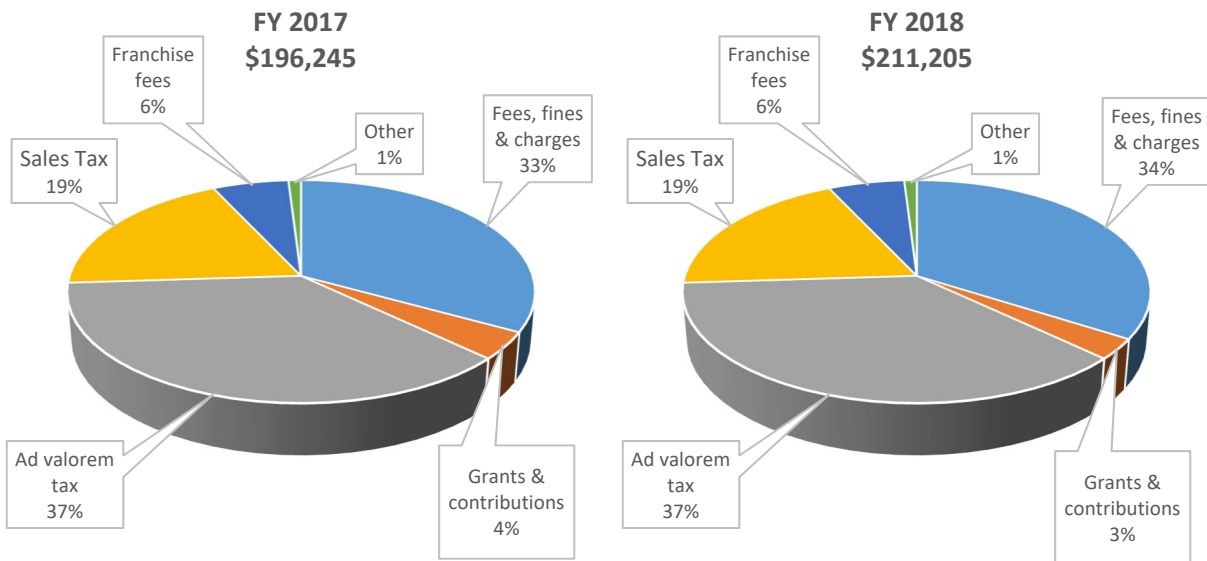
CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Analysis of the City's Operations – Overall the City had an increase in net position of \$31,083 or 6.2%. Of this increase \$15,510 is related to net prior period adjustments for the implementation of a new standard.

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



Governmental Activities: Governmental activities net position increased by \$29,694. Of that increase, \$15,510 was related to net prior period adjustments due to changes in standards related to OPEB. Net investment in capital assets increased by \$12,546 or 4.9%. Restricted net position increased \$629 or 9.1%. Unrestricted net position increased by \$1,009 or 0.9%.

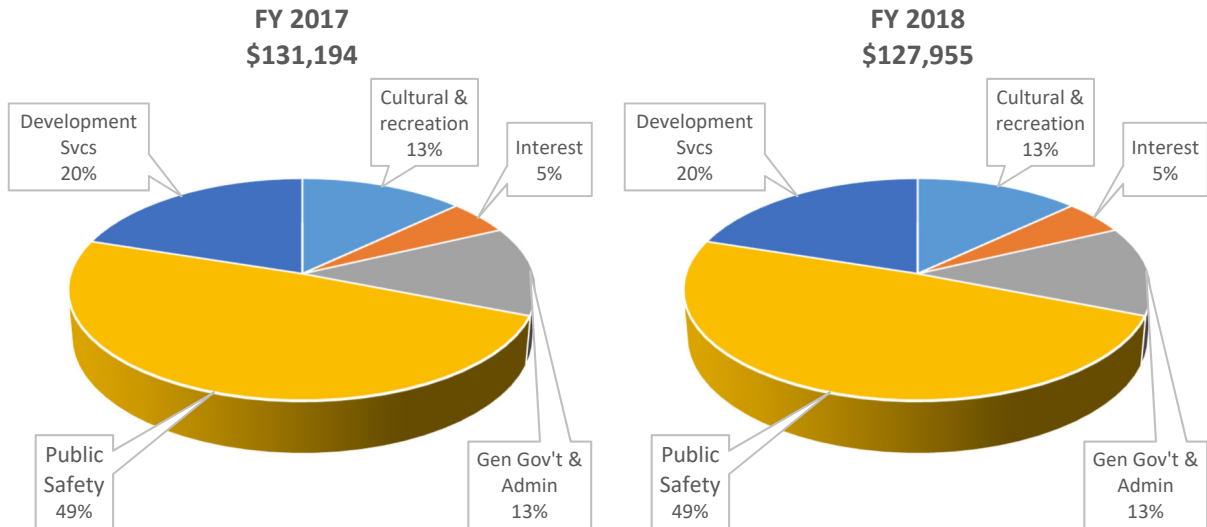
Excluding transfers from business-type activities, total revenues for governmental activities increased from the previous year by \$6,850. General revenue (excluding transfers) had a net increase of \$9,507 or 7.7%. Ad valorem tax experienced an increase of \$5,406 due to growth in assessed valuations from both new construction and increases in existing values. Additionally, an increase was seen in sales taxes of \$3,028. Sales tax increases were largely generated from technology and construction related companies. Other general revenues increased by \$1,073, primarily due to investment earnings and to a slight improvement in franchise fees. Program revenues had a net decrease of \$2,657 primarily due to a decrease in capital grants and contributions and a decrease in fees, fines and charges for services. Net transfers from the business type activities to governmental activities increased by \$1,081 from the previous year.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
 For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
 (Unaudited)

**Expenses by Type
 Governmental Activities**



Total expenses for governmental activities decreased \$3,240 or 2.5 % primarily due to decreases in depreciation.

Business-type Activities: Net position from business-type activities increased by \$1,390 or 1.0% from \$137,733 to \$139,123. Net investment in capital assets decreased by \$3,411 or 3.1% due to capital asset depreciation partially offset by capital additions and retirement of related debt. Restricted net position decreased by \$147 due to reduction in the required reserve for revenue bonds. Unrestricted net position decreased by \$1,905 or 7.6%. Program revenues for business type activities increased by \$5,383 due to increases in water, sewer and sanitation rates.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City's operations for year ended September 30, 2018 with comparative totals for year ended September 30, 2017.

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

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Revenues:						
Program Revenues:						
Fees, fines and charges for services	\$ 14,728	\$ 15,237	\$ 50,601	\$ 55,984	\$ 65,329	\$ 71,221
Operating grants and contributions	144	247	-	-	144	247
Capital grants and contributions	5,946	2,677	965	3,267	6,911	5,944
General revenues:						
Ad valorem taxes	71,827	77,233	-	-	71,827	77,233
Sales tax	36,783	39,811	-	-	36,783	39,811
Occupancy tax	293	237	-	-	293	237
Franchise fees	12,070	12,527	-	-	12,070	12,527
Investment earnings net of change in fair value of investments	1,481	2,185	201	263	1,682	2,447
Gain on sale of capital assets	113	4	22	4	135	8
Miscellaneous	874	951	197	225	1,071	1,176
Total revenues	144,259	151,109	51,986	59,743	196,245	210,851
Expenses:						
General government and administration	17,122	17,190	-	-	17,122	17,190
Public safety	64,012	63,047	-	-	64,012	63,047
Development services	27,012	25,002	-	-	27,012	25,002
Cultural and recreational	16,755	16,390	-	-	16,755	16,390
Interest on long term debt	6,293	6,325	-	-	6,293	6,325
Water and Sewer	-	-	40,370	43,286	40,370	43,286
Golf	-	-	951	452	951	452
Sanitation	-	-	7,795	8,076	7,795	8,076
Total expenses	131,194	127,955	49,116	51,814	180,310	179,768
Increase (decrease) in net position before transfers	13,065	23,154	2,870	7,929	15,935	31,083
Transfers	5,458	6,539	(5,458)	(6,539)	-	-
Increase (decrease) in net position	18,523	29,694	(2,588)	1,390	15,935	31,083
Net position October 1	358,074	376,597	140,321	137,733	498,395	514,330
Adjustments per GASB 75	-	(15,510)	-	-	-	(15,510)
Net Position October 1, restated	358,074	361,087	140,321	137,733	498,395	498,820
Net position September 30	376,597	390,781	137,733	139,123	514,330	529,904

CITY OF CARROLLTON, TEXAS

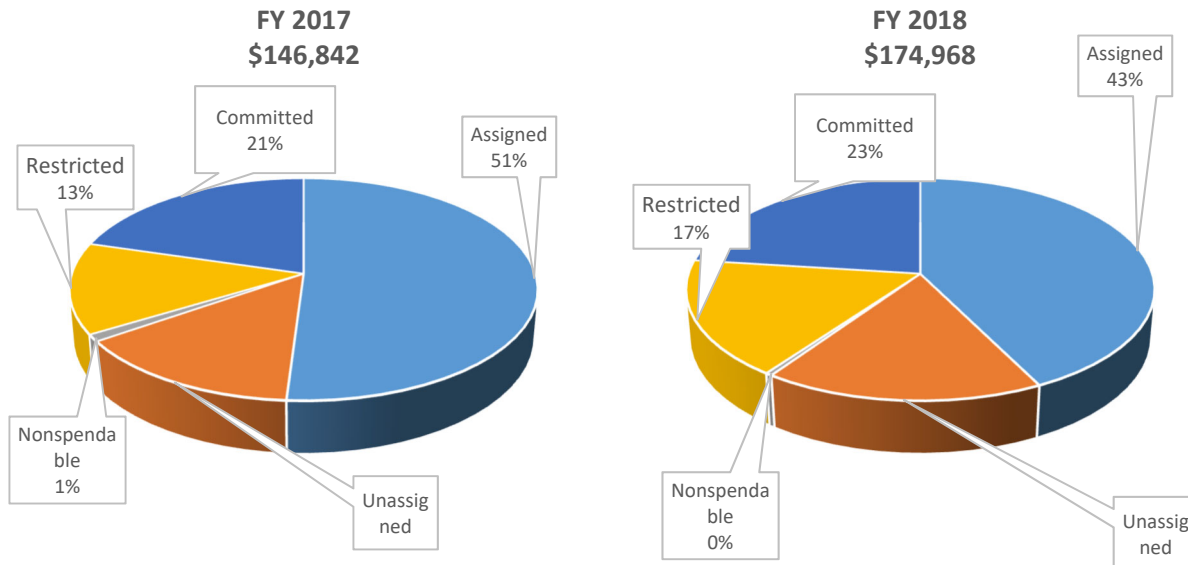
Management's Discussion and Analysis
For the Year Ended September 30, 2018

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 \$174,968. Within this total \$615 is non-spendable for prepaid items, \$30,410 is restricted by specific legal requirements, such as by debt covenants and \$114,425 has been committed and assigned to specific types of expenditures. The remaining \$29,517 is unassigned fund balance in the General Fund and can be used for any lawful purpose.

