

OFFICIAL STATEMENT

Dated May 13, 2016

Ratings:

Moody's: "Aa1"

S&P: "AAA"

(See "OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "Tax Matters - Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



**\$23,560,000**  
**TOWN OF ADDISON, TEXAS**  
(Dallas County)  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

**Dated Date: May 1, 2016**

Interest to accrue from Delivery Date

**Due: February 15, as shown below**

**PAYMENT TERMS** . . . Interest on the \$23,560,000 Town of Addison, Texas, General Obligation Refunding Bonds, Series 2016 (the "Bonds") will accrue from the Delivery Date (as defined below), will be payable August 15 and February 15 of each year, commencing August 15, 2016, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and a bond ordinance passed by the City Council of the Town of Addison, Texas (the "Town") on March 8, 2016 (the "Bond Ordinance"), in which the City Council delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" which contained the final terms of sale and completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds are direct obligations of the Town of Addison, Texas (the "Town"), payable from a continuing ad valorem tax levied on all taxable property within the Town, within the limits prescribed by law, as provided in the Ordinance (see "THE BONDS - Authority for Issuance" and "Security and Source of Payment").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used to refund a portion of the Town's outstanding debt (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein and SCHEDULE I attached hereto for