One of the City's financial policies is 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. During the year, the City continued to experience an increase in its sales tax revenue, the General Fund's second largest revenue. The nature of sales tax in Texas is discussed in note 6 on pages 48-49 of this report. A majority of the increase is due to a general increase in economic activity across several sectors including construction supplies and equipment, on-line sales, and technology related sales and services. In order to manage this increase in a volatile revenue source, the city council adopted a financial policy to transfer sales tax received in excess of the amount budgeted for recurring purposes to capital projects funds to be used for one-time capital expenditures. The fund

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

balance exceeding the City's financial policy of 60 days will be addressed during the fiscal year 2019 budget deliberations.

Debt service fund balance increased in 2018 by \$53. Streets and Drainage Capital Projects fund balance increased by \$10,680 primarily due to the issuance of general obligation bonds and the receipt of transfers in from other funds offset by capital outlay expenditures. The General and Public Facilities Capital Projects fund balance increased by \$5,009 primarily due to capital outlay expenditures offset by the receipt of net transfers in from other funds.

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

Unrestricted net position of the respective enterprise funds are \$22,238 for Water and Sewer, \$803 for Golf Course and \$508 for Sanitation. The total of all enterprise funds' unrestricted net position of \$23,549 is reduced by \$238 for the consolidation of the internal service fund activities related to enterprise funds to equal the total unrestricted net position for business-type activities in the entity-wide statements of \$23,311. Change in net position for enterprise funds in 2018 were \$1,487 in the Water and Sewer Fund, \$(198) in the Golf Course Fund and \$70 in the Sanitation Fund.

General Fund Budgetary Highlights - Actual revenues collected exceeded management's original estimate of the General Fund's revenues by \$2,006 or 1.8%.

PENSIONS AND RETIREE HEALTHCARE

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

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous uniform measure that can be used to compare the City's pension liabilities to other governments from around the nation. The funding valuation is important as the actuarial methods used including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the first schedule of Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, the City's financial statements reflect a Net Pension Liability (NPL) as of September 30, 2018 of \$4,655 which is 8.53% of the City's annual covered payroll of \$54,585. The NPL decreased by \$26,175 from the previous year

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
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Amounts in Thousands Unless Stated Otherwise
(Unaudited)

primarily due to higher than expected investment return. The sizeable amount of fiduciary net position invested for the City by TMRS combined with the natural volatility of investment returns from year to year make the NPL volatile.

Effective for fiscal year 2018, GASB 75, "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions (OPEB)" has replaced the previous authoritative guidance regarding the City's retiree health care benefits. Implementing this new standard requires the replacement of the previously reported Net OPEB Obligation with the newly required Total OPEB Liability (TOL). This was accomplished through a prior period adjustment explained in Note 13 of the financial statements.

While the defined benefit portion of the City's retiree health program is closed to new participants and currently has 54 total participants, the TOL recorded as of September 30, 2018 is \$19,167. This significant liability is due to catastrophic claims experience from retirees that is expected to continue well into the future.

CAPITAL ASSETS

The City's net investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$558,132 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, equipment, intangibles, improvements, and infrastructure and construction in progress. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was 1.8% (3.0% increase for governmental activities and 2.6% decrease in business-type activities.)

Capital Assets at Year-end Net of Accumulated Depreciation

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
Land	\$102,542	\$102,542	\$ 2,378	\$ 2,378	\$104,920	\$104,920
Buildings	43,397	40,696	2,983	2,702	46,380	43,398
Equipment	21,434	20,135	2,975	2,850	24,409	22,985
Intangibles	412	269	92	79	504	348
Improvements	28,996	28,104	739	770	29,735	28,874
Infrastructure	228,358	243,881	113,351	110,520	341,709	354,401
Construction in Progress	610	3,084	117	122	727	3,206
Total	<u>\$425,749</u>	<u>\$438,711</u>	<u>\$122,635</u>	<u>\$119,421</u>	<u>\$548,384</u>	<u>\$558,132</u>

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

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

- Acquisition of vehicles and equipment totaling \$4.66 million, including \$3.2 million of public safety equipment and vehicles and \$688 thousand of public works equipment. The public safety equipment included a mobile command center totaling \$452 thousand.
- Parks and recreation improvements totaling \$880 thousand, including \$234 thousand for improvements to the City Hall pond.
- Water and sewer system infrastructure improvements totaling \$4.1 million, including \$2 million in developer contributions and \$648 thousand for the Huffines Lift Station.
- Street and Alley Improvements of \$20.4 million, including \$3.5 million in developer contributions and \$3.7 million in Old Denton Road improvements.
- Drainage Improvements of \$5.0 million including \$2.66 million in developer contributions and \$942 thousand in Downtown improvements..

Additional information on the City’s capital assets can be found in note 4 on pages 42-43 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$195,678. Of this amount, \$189,600 comprises bonded debt backed by the full faith and credit of the government and \$6,078 represents bonds secured solely by water and sewer revenues.

**Outstanding Debt at Year End
Bonds Payable**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
General Obligation						
Bonds	\$184,737	\$189,600	\$ -	\$ -	\$184,737	\$189,600
Revenue Bonds	-	-	12,169	6,078	12,169	6,078
Total	<u>\$184,737</u>	<u>\$189,600</u>	<u>\$ 12,169</u>	<u>\$ 6,078</u>	<u>\$196,906</u>	<u>\$195,678</u>

During the fiscal year, the City’s total debt decreased by \$1,228 or .6% due to issuance of \$21,449 (including premium) of a new General Obligation Bond new money issue offset by existing debt retirements of \$17,762 and a cash redemption of callable water and sewer bond of \$4,915.

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

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2018

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Obligated - Property Tax and Revenue Debt" found on page 129 lists the City's pro-rata share of debt that is contractually obligated.

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

	<u>Standard & Poor's</u>	<u>Fitch</u>
General Obligation Bonds	AAA	AAA
Revenue Bonds	AAA	AAA

Additional information on the City's long term-debt can be found in note 5 on pages 44-47 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In the fiscal year 2019 Budget, General Fund revenues are budgeted to increase by 6.1% from the fiscal year 2018 final budget with ad valorem taxes making up 46.6% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 11.4% for the fiscal year 2018 budget compared to an 8.6% increase in the previous year's budget. In response to this growth, the City Council reduced the tax rate by 0.8%. Sales taxes are budgeted to increase by 8.4% from the fiscal year 2018 final budget and actual receipts through December 2019 are 8.7% ahead of the same period in fiscal year 2018.

In this coming fiscal year, the City's budget continues to benefit from the strong economy. The City continues to develop commercially and is aggressively pursuing Transit Oriented Development opportunities near the City's three light rail stations.

The Water and Sewer Operating Fund is budgeted in fiscal year 2019 to operate at a net surplus of \$737 based on available fund balance exceeding financial standards. Rate increases averaging 7.1% were approved effective January 2019, primarily due to the escalating costs of wastewater treatment.

REQUEST FOR INFORMATION

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

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Net Position
September 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash, cash equivalents and investments	\$ 152,888,270	\$ 24,520,717	\$ 177,408,987
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	(16,241)	-	(16,241)
Sales taxes	3,351,560	-	3,351,560
Franchise fees	3,333,768	-	3,333,768
Accounts	-	6,141,788	6,141,788
Accrued interest	624,807	70,579	695,386
Other	1,976,762	116,691	2,093,453
Interfund Receivable	2,664,871	-	2,664,871
Due from other governments	927,177	141,887	1,069,064
Internal balances	238,082	(238,082)	-
Inventories	33,519	-	33,519
Prepaid items	809,736	-	809,736
Equity interest in joint venture	1,722,759	-	1,722,759
Land held for redevelopment	3,864,948	-	3,864,948
Restricted assets:			
Cash, cash equivalents and investments	31,590,380	4,667,782	36,258,162
Capital assets:			
Land	102,541,908	2,377,918	104,919,826
Buildings	85,571,405	19,648,327	105,219,732
Equipment	46,112,582	8,193,855	54,306,437
Intangibles	6,535,190	868,612	7,403,802
Improvements	50,336,826	12,013,626	62,350,452
Infrastructure	339,511,808	245,809,216	585,321,024
Construction in progress	3,084,838	122,412	3,207,250
Accumulated depreciation	(194,983,308)	(169,613,504)	(364,596,812)
Total assets	642,721,647	154,841,824	797,563,471
Deferred outflows of resources			
Deferred charges on refundings	1,471,018	107,041	1,578,059
OPEB contributions after measurement date	602,857	-	602,857
OPEB assumption change	559,345	-	559,345
Pension contributions after measurement date	5,001,875	275,280	5,277,155
Difference in projected and actual earnings on pension assets	-	-	-
Changes in actuarial assumptions used to determine pension liability	977,618	43,181	1,020,799
Total deferred outflows of resources	8,612,713	425,502	9,038,215
Liabilities			
Accounts payable	11,141,870	3,226,235	14,368,105
Accrued interest	892,994	84,979	977,973
Unearned revenue	656,594	-	656,594
Due to other Funds	(7,601)	-	(7,601)
Customer Deposits Payable	-	2,876,413	2,876,413
Noncurrent liabilities:			
Due within one year	19,434,067	3,960,944	23,395,011
Due in more than one year	218,343,651	5,291,036	223,634,687
Total liabilities	250,461,575	15,439,607	265,901,182
Deferred inflows of resources			
Difference in expected and actual pension experience	407,826	19,936	427,762
Difference in projected and actual earnings on pension assets	9,683,877	685,105	10,368,982
	10,091,703	705,041	10,796,744
Net position			
Net investment in capital assets	266,335,524	114,574,032	380,909,556
Restricted for:			
Debt service	3,979,314	1,237,640	5,216,954
Capital projects	1,819,101	-	1,819,101
Special revenue, public safety	1,769,891	-	1,769,891
Unrestricted	116,877,252	23,311,006	140,188,258
Total net position	\$ 390,781,082	\$ 139,122,678	\$ 529,903,760

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Government-wide Statement of Activities
For the Year Ended September 30, 2018

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government and administration	\$ 17,189,961	\$ 192,134	\$ -	\$ -	\$ (16,997,827)	\$ -	\$ (16,997,827)
Public safety	63,047,061	9,144,151	248,253	187,945	(53,466,712)	-	(53,466,712)
Development services	25,002,278	3,201,667	-	2,489,282	(19,311,329)	-	(19,311,329)
Cultural and recreational	16,390,220	2,699,398	(1,164)	-	(13,691,986)	-	(13,691,986)
Interest on long-term debt	6,325,530	-	-	-	(6,325,530)	-	(6,325,530)
Total governmental activities	<u>127,955,050</u>	<u>15,237,350</u>	<u>247,089</u>	<u>2,677,227</u>	<u>(109,793,384)</u>	<u>-</u>	<u>(109,793,384)</u>
Business-type activities:							
Water and sewer	43,285,640	45,005,225	-	3,266,699	-	4,986,284	4,986,284
Golf	451,994	617,176	-	-	-	165,182	165,182
Sanitation	8,076,094	10,361,672	-	-	-	2,285,578	2,285,578
Total business-type activities	<u>51,813,728</u>	<u>55,984,073</u>	<u>-</u>	<u>3,266,699</u>	<u>-</u>	<u>7,437,044</u>	<u>7,437,044</u>
Total government	<u>\$ 179,768,778</u>	<u>\$ 71,221,423</u>	<u>\$ 247,089</u>	<u>\$ 5,943,926</u>	<u>(109,793,384)</u>	<u>7,437,044</u>	<u>(102,356,340)</u>
General revenues:							
Taxes:							
Ad valorem					77,233,249	-	77,233,249
Sales					39,811,034	-	39,811,034
Occupancy					237,466	-	237,466
Franchise fees based upon gross receipts					12,526,523	-	12,526,523
Investment earnings net of change in fair value of investments					2,184,503	262,790	2,447,293
Gain on sale of capital assets					4,248	4,232	8,480
Miscellaneous					950,672	224,795	1,175,467
Transfers					6,539,304	(6,539,304)	-
Total general revenues and transfers					<u>139,486,999</u>	<u>(6,047,487)</u>	<u>133,439,512</u>
Change in net position					29,693,615	1,389,557	31,083,172
Net position at beginning of year					376,597,317	137,733,121	514,330,438
Prior Period Adjustment for GASB 75*					(15,509,850)	-	(15,509,850)
Net position at beginning of year, restated					361,087,467	137,733,121	498,820,588
Net position at end of year					<u>\$ 390,781,082</u>	<u>\$ 139,122,678</u>	<u>\$ 529,903,760</u>

See accompanying notes to basic financial statements.

*See footnote 13 for further information about restatement of net position

CITY OF CARROLLTON, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2018

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 26,517,177	\$ 4,897,796	\$ 75,400,010	\$ 29,054,262	\$ 32,413,353	\$ 168,282,598
Receivables (net, where applicable, of allowance for doubtful accounts):						
Ad valorem taxes	(7,684)	(8,557)	-	-	-	(16,241)
Sales taxes	3,351,560	-	-	-	-	3,351,560
Franchise fees	3,256,488	-	-	77,280	-	3,333,768
Accrued interest	196,116	(16,931)	179,821	159,276	68,136	586,418
Other	516,093	-	-	1,088,049	-	1,604,142
Due from other funds	2,664,871	-	-	-	-	2,664,871
Due from other governments	30,074	-	372,643	80,457	444,003	927,177
Prepaid items	615,544	-	-	-	68,825	684,369
Land held for redevelopment	-	-	-	3,864,948	-	3,864,948
Total assets	\$ 37,140,239	\$ 4,872,308	\$ 75,952,474	\$ 34,324,272	\$ 32,994,317	\$ 185,283,610
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 6,628,884	\$ -	\$ 1,838,570	\$ 348,779	\$ 850,609	\$ 9,666,842
Due to other funds	-	-	-	-	(7,601)	(7,601)
Unearned revenue	10,587	-	456,935	-	189,072	656,594
Total liabilities	6,639,471	-	2,295,505	348,779	1,032,080	10,315,835
Fund balances:						
Nonspendable for:						
Other receivables	-	-	-	-	-	-
Prepaid items	615,544	-	-	-	-	615,544
Restricted for:						
Debt service	-	4,872,308	-	-	-	4,872,308
Streets and drainage	-	-	21,348,943	-	-	21,348,943
Public facilities	-	-	-	731,229	-	731,229
Other capital projects	-	-	-	-	675,940	675,940
Other purposes	-	-	-	1,012,080	1,769,891	2,781,971
Committed to:						
Street rehabilitation	-	-	27,700,435	-	-	27,700,435
Other capital projects	-	-	-	-	12,230,707	12,230,707
Assigned to:						
Streets and drainage	-	-	24,607,591	-	-	24,607,591
Public facilities	-	-	-	32,232,184	-	32,232,184
Other capital projects	-	-	-	-	16,592,403	16,592,403
Other purposes	368,299	-	-	-	693,296	1,061,595
Unassigned	29,516,925	-	-	-	-	29,516,925
Total fund balances	30,500,768	4,872,308	73,656,969	33,975,493	31,962,237	174,967,775
Total liabilities and fund balances	\$ 37,140,239	\$ 4,872,308	\$ 75,952,474	\$ 34,324,272	\$ 32,994,317	\$ 185,283,610

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position
September 30, 2018

Total fund balance - total governmental funds \$ 174,967,775

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

Equity investment in Joint Venture is not a current financial resource and therefore is not reported in the governmental funds balance sheet. 1,722,759

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. 438,711,249

Deferred outflows of resources are not reported in the governmental funds:

Deferred charges on refundings	1,471,018	
Pension contributions after measurement date	5,001,875	
Difference in projected and actual earnings on pension assets	-	
Changes in actuarial assumptions used to determine pension liability	977,618	
OPEB Contributions after measurement date	602,857	
OPEB Assumption Change	559,345	8,612,713

Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position (net of amount allocated to business-type activities, capital assets and long term liabilities). Internal Service Fund balances not included in other reconciling items:

Current assets	\$ 16,765,947	
Accounts payable	(1,475,028)	
Net amount allocated to business-type activities	238,082	15,529,001

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. (892,994)

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	\$ 19,434,067	
Due in more than one year	218,343,651	(237,777,718)

Deferred inflows of resources are not reported in the governmental funds:

Difference in projected and actual earnings on pension assets	-	
	(9,683,877)	
Difference in expected and actual pension experience	(407,826)	(10,091,703)

Net position of governmental activities \$ 390,781,082

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, 2018

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Ad valorem	\$ 44,907,701	\$ 22,534,357	\$ 4,242,310	\$ -	\$ 5,171,375	\$ 76,855,743
Penalty and interest	306,651	70,855	-	-	-	377,506
Sales	39,811,034	-	-	-	-	39,811,034
Occupancy	-	-	-	-	237,466	237,466
Franchise fees	12,205,080	-	-	321,443	-	12,526,523
Assessments	-	-	-	-	193,024	193,024
Charges for services	5,716,495	-	-	-	211,766	5,928,261
Intergovernmental	270,572	-	2,017,370	157,772	495,770	2,941,484
Licenses and permits	3,580,421	-	-	-	261,930	3,842,351
Fines and forfeitures	4,778,759	-	-	110,750	384,205	5,273,714
Investment earnings net of change in fair value of investments	936,731	(26,620)	584,536	298,644	253,448	2,046,739
Miscellaneous	583,707	-	174,500	75,682	116,784	950,673
Total revenues	113,097,151	22,578,592	7,018,716	964,291	7,325,768	150,984,518
Expenditures:						
Current:						
General government and administration	15,594,492	-	-	-	-	15,594,492
Public safety	58,379,196	-	-	-	753,449	59,132,645
Development services	11,075,739	-	-	-	-	11,075,739
Cultural and recreational	12,552,134	-	-	-	515,710	13,067,844
Capital outlay	-	-	18,457,770	6,465,569	4,750,437	29,673,776
Debt service:						
Principal retirement	-	15,435,000	-	-	-	15,435,000
Interest and fiscal charges	-	7,225,382	-	-	-	7,225,382
Total expenditures	97,601,561	22,660,382	18,457,770	6,465,569	6,019,596	151,204,878
Excess (deficiency) of revenues over expenditures	15,495,590	(81,790)	(11,439,054)	(5,501,278)	1,306,172	(220,360)
Other financing sources (uses):						
Bonds issued	-	-	19,680,000	-	-	19,680,000
Premium on bonds issued	-	134,902	1,633,869	-	-	1,768,771
Sale of capital assets	-	-	-	4,248	-	4,248
Transfers in	5,568,335	-	1,324,353	10,506,563	1,336,401	18,735,652
Transfers out	(11,323,317)	-	(519,647)	-	-	(11,842,964)
Total other financing sources (uses)	(5,754,982)	134,902	22,118,575	10,510,811	1,336,401	28,345,707
Net change in fund balances	9,740,608	53,112	10,679,521	5,009,533	2,642,573	28,125,347
Fund balances at beginning of year	20,760,160	4,819,196	62,977,448	28,965,960	29,319,664	146,842,428
Fund balances at end of year	<u>\$ 30,500,768</u>	<u>\$ 4,872,308</u>	<u>\$ 73,656,969</u>	<u>\$ 33,975,493</u>	<u>\$ 31,962,237</u>	<u>\$ 174,967,775</u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2018

Net change in fund balances - total governmental funds \$ 28,125,347

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

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, 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. 25,868,846

The net effect of various transactions involving capital assets.

Capital contributions	\$ (17,170)	
Asset retirements/disposals	<u>(650,277)</u>	(667,447)

Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (19,275,425)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	\$ (19,680,000)	
Premium on bonds issued	(1,768,771)	
Payment to refunding bond escrow agent	-	
Bond principal retirement	15,435,000	
Accrued interest on Bonds Payable	(31,645)	
Amortization of bond premiums/discounts	1,151,449	
Amortization of deferred charges on refundings	<u>(219,952)</u>	(5,113,919)

Expenditures are recognized in the governmental funds when paid or due for items not normally paid with available financial resources. However, the Statement of Activities is presented on a accrual basis and expenses are reported when incurred. This amount is the net effect of these differences.

Compensated absences expenses	(193,023)	
Pollution remediation obligation costs	-	
Pension costs & OPEB, net	(729,021)	(922,044)

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

Change in net position	\$ (221,630)	
Net of amount allocated to business activities	(29,848)	
Depreciation expense	<u>1,929,736</u>	<u>1,678,258</u>

Change in net position of governmental activities \$ 29,693,615

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, 2018

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes:						
Ad valorem	\$ 44,325,891	\$ 41,540,063	\$ 44,907,701	\$ -	\$ 44,907,701	\$ 3,367,638
Penalty and interest	250,000	300,000	306,651	-	306,651	6,651
Sales	37,863,121	40,255,885	39,811,034	-	39,811,034	(444,851)
Franchise fees	11,348,510	11,970,047	12,205,080	-	12,205,080	235,033
Charges for services	5,643,015	5,749,390	5,716,495	-	5,716,495	(32,895)
Intergovernmental	-	-	270,572	-	270,572	270,572
Licenses and permits	2,517,079	3,085,007	3,580,421	-	3,580,421	495,414
Fines and forfeitures	5,213,144	4,617,118	4,778,759	-	4,778,759	161,641
Investment earnings	-	-	-	-	-	-
net of change in fair value of investments	455,350	636,900	936,731	159,743	1,096,474	459,574
Miscellaneous	760,205	638,879	583,707	-	583,707	(55,172)
Total revenues	108,376,315	108,793,289	113,097,151	159,743	113,256,894	4,463,605
Expenditures:						
Current:						
General government and administration	19,149,807	16,640,358	15,594,492	(7,712)	15,586,780	1,053,578
Public safety	57,113,209	59,088,998	58,379,196	100,867	58,480,063	608,935
Development services	11,632,345	10,873,163	11,075,739	37,594	11,113,333	(240,170)
Cultural and recreational	12,619,079	12,685,158	12,552,134	(11,985)	12,540,149	145,009
Total expenditures	100,514,440	99,287,677	97,601,561	118,764	97,720,325	1,567,352
Excess (deficiency) of revenues over expenditures	7,861,875	9,505,612	15,495,590	40,979	15,536,569	6,030,957
Other financing sources (uses):						
Sale of capital assets	-	-	-	-	-	-
Transfers in	5,425,980	6,027,202	5,568,335	2,915,000	8,483,335	2,456,133
Transfers out	(11,668,422)	(14,908,440)	(11,323,317)	(2,915,000)	(14,238,317)	670,123
Total other financing sources (uses)	(6,242,442)	(8,881,238)	(5,754,982)	-	(5,754,982)	3,126,256
Net change in fund balances	1,619,433	624,374	9,740,608	40,979	9,781,587	9,157,213
Fund balances at beginning of year	20,565,586	20,565,586	20,760,160	(194,574)	20,565,586	-
Fund balances at end of year	\$ 22,185,019	\$ 21,189,960	\$ 30,500,768	\$ (153,595)	\$ 30,347,173	\$ 9,157,213

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Position
 Proprietary Funds
 September 30, 2018

	Business Type Activities - Enterprise Funds				Governmental
	Water and Sewer	Golf Course	Sanitation	Total	Activities- Internal Service Funds
Assets					
Current Assets:					
Cash and cash equivalents	\$ 23,515,826	\$ 636,655	\$ 368,236	\$ 24,520,717	\$ 16,196,052
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	4,974,220	-	1,167,568	6,141,788	-
Accrued interest	65,612	-	4,967	70,579	38,389
Other	-	116,691	-	116,691	372,620
Due from other governments	-	141,887	-	141,887	-
Inventories	-	-	-	-	33,519
Prepaid items	-	-	-	-	125,367
Restricted assets:					
Cash and cash equivalents	3,430,142	-	-	3,430,142	-
Total current assets	<u>31,985,800</u>	<u>895,233</u>	<u>1,540,771</u>	<u>34,421,804</u>	<u>16,765,947</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	1,237,640	-	-	1,237,640	-
Capital assets:					
Land	1,382,918	995,000	-	2,377,918	-
Buildings	18,038,700	1,609,627	-	19,648,327	176,409
Equipment	5,404,102	1,329,450	1,460,303	8,193,855	22,605,516
Intangibles	868,612	-	-	868,612	104,714
Improvements	-	12,013,626	-	12,013,626	-
Infrastructure	245,809,216	-	-	245,809,216	-
Construction in progress	122,412	-	-	122,412	-
Accumulated depreciation	<u>(154,489,548)</u>	<u>(13,668,772)</u>	<u>(1,455,184)</u>	<u>(169,613,504)</u>	<u>(14,555,197)</u>
Total capital assets, net of accumulated depreciation	<u>117,136,412</u>	<u>2,278,931</u>	<u>5,119</u>	<u>119,420,462</u>	<u>8,331,442</u>
Total noncurrent assets	<u>118,374,052</u>	<u>2,278,931</u>	<u>5,119</u>	<u>120,658,102</u>	<u>8,331,442</u>
Total assets	<u>150,359,852</u>	<u>3,174,164</u>	<u>1,545,890</u>	<u>155,079,906</u>	<u>25,097,389</u>
Deferred outflows of resources					
Deferred charges on refundings	107,041	-	-	107,041	-
Pension contributions after measurement date	275,280	-	-	275,280	-
Difference in projected and actual earnings on pension assets	-	-	-	-	-
Changes in actuarial assumptions used to determine pension liability	43,181	-	-	43,181	-
Total deferred outflows of resources	<u>425,502</u>	<u>-</u>	<u>-</u>	<u>425,502</u>	<u>-</u>
Liabilities					
Current liabilities:					
Accounts payable	2,101,396	92,552	1,032,287	3,226,235	1,475,028
Estimated health claims payable	-	-	-	-	1,440,000
Interfund Payable	2,672,472	-	-	2,672,472	-
Customer deposits payable	2,876,413	-	-	2,876,413	-
Revenue bonds payable	1,223,934	-	-	1,223,934	-
Compensated absences	64,538	-	-	64,538	-
Unearned revenue	-	-	-	-	-
Accrued interest	84,979	-	-	84,979	-
Total current liabilities	<u>9,023,732</u>	<u>92,552</u>	<u>1,032,287</u>	<u>10,148,571</u>	<u>2,915,028</u>
Noncurrent liabilities:					
Revenue bonds payable	4,854,536	-	-	4,854,536	-
Net pension liability/(asset)	(143,647)	-	-	(143,647)	-
Compensated absences	580,147	-	-	580,147	42,947
Other post employment benefits obligation	-	-	-	-	-
Long-term risk liability	-	-	-	-	1,232,724
Total noncurrent liabilities	<u>5,291,036</u>	<u>-</u>	<u>-</u>	<u>5,291,036</u>	<u>1,275,671</u>
Total liabilities	<u>14,314,768</u>	<u>92,552</u>	<u>1,032,287</u>	<u>15,439,607</u>	<u>4,190,699</u>
Deferred inflow of resources					
Difference in projected and actual earnings on pension assets	685,105	-	-	685,105	-
Difference in expected and actual pension experience	19,936	-	-	19,936	-
	<u>705,041</u>	<u>-</u>	<u>-</u>	<u>705,041</u>	<u>-</u>
Net Position					
Net investment in capital assets	112,289,982	2,278,931	5,119	114,574,032	8,331,442
Restricted for:					
Revenue bond retirement	1,237,640	-	-	1,237,640	-
Unrestricted	<u>22,237,923</u>	<u>802,681</u>	<u>508,484</u>	<u>23,549,088</u>	<u>12,575,248</u>
Total net position	<u>\$ 135,765,545</u>	<u>\$ 3,081,612</u>	<u>\$ 513,603</u>	<u>\$ 139,360,760</u>	<u>\$ 20,906,690</u>
Reconciliation to government-wide statement of net position:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(238,082)	
Net position of business-type activities				<u>\$ 139,122,678</u>	

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended September 30, 2018

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	\$ 45,005,225	\$ 617,176	\$ 10,361,672	\$ 55,984,073	\$ 19,206,282
Miscellaneous	224,795	-	-	224,795	-
Total operating revenues	<u>45,230,020</u>	<u>617,176</u>	<u>10,361,672</u>	<u>56,208,868</u>	<u>19,206,282</u>
Operating expenses:					
Personal services	4,206,038	-	-	4,206,038	186,591
Supplies and services	29,517,689	58,694	7,977,785	37,554,168	17,229,426
Utilities	890,563	177,794	-	1,068,357	35,787
Allocations	810,228	10,915	112,356	933,499	29,726
Depreciation	7,628,552	207,762	8,568	7,844,882	1,929,736
Total operating expenses	<u>43,053,070</u>	<u>455,165</u>	<u>8,098,709</u>	<u>51,606,944</u>	<u>19,411,266</u>
Income (loss) from operations	<u>2,176,950</u>	<u>162,011</u>	<u>2,262,963</u>	<u>4,601,924</u>	<u>(204,984)</u>
Nonoperating revenues (expenses):					
Investment earnings net of change in fair value of investments	246,514	(4,202)	20,478	262,790	137,764
Gain on sale/retirement of capital assets	4,232	-	-	4,232	198,974
Interest expense	(236,632)	-	-	(236,632)	-
Total nonoperating revenues (expenses)	<u>14,114</u>	<u>(4,202)</u>	<u>20,478</u>	<u>30,390</u>	<u>336,738</u>
Income before contributions and transfers	2,191,064	157,809	2,283,441	4,632,314	131,754
Capital contributions	3,266,699	-	-	3,266,699	-
Transfers in	-	-	-	-	-
Transfers out	(3,970,635)	(355,519)	(2,213,150)	(6,539,304)	(353,384)
Change in net position	1,487,128	(197,710)	70,291	1,359,709	(221,630)
Net position at beginning of year	-	-	-	-	19,095,747
Prior period adjustment for GASB 75*	-	-	-	-	2,032,573
Net position at beginning of year, restated	<u>134,278,417</u>	<u>3,279,322</u>	<u>443,312</u>	<u>138,001,051</u>	<u>21,128,320</u>
Net position at end of year	<u>\$ 135,765,545</u>	<u>\$ 3,081,612</u>	<u>\$ 513,603</u>	<u>\$ 139,360,760</u>	<u>\$ 20,906,690</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				29,848	
Change in net position of business-type activities				<u>\$ 1,389,557</u>	

See accompanying notes to basic financial statements.

*See footnote 13 for further information about prior period adjustment and restatement of net position

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2018

	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	\$ 44,592,794	\$ 1,025,315	\$ 10,256,428	\$ 55,874,537	\$ -
Cash received from employees for services	-	-	-	-	1,807,390
Cash received from other funds for services	-	-	-	-	17,440,839
Cash received from loss claim recoveries	-	-	-	-	1,486,416
Other operating cash receipts	224,795	-	-	224,795	-
Cash payments to suppliers for goods and services	(30,392,851)	(239,388)	(7,901,591)	(38,533,830)	(5,008,374)
Cash payments to employees for services	(3,495,314)	-	-	(3,495,314)	(162,827)
Cash payment for loss claims	-	-	-	-	(13,973,657)
Cash payments to other funds for services	(1,441,499)	(10,955)	(77,842)	(1,530,296)	(43,424)
Net cash provided by operating activities	<u>9,487,925</u>	<u>774,972</u>	<u>2,276,995</u>	<u>12,539,892</u>	<u>1,546,363</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	(3,970,635)	(355,519)	(2,213,150)	(6,539,304)	(353,384)
Net cash used by noncapital and related financing activities	<u>(3,970,635)</u>	<u>(355,519)</u>	<u>(2,213,150)</u>	<u>(6,539,304)</u>	<u>(353,384)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(1,992,781)	(130,537)	-	(2,123,318)	(1,452,478)
Proceeds from sale of capital assets	4,232	-	-	4,232	293,137
Proceeds from intrafund loan	2,915,000	-	-	2,915,000	-
Interest paid on bonds	(393,567)	-	-	(393,567)	-
Interest paid on intrafund loan	(31,584)	-	-	(31,584)	-
Retirement of bonds	(5,990,000)	-	-	(5,990,000)	-
Retirement of intrafund loan	(242,528)	-	-	(242,528)	-
Capital contributions	1,257,630	-	-	1,257,630	-
Net cash used by capital and related financing activities	<u>(4,473,598)</u>	<u>(130,537)</u>	<u>-</u>	<u>(4,604,135)</u>	<u>(1,159,341)</u>
Cash flows from investing activities:					
Interest on cash and cash equivalents	242,687	(4,202)	19,829	258,314	136,424
Net increase in cash and cash equivalents	1,286,379	284,714	83,674	1,654,767	170,062
Cash and cash equivalents, October 1	26,897,229	351,941	284,562	27,533,732	16,025,990
Cash and cash equivalents, September 30	<u>\$ 28,183,608</u>	<u>\$ 636,655</u>	<u>\$ 368,236</u>	<u>\$ 29,188,499</u>	<u>\$ 16,196,052</u>

(Continued)

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2018

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	\$ 2,176,950	\$ 162,011	\$ 2,262,963	\$ 4,601,924	\$ (204,984)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:					
Depreciation	7,628,552	207,762	8,568	7,844,882	1,929,736
Provision for doubtful accounts	102,478	-	35,514	137,992	-
Change in assets and liabilities:					
Increase in accounts receivable	(534,982)	-	(106,244)	(641,226)	(383,563)
Decrease in other receivables	-	(5,490)	-	(5,490)	52,891
Decrease in due from other governments	-	413,630	-	413,630	-
(Increase) decrease in inventories	-	-	-	-	30,705
Decrease in prepaid items	-	-	-	-	(13,000)
Decrease in pension related deferred outflows	718,673	-	-	718,673	-
Increase (decrease) in accounts payable	(9,451)	(2,941)	76,194	63,802	304,063
Increase in estimated health claims payable	-	-	-	-	140,000
Increase in customer deposits payable	122,551	-	-	122,551	-
Decrease in net pension liability	(1,416,087)	-	-	(1,416,087)	-
Increase (decrease) in liability for compensated absences	62,759	-	-	62,759	5,482
Decrease in long-term risk liability	-	-	-	-	(314,967)
Increase in other post employment benefits obligation	-	-	-	-	-
Decrease in pension related deferred inflows	636,482	-	-	636,482	-
Net cash provided by operating activities	<u>\$ 9,487,925</u>	<u>\$ 774,972</u>	<u>\$ 2,276,995</u>	<u>\$ 12,539,892</u>	<u>\$ 1,546,363</u>

Noncash investing, capital and financing activities:

During the past year, the Enterprise Funds received \$2,009,069 of noncash capital contributions from developers consisting of water and sewer infrastructure.

Reconciliation of total cash and cash equivalents:

Current assets:					
Cash and cash equivalents	\$ 23,515,826	\$ 636,655	\$ 368,236	\$ 24,520,717	\$ 16,196,052
Restricted assets - cash and cash equivalents	3,430,142	-	-	3,430,142	-
Noncurrent assets:					
Restricted assets - cash and cash equivalents	1,237,640	-	-	1,237,640	-
Total cash and cash equivalents	<u>\$ 28,183,608</u>	<u>\$ 636,655</u>	<u>\$ 368,236</u>	<u>\$ 29,188,499</u>	<u>\$ 16,196,052</u>

(Concluded)

See accompanying notes to basic financial statements.



CARROLLTON
T E X A S

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

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

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

B. Financial Reporting Entity

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

C. Basis of Presentation

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

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Fund Financial Statements:

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

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

General Fund-

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

Debt Service Fund-

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

Streets and Drainage Fund-

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

General and Public Facilities Fund-

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

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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) and all deferred inflows and outflows of resources are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

F. Cash, Cash Equivalents and Investments

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

Investments in government pools are in government agencies and are recorded at amortized cost. All other investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

G. Interfund Receivables and Payables

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

H. Inventories

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

I. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year. The purchasing method is used to account for prepaids.

J. Equity Interest in Joint Venture and Shared Radio System

During Fiscal Year 2014, the Town of Addison, City of Carrollton, City of Coppell and City of Farmers Branch (the “Cities”) formed a joint venture, the North Texas Emergency Communications Center, Inc. (NTECC), to establish and operate a joint public safety dispatch center. The Cities are responsible for funding capital and operating costs of NTECC. The City of Carrollton’s equity interest in NTECC of \$1,722,759 as of September 30, 2018 is recorded as Equity Interest in Joint Venture in the Governmental Activities on the Government-wide Statement of Net Position. Audited financial statements for NTECC can be obtained from the Finance Department at 1945 E. Jackson Rd, Carrollton, TX 75006, by calling 972-466-3110 or by email at controller@cityofcarrollton.com.

Additionally, the Cities have also entered into an interlocal agreement to jointly procure a public safety radio system. While this agreement did not include the formation of a separate legal joint venture entity, it is possible that this system may be consolidated into NTECC in the future. The Cities are each responsible for funding a portion of the radio system. The City of Carrollton’s portion of the system costs as of September 30, 2018 of \$3,861,925 is capitalized as equipment in the Governmental Activities on the Government-wide Statement of Net Position.

K. Land Held for Redevelopment

Land held for resale in the General and Public Facilities Capital Project Fund is held for redevelopment and is valued at the estimated realizable value or historical acquisition cost, whichever is less.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

L. Restricted Assets

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

The following table summarizes the restricted cash and investments:

Governmental activities:	
Debt Service Fund	\$ 4,872,308
Bond construction account	23,787,724
Other Capital Project Funds	1,160,457
Special Revenue Funds	1,769,891
	<u>31,590,380</u>
 Business-type activities	
Revenue bond accrued interest payable	84,979
Current maturities of revenue bonds	468,750
Reserve for revenue bond retirement	1,237,640
Customer deposits	2,876,413
	<u>4,667,782</u>
 Total Restricted cash and investments	 <u>\$ 36,258,162</u>

M. Capital Assets

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

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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 – 40 Years

N. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Codification Section P20 – Pension Activities.

O. 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 will be paid any accumulated vacation leave.
- 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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 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.

P. Nature and Purpose of Classifications of Fund Equity

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

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

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

Q. 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. At September 30, 2018, the Hotel Motel Fund had a deficit fund balance of \$592.

R. Net Position

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

S. Transactions Between Funds

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

The City allocates to the Proprietary funds a predetermined allocated amount for administrative services for those funds that were paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2018, the City allocated \$3,003,443 as a transfer for such services.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These difference are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

(2) BUDGET BASIS OF ACCOUNTING:

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

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	\$ 9,781,587
Beginning of year adjustment for encumbrances recognized as expenditures	(249,535)
End of year adjustment for encumbrances not recognized as expenditures	368,299
Unrealized investment gain/(loss) recognized for GAAP basis only	(159,743)
Interfund loan transactions treated as transfers for budget basis	2,915,000
Extinguishment of interfund loan balance recognized for GAAP basis only	<u>(2,915,000)</u>
Net change in fund balances - GAAP basis	<u>\$ 9,740,608</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(3) DEPOSITS AND INVESTMENTS:

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. All deposits of the City that exceeded the federal depository insurance coverage level of \$250,000 per account were covered by collateral held by the Federal Reserve Bank in the City's name under a joint safekeeping agreement with Frost Bank. The market value of the collateral held at the Federal Reserve Bank in the City's name at fiscal year-end was \$25,822,507.

At September 30, 2018, the carrying amount of the City's deposits was a credit of \$1,289,257, and the respective bank balances totaled \$924,017. The City's cash on hand totaled \$36,000.

Investments - State statutes, City investment policy, City bond ordinances and City resolutions authorize the City's investments. The City is authorized to invest in the following: U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities, including the Federal Home Loan Bank; 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; bonds issued, assumed or guaranteed by the State of Israel; 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 with a dollar-weighted average stated maturity of 90 days or less and with an investment objective of a stable net asset value of \$1 for each share. For additional information see the City of Carrollton Investment Policy at www.cityofcarrollton.com.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2018

The City's investments balances as of September 30, 2018, were:

Investments:	Fair Value	Weighted Average Maturity (Years)	Credit Risk
Coupon Agencies	\$ 163,616,101	0.88	AAA
Treasury Notes	8,890,246	0.04	AAA
Government Pools	42,489,646	0.02	AAAm
Total Fair Value	\$214,995,993		
Portfolio Weighted Average Maturity		0.94	

Following the criteria for GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TexPool uses amortized cost and LOGIC uses the fair value method to value portfolio assets. As is legally permissible for municipalities and school districts in the state, TexPool invests in a high-quality portfolio of debt securities and LOGIC invests in a high-quality portfolio of short-term investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2018, the City has the recurring fair value measurements for coupon and discount agencies and treasury notes of \$174,227,620 valued using quoted prices for similar assets in active markets. (Level 2 inputs).

Additionally, the City has investments in government pools at September 30, 2018 totaling \$42,489,646, which are recorded at amortized cost.

Interest Rate Risk – In compliance with the City’s Investment Policy, as of September 30, 2018, the City minimized the interest rate risk in the portfolio, related to current market events, by: limiting the weighted average maturity to a maximum of four years; 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

Concentration of Credit Risk – In compliance with the City’s Investment Policy, as of September 30, 2018, the City minimized concentration of credit risk, by: limiting investments in a specific local governmental pools to no more than 40 percent of the investment portfolio; staggering maturities and potential call dates; and limiting investments to no more than 5% of the investment portfolio in commercial paper and bankers’ acceptances of a single issuer. As of September 30, 2018, 5% or more of the City’s total investment are in: Federal Farm Credit Bank securities (25.08%), Federal Home Loan Bank securities (20.88%), Federal Home Loan Mortgage Corporation securities (15.17%), Local Government Investment Cooperative Pool (10.56%), Federal National Mortgage Association securities (10.35%), and Texas Local Government Investment Pool (9.20%).

(4) CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 102,541,908	\$ -	\$ -	\$ 102,541,908
Construction in progress	610,347	2,794,913	(320,421)	3,084,838
Total capital assets not being depreciated	103,152,255	2,794,913	(320,421)	105,626,746
Capital assets being depreciated:				
Buildings	85,038,055	533,350	-	85,571,405
Equipment	46,059,186	4,236,898	(4,183,504)	46,112,582
Intangibles	6,535,190	-	-	6,535,190
Improvements	49,456,634	880,193	-	50,336,826
Infrastructure	316,034,320	25,403,236	(1,925,749)	339,511,808
Total capital assets being depreciated	503,123,385	31,053,677	(6,109,252)	528,067,810
Less accumulated depreciation for:				
Buildings	(41,641,456)	(3,234,194)	-	(44,875,650)
Equipment	(24,624,685)	(4,246,810)	2,893,020	(25,978,475)
Intangibles	(6,123,572)	(142,537)	-	(6,266,109)
Improvements	(20,460,546)	(1,771,967)	-	(22,232,513)
Infrastructure	(87,676,393)	(9,879,917)	1,925,749	(95,630,561)
Total accumulated depreciation	(180,526,652)	(19,275,425)	4,818,769	(194,983,308)
Total capital assets being depreciated, net	322,596,733	11,778,252	(1,290,483)	333,084,502
Governmental activities capital assets, net	\$ 425,748,988	\$ 14,573,165	\$ (1,610,904)	\$ 438,711,249

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

	Balance October 1	Additions/ Completions	Retirements/ Adjustments	Balance September 30
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,377,918	\$ -	\$ -	\$ 2,377,918
Construction in progress	117,497	4,915	-	122,412
Total capital assets not being depreciated	<u>2,495,415</u>	<u>4,915</u>	<u>-</u>	<u>2,500,330</u>
Capital assets being depreciated:				
Buildings	19,648,327	-	-	19,648,327
Equipment	7,792,858	419,330	(18,424)	8,193,855
Intangibles	868,612	-	-	868,612
Improvements	11,900,768	112,858	-	12,013,626
Infrastructure	241,715,945	4,093,271	-	245,809,216
Total capital assets being depreciated	<u>281,926,510</u>	<u>4,625,459</u>	<u>(18,424)</u>	<u>286,533,636</u>
Less accumulated depreciation for:				
Buildings	(16,665,668)	(280,201)		(16,945,870)
Equipment	(4,818,168)	(544,130)	18,424	(5,343,874)
Intangibles	(776,969)	(12,869)		(789,838)
Improvements	(11,161,384)	(83,709)	-	(11,245,093)
Infrastructure	(128,364,766)	(6,924,063)	-	(135,288,829)
Total accumulated depreciation	<u>(161,786,955)</u>	<u>(7,844,972)</u>	<u>18,424</u>	<u>(169,613,504)</u>
Total capital assets being depreciated, net	<u>120,139,555</u>	<u>(3,219,512)</u>	<u>-</u>	<u>116,920,133</u>
Business-type activities capital assets, net	<u>\$ 122,634,970</u>	<u>\$ (3,214,597)</u>	<u>\$ -</u>	<u>\$ 119,420,462</u>

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

Depreciation Expense -	
Governmental activities:	
General government and administration	\$ 872,111
Public safety	4,583,135
Development services	10,438,105
Cultural and recreational	3,382,074
Total depreciation expense - Governmental activities	<u>\$ 19,275,425</u>
Business-type activities:	
Water and sewer	7,628,552
Golf course	207,762
Sanitation	8,658
Total depreciation expense - Business-type activities	<u>\$ 7,844,972</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(5) LONG-TERM DEBT AND LIABILITIES:

General Obligation Bonds –

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

At September 30, 2018, general obligation bonds currently outstanding are as follows:

	Interest Rate %	Issue Date	Maturity Date	Outstanding
Improvement and Refunding, Series 2009	2 - 5	04/15/2009	08/15/2029	\$ 17,020,000
Improvement and Refunding, Series 2010	2.25 - 4.125	04/15/2010	08/15/2030	15,900,000
Improvement, Series 2011	3 - 4.25	04/15/2011	08/15/2030	10,345,000
Refunding, Series 2012	2 - 4	05/01/2012	08/15/2025	9,860,000
Improvement, Series 2013	2 - 4.5	07/15/2013	08/15/2033	7,645,000
Improvement, Series 2014	3 - 4	04/15/2014	08/15/2034	17,405,000
Improvement and Refunding, Series 2015	2 - 5	05/01/2015	08/15/2035	32,330,000
Improvement and Refunding, Series 2016	3 - 5	05/15/2016	08/15/2031	26,275,000
Improvement, Series 2017	2 - 5	04/01/2017	08/15/2032	18,215,000
Improvement, Series 2018	3 - 5	05/01/2018	08/15/2025	19,280,000
				<u>\$ 174,275,000</u>

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

Year Ending September 30	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 15,675,000	\$ 7,143,955	\$ 22,818,955
2020	14,820,000	6,468,955	21,288,955
2021	14,025,000	5,887,555	19,912,555
2022	13,190,000	5,296,630	18,486,630
2023	12,820,000	4,723,580	17,543,580
2024-2028	60,730,000	15,354,210	76,084,210
2029-2033	39,265,000	4,474,125	43,739,125
2034-2036	3,750,000	213,038	3,963,038
Total	<u>\$ 174,275,000</u>	<u>\$ 49,562,048</u>	<u>\$ 223,837,048</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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. For fiscal year 2018, net revenue available for debt service was 4.9 times the average annual debt service requirement. 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, 2018.

At September 30, 2018, revenue bonds currently outstanding are as follows:

	<u>Interest Rate %</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding</u>
Waterworks and Sewer System Revenue Refunding, Series 2012	2 - 4	05/01/2012	05/01/2023	5,625,000
				<u>\$ 5,625,000</u>

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

<u>Year Ending September 30</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,125,000	\$ 203,950	\$ 1,328,950
2020	1,175,000	158,950	1,333,950
2021	1,220,000	111,950	1,331,950
2022	1,265,000	63,150	1,328,150
2023	840,000	25,200	865,200
2024	-	-	-
Total	<u>\$ 5,625,000</u>	<u>\$ 563,200</u>	<u>\$ 6,188,200</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

On December 27, 2017 the City redeemed all remaining outstanding Water and Sewer System Revenue Improvement Bonds, Series 2005 and 2007. To complete this redemption while maintaining appropriate fund balances, the City made an Interfund Loan from the General Fund to the Water and Sewer fund. The Water and Sewer Fund began repayments, including principal and interest, to the General Fund in 2018. This is shown as an Interfund Note Payable.

Bonds Authorized and Unissued –

At September 30, 2018, the City had \$106,680,000 in general obligation bonds which were authorized and unissued.

Net Pension Liability –

The net pension liability represents the actuarially-determined liability for employees' for projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the pension plan's fiduciary net position.

Compensated Absences –

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

Health Claims Liability –

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

Long-term Risk Liability –

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

The Total OPEB Liability/(TOL) – The TOL represents an actuarially determined present value liability for retiree health benefits earned to date for active and retiree members of the closed defined benefit retiree health plan.

Note Payable in Governmental Funds – Represents the amount owed for the Castle Hills Public Improvement District (PID) to the developer that will be paid by PID collections from property owners within the PIDs. Amount owed is contingent upon collection from property owners.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

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 \$19,680,000 of General Obligation Improvement Bonds, Series 2018

Transactions for the year ended September 30, 2018 are summarized as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
<u>Governmental type activities</u>					
Bonds payable:					
General obligation					
bonds	\$ 170,030,000	\$ 19,680,000	\$ (15,435,000)	\$ 174,275,000	\$ 15,675,000
Premiums	14,707,459	1,768,771	(1,151,449)	15,324,781	1,222,044
Total bonds payable	184,737,459	21,448,771	(16,586,449)	189,599,781	16,897,044
Net pension liability	29,557,899	-	(24,759,278)	4,798,621	-
Compensated absences	15,144,727	1,331,618	(1,133,113)	15,343,232	1,097,023
Health claims liability	1,300,000	10,490,616	(10,350,616)	1,440,000	1,440,000
Other post employment					
benefits liability	2,032,573	19,167,307	(2,032,573)	19,167,307	-
Notes Payable	-	6,370,434	(174,382)	6,196,052	-
Long-term risk liability	1,547,691	687,879	(1,002,846)	1,232,724	-
Total governmental activities	<u>\$ 234,320,349</u>	<u>\$ 59,496,625</u>	<u>\$ (56,039,257)</u>	<u>\$ 237,777,718</u>	<u>\$ 19,434,067</u>
<u>Business type activities</u>					
Bonds payable:					
Revenue bonds	\$ 11,615,000	\$ -	\$ (5,990,000)	\$ 5,625,000	\$ 1,125,000
Premiums	554,237	-	(100,767)	453,470	98,934
Total bonds payable	12,169,237	-	(6,090,767)	6,078,470	1,223,934
Net pension liability (asset)	1,272,440	-	(1,416,087)	(143,647)	-
Interfund Notes Payable	-	2,915,000	(242,528)	2,672,472	2,672,472
Compensated absences	581,926	167,904	(105,145)	644,685	64,538
Total business-type activities	<u>14,023,603</u>	<u>3,082,904</u>	<u>(7,854,527)</u>	<u>9,251,980</u>	<u>3,960,944</u>
Total government	<u>\$ 248,343,952</u>	<u>\$ 62,579,529</u>	<u>\$ (63,893,784)</u>	<u>\$ 247,029,697</u>	<u>\$ 23,395,011</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(6) PROPERTY AND SALES TAXES:

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

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The City usually waits until after May 1 and July 1 to file suits on business personal property and real property, respectively. As of July 1, 20% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2018, were 99.39% of the tax levy.

Property taxes at the fund level are recorded as receivables 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.

The City Charter does not provide for a debt limit; therefore, no computation can be made. However, at September 30, 2018, the City had a tax margin of approximately \$1.90 for every \$100 valuation based upon a maximum ad valorem tax of \$2.50 for every \$100 valuation imposed by Texas Constitutional law.

In Texas, 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 City tax rates on property within its boundaries. However, if the effective tax rate, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the maintenance and operating tax rate to no more than 8% above the effective tax rate of the previous year.

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

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

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

(7) DEFINED BENEFIT PENSION PLAN:

Plan Description:

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided:

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and 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, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Beginning in 1993, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount that 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).

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.

Employees covered by benefit terms –

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	606
Inactive employees entitled to but not yet receiving benefits	630
Active employees	<u>800</u>
	<u>2,036</u>

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Carrollton were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2018, the City made contributions of 12.94% for the months in calendar year 2017 and for the months in calendar year 2018, which provided for an additional

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

voluntary contribution of .5 percentage points over the required contribution of 12.44% for the months in 2017 and .56 percentage points over the actuarially required contribution of 12.38% for the months in 2018.

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.9% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns,

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates for real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

Discount Rate –

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Changes in the Net Pension Liability –

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2016	\$396,236,792	\$365,406,453	\$30,830,339
Changes for the year:			
Service cost	8,406,143	-	8,406,143
Interest	26,477,155	-	26,477,155
Difference between expected and actual experience	192,522	-	192,522
Contributions – employer	-	7,063,344	(7,063,344)
Contributions – employee	-	3,820,974	(3,820,974)
Net investment income	-	50,642,626	(50,642,626)
Benefit payments, including refunds of employee contributions	(16,371,432)	(16,371,432)	-
Administrative expense	-	(262,459)	262,459
Other changes	-	(13,301)	13,301
Net changes	<u>18,704,388</u>	<u>44,879,753</u>	<u>(26,175,365)</u>
Balance at 12/31/2017	<u>\$414,941,180</u>	<u>\$410,286,206</u>	<u>\$4,654,974</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Sensitivity of the net pension liability to changes in the discount rate –

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
City’s net pension liability	\$62,109,220	\$4,654,974	(\$42,579,966)

Pension Plan Fiduciary Net Position –

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2018, the City recognized pension expense of \$7,438,483. This amount is included as part of Personal Services expenses within the functional program activities.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

At September 30, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions		
after measurement date	\$ 5,277,155	\$ -
Difference in projected and actual earnings on pension assets	-	10,368,982
Differences in expected and actual pension experience	-	427,762
Changes in actuarial assumptions used to determine pension liability	<u>1,020,799</u>	<u>-</u>
Total	<u>\$ 6,297,954</u>	<u>\$ 10,796,744</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$5,277,155 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2018 (i.e. recognized in the city’s financial statements September 30, 2019). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year ended	
<u>Dec 31</u>	
2019	1,117,331
2020	(534,923)
2021	(5,162,814)
2022	<u>(5,195,539)</u>
Total	<u>\$ (9,775,945)</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(8) INTERFUND TRANSFERS:

Interfund transfers during the year ended September 30, 2018, were as follows:

	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Golf Course</u>	<u>Non-Major Govern-mental</u>	
<u>Transfers Out</u>						
General Fund	\$ -	\$ -	\$ 10,506,563	\$ -	\$ 816,754	\$ 11,323,317
Streets and Drainage	-	-	-	-	519,647	519,647
General and Public Facilities	-	-	-	-	-	-
Internal Service	353,384	-	-	-	-	353,384
Water and Sewer	3,970,635	-	-	-	-	3,970,635
Golf Course	355,519	-	-	-	-	355,519
Sanitation	888,797	1,324,353	-	-	-	2,213,150
Total	<u>\$ 5,568,335</u>	<u>\$ 1,324,353</u>	<u>\$ 10,506,563</u>	<u>\$ -</u>	<u>\$ 1,336,401</u>	<u>\$ 18,735,652</u>

Transfers are primarily used to move funds from:

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

(9) WATER PURCHASE AND WASTEWATER TREATMENT CONTRACTS:

The City has a contract with Dallas Water Utilities (DWU) to purchase substantially all of the City’s potable water. Under the contract, the City pays DWU a rate based on a fixed demand charge plus water usage. The rates charged are subject to minimum annual contract payments. Water expense for the years ended September 30, 2017 and 2018 were \$13,946,900, and \$14,888,312, respectively.

The City has a contract with Trinity River Authority (TRA) whereby the TRA 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 TRA’s Central Regional Wastewater System (CRWS). The City's annual expense for the years ended September 30, 2017 and 2018 were \$9,705,964 and

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

\$12,222,326, respectively. To provide the above mentioned services TRA CRWS issues revenue bonds repayable solely from revenues generated from the member city contracts with TRA CRWS. As such, the City is an obligated party on all outstanding TRA CRWS debt.

(10) SELF-INSURANCE:

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

<u>Policy</u>	<u>Retention</u>	<u>Limits on Liability</u>
General Liability, Law Enforcement Liability, Errors and Omissions	\$50,000 per occurrence	\$2,000,000 per occurrence and \$4,000,000 policy aggregate
Workers' Compensation	\$100,000 per occurrence	Statutory
Property Loss	\$25,000 per occurrence	\$193,233,681
Automobile Liability	\$50,000 per occurrence	\$1,000,000 per occurrence
Automobile Physical Damage	\$10,000 per occurrence	Actual cash value or agreed value as scheduled

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2018, the loss reserve was estimated at \$1,232,734.

Changes in this reserve amount in fiscal years 2017 and 2018 were as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current-year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2016-2017	\$1,585,644	\$ 842,321	\$ 880,274	\$1,547,691
2017-2018	\$1,547,691	\$ 687,879	\$ 1,002,846	\$1,232,724

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,

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

excess insurance of up to \$1,014,673 has been obtained for an individual employee’s health care claims exceeding \$225,000 and for health claims in the aggregate exceeding \$7,006,659.

Revenues are recognized from payroll deductions and City contributions. At September 30, 2018, a liability of \$1,440,000 has been recorded, which represents estimated claims incurred but not yet reported.

Changes in this claims liability during fiscal years 2017 and 2018 were as follows:

	Balance at Beginning of <u>Fiscal Year</u>	Current-year Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at End of <u>Fiscal Year</u>
2016-2017	\$ 1,038,000	\$9,499,206	\$9,237,206	\$1,300,000
2017-2018	\$ 1,300,000	\$10,490,616	\$10,350,616	\$1,440,000

There have been no significant reductions in insurance coverage during the fiscal year 2018.

(11) TAX ABATEMENTS:

The City enters into economic development agreements designed to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program rebates property and hotel occupancy taxes and is authorized under Chapter 380 of the Texas Local Government Code.

The City has entered into various agreements that rebate a percentage of property and/or hotel occupancy taxes. Agreements for rebate of property taxes call for rebates of 30% to 90% of taxes on incremental values for up to 10 years. The agreement for hotel occupancy taxes provides for a step down in rebates starting at 100% for 15 years, 75% for the next three years and 50% for the remaining two years. For fiscal year 2018, the City rebated property taxes of \$2,028,443 or 2.6 % of the \$79,069,383 total levy and hotel occupancy taxes of \$302,064 or 56% of the \$539,530 total occupancy tax revenues.

(12) COMMITMENTS AND CONTINGENT LIABILITIES:

Encumbrances – As discussed in note 1 E, Budgetary Control, for budgetary purposes includes the impact of encumbrances. Encumbrances are commitments related to unperformed contracts for goods or services (i.e. purchase orders). At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year in the General Fund were \$368,299.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2018

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

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

Construction Commitments – The City has active construction projects as of September 30, 2018. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	\$ 77,316,853
Traffic	2,685,896
Parks and Recreation	15,435,097
General Facilities	44,298,102
Community Development	20,928,474
Tax Increment Reinvestment Zone	1,304,083
Water and Sewer	10,906,445
Golf Course	810,113
Total	<u>\$173,685,064</u>

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

Leases – The City is committed under a lease agreement for golf carts. This lease is considered for accounting purposes to be an operating lease in the Golf Course Fund. Lease expenses for the fiscal year ended September 30, 2018 amounted to \$114,771. The City is pursuing renegotiating the golf cart lease in the 2019 fiscal year. However, at this time future minimum lease payments are as follows:

Year ending	
<u>September 30</u>	
2019	114,771
2020	<u>66,951</u>
	<u>\$181,722</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Development –

Union at Carrollton – In 2009 and amended in 2011, 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 included a commitment to fund the construction of a public infrastructure. Additionally, related ground and parking garage lease agreements provide for TCC's, and its future assignees, use of land underlying the development and a portion of the parking garage for up to 100 years. Each lease agreement provides for a nominal upfront payment per 24 year lease term. All commitments related to this agreement were completed in fiscal year 2014.

In 2014, the City and TCC entered into a new agreement related to Phase III of the Union at Carrollton Square. This agreement provided for a \$3,000,000 termination fee payment from TCC to the City for the termination of the City's right under the 2011 agreement to 50% of the profit when the original property is sold. Additionally, this agreement required the City to acquire real property for Phase III and pay TCC a fee of \$500,000 for their efforts in assembling the real property. The agreement also called for the future negotiation of a Phase III development agreement. In 2016, the City and TCC entered into a disposition and development agreement related to Phase III. This agreement was amended in 2017. Under this amended agreement, the City agreed to deliver a development-ready pad site to TCC and provide a \$2,223,000 reimbursement for infrastructure improvements. In return, TCC purchased the property from the City in September 2017 for a \$1,012,080 promissory note accruing interest at 10% per year. Principal and accrued interest on this note is due and payable September 7, 2027 and prepayments may be made without penalty. The promissory note is recorded as an other receivable.

Arcadia Development – In 2014, the City completed the sale of real property to Arcadia Realty Corporation (Arcadia). The purchase and sale agreement required a Development Agreement for the Cemetery Hill Road Extension and the Furneaux Creek North-South Tributary Rehabilitation project. This agreement required the City to provide \$1,000,000 in escrow for Arcadia to pay for the costs for certain drainage improvements, parkway improvements, hike and bike trail improvements and road extensions. In December 2017, this agreement was amended to reduce the escrow amount to \$885,000. As of September 30, 2018, \$810,884 of these funds has been expended and the remaining \$75,944, including \$1,853 interest, held in escrow is recorded as cash and cash equivalents.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

(13) OTHER POSTEMPLOYMENT BENEFITS:

Program Description:

In addition to the pension benefits described in Note 7, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (Texas Municipal Retirement System, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare program 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.

All employees who as of January 1, 2009 had 20 years or more of service or were 60 years or more of age with five years or more of service are eligible upon retirement 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. As of December 31, 2017, there were 25 Active and 29 Retirees and Dependents for a total of 59 participants in the 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 requires participants to pay 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 Codification Section Po 50, 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 for the year. Retiree contribution rates for fiscal year 2018 were \$7,837 to \$24,439 per year depending on coverage levels selected. In fiscal year 2018, total member contributions were \$380,906. The City contributions to the plan for fiscal year 2018, which are also equal to claims paid in excess of premiums collected, were \$1,458,892.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Effect of New Authoritative Guidance

GASB Statement No. 75: Accounting and Financial Reporting for Post-employment Benefits Other than Pensions replaces previous authoritative literature. For plans that do not have formal trusts, GASB Statement No. 75 requires state and local government employers to recognize the total OPEB liability (TOL) and the related OPEB expense on their financial statements along with the related deferred outflows and inflows of resources. In addition to the deferred outflows/inflows associated with plan experience and assumption changes, the standard requires the benefits payments and administrative costs incurred subsequent to the measurement date and before the end of the employer's reporting period to be reported as a deferred outflows of resources. The required actuarial evaluation complying with the requirements of the standard was performed as of December 31, 2017 with a measurement date of December 31, 2017.

Funded Status and Funding Progress:

As of December 31, 2017, the most recent actuarial valuation date, the total OPEB liability (TOL) for benefits was \$19,167,307, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2018 was \$2,658,886, and the ratio of the total OPEB Liability to the covered payroll was 721%.

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.

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.

For the December 31, 2017 actuarial valuation, the Individual Entry Age cost method was used. The actuarial assumptions include a 3.31% investment rate of return (compounded annually net after investment expenses) and an annual healthcare cost trend rate of 7.39% initially, reduced by decrements to an ultimate rate of 4.25% after 15 years. Both rates include a 2.5% inflation assumption. The valuation included the gender-distinct RP 2000 Combined Healthy Mortality Tables with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

In the year of implementation of GASB Statement No. 75, a restatement to beginning net position was required for the recording of the beginning net OPEB liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net OPEB liability and the beginning of the reporting entities fiscal year. Beginning net position as of October 1, 2017 has been restated as follows for the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.

Beginning net position	\$514,330,438
Prior Period adjustment – implementation of GASB No. 75:	
Net OPEB liability (measurement date as of December 31, 2016)	(16,363,262)
Deferred Outflows – Contributions made during FY 2017	<u>853,412</u>
Beginning net position, as restated	<u>\$498,820,588</u>

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 total OPEB liability.

Service Cost	\$23,938
Interest on Total OPEB liability	681,288
Changes of Assumptions	1,118,690
Benefit Payments	1,052,441
Net Change in Total OPEB Liability	771,475
OPEB liability as of FY 2017	2,032,573
Net Prior Period Adjustment for GASB 75	16,363,258
Total OPEB liability – beginning	18,395,832
Total OPEB liability – ending	\$19,167,307

Sensitivity of the net OPEB liability to changes in the discount rate –

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
City’s total OPEB liability	\$21,763,518	\$19,167,307	\$17,031,628

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2018

Sensitivity of the net OPEB liability to changes in the healthcare trend rate –

The following presents the sensitivity of the total OPEB liability of the City to changes in the healthcare cost trend rates, the following presents the plan’s total OPEB liability, calculated using the assumed trend rates as well as what the plan’s total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	<u>1% Decrease in Trend Rate</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase in Trend Rate</u>
City’s total OPEB liability	\$17,544,798	\$19,167,307	\$20,973,686

At September 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources that are amortized over a two year period:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions after measurement date	\$ 602,857	\$ -
Changes in actuarial assumptions used to determine total OPEB liability	559,345	-
Total	<u>\$ 1,162,202</u>	<u>\$ -</u>

(14) FUTURE FINANCIAL REPORTING REQUIREMENTS:

The City has reviewed GASB pronouncements which become effective in future years and notes the following statements are applicable to the City.

Statement No. 84, *Fiduciary Activities* – This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will become effective for the City in fiscal year 2020.

Statement No. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the City in fiscal year 2021.

CITY OF CARROLLTON, TEXAS
Required Supplementary Information
Texas Municipal Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios
Last Four Fiscal Years
(Unaudited)

	Measurement Year <u>2014</u>	Measurement Year <u>2015</u>	Measurement Year <u>2016</u>	Measurement Year <u>2017</u>
Total pension liability:				
Service cost	\$ 6,592,786	\$ 7,652,932	\$ 8,018,638	\$ 8,406,143
Interest	23,690,265	24,739,518	25,320,101	26,477,155
Difference between expected and actual experience	(2,087,560)	(964,785)	(726,584)	192,522
Change in assumptions	-	4,666,507	-	-
Benefit payments, including refunds of employee contributions	<u>(13,257,578)</u>	<u>(14,214,900)</u>	<u>(14,957,304)</u>	<u>(16,371,432)</u>
Net change in total pension liability	14,937,913	21,879,272	17,654,851	18,704,388
Total pension liability - beginning	<u>341,764,756</u>	<u>356,702,669</u>	<u>378,581,941</u>	<u>396,236,792</u>
Total pension liability - ending (a)	<u>356,702,669</u>	<u>378,581,941</u>	<u>396,236,792</u>	<u>414,941,180</u>
Plan fiduciary net position:				
Contributions - employer	6,822,121	7,332,309	7,258,922	7,063,344
Contributions - employee	3,423,287	3,679,294	3,642,470	3,820,974
Net investment income	19,077,452	515,477	23,404,549	50,642,626
Benefit payments, including refunds of employee contributions	(13,257,578)	(14,214,900)	(14,957,304)	(16,371,432)
Administrative expense	(199,188)	(313,987)	(264,342)	(262,459)
Other	<u>(16,377)</u>	<u>(15,507)</u>	<u>(14,242)</u>	<u>(13,301)</u>
Net change in plan fiduciary net position	15,849,717	(3,017,314)	19,070,053	44,879,752
Plan fiduciary net position - beginning	<u>333,503,997</u>	<u>349,353,714</u>	<u>346,336,400</u>	<u>365,406,453</u>
Plan fiduciary net position - ending (b)	<u>349,353,714</u>	<u>346,336,400</u>	<u>365,406,453</u>	<u>410,286,205</u>
Net pension liability - ending (a) - (b)	<u>\$ 7,348,955</u>	<u>\$ 32,245,541</u>	<u>\$ 30,830,339</u>	<u>\$ 4,654,975</u>
Plan fiduciary net position as a percentage of total pension liability	97.94%	91.48%	92.22%	98.88%
Covered employee payroll	\$ 48,904,096	\$ 52,561,347	\$ 52,035,292	\$ 54,585,343
Net pension liability as a percentage of covered employee payroll	15.03%	61.35%	59.25%	8.53%

Note: This schedule is intended to present information for ten years. However, previous years' information is not available.

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

Fiscal Year	(1) Actuarially determined contribution	(2) Contribution in relation to the actuarially determined contribution	(3) Contribution excess (deficiency) (2) - (1)	(4) Covered payroll	(5) Actuarially determined contributions as a percentage of covered payroll (1)/(4)	(6) Contributions as a percentage of covered employee payroll (2)/(4)
2009	7,555,564	7,510,874	(44,690)	46,118,071	16.38%	16.29%
2010	7,797,214	8,055,207	257,993	45,868,006	17.00%	17.56%
2011	7,807,248	7,960,494	153,246	46,358,980	16.84%	17.17%
2012	6,544,714	6,530,161	(14,553)	44,732,281	14.63%	14.60%
2013	6,444,731	6,547,839	103,108	46,392,021	13.89%	14.11%
2014	6,480,879	6,755,754	274,875	48,428,341	13.38%	13.95%
2015	6,329,810	6,982,334	652,524	50,052,500	12.65%	13.95%
2016	6,108,431	7,256,852	1,148,421	52,020,446	11.74%	13.95%
2017	6,527,064	7,072,321	545,257	53,555,327	12.19%	13.21%
2018	6,563,597	7,233,075	669,478	54,585,343	12.02%	13.25%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rate for 2018:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

CITY OF CARROLLTON, TEXAS

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Contributions

Last Ten Fiscal Years

(Unaudited)

Significant assumption differences for fiscal years prior to 2018:

Actuarial Cost Method Projected Unit Credit for fiscal years prior to 2014.

Inflation 3% for fiscal years prior to 2016.

Investment Rate of Return 7% for fiscal years prior to 2016.

Mortality Prior to fiscal year 2014, Gender Distinct RP2000 Combined Healthy
Mortality Table projected to the year 2003 by scale AA

CITY OF CARROLLTON, TEXAS

Schedule of Required Supplementary Information

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

(Unaudited)

	Measurement Year 2017
Total OPEB liability	
Service cost	\$ 23,938
Interest	681,288
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of Assumptions	1,118,690
Benefit Payments	<u>(1,052,441)</u>
Net change in total OPEB liability	771,475
Total OPEB liability - beginning	<u>18,395,832</u>
Total OPEB liability - ending (a)	<u>19,167,307</u>
Covered employee payroll	\$ 2,658,886
Total OPEB liability as a percentage of covered employee payroll	720.88%

Notes to Schedule

Change of Assumptions Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

2016	3.81%
2017	3.31%

Until a full 10-year trend is completed, we will present information for those years for which information is available.

APPENDIX C
FORM OF BOND COUNSEL'S OPINION

[Closing Date]

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IN REGARD to the authorization and issuance of the “City of Carrollton, Texas, Waterworks and Sewer System Revenue Bonds, Series 2019,” dated May 1, 2019, in the principal amount of \$9,045,000 (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 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 dates, 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 relating to the issuance of the Bonds, including the Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications 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 (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

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

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City and, together with the outstanding and unpaid “Previously Issued Bonds” (identified and defined in the Ordinance), are payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City’s waterworks and sewer system, except to the extent that the enforceability thereof may be affected by bankruptcy,

insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

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 financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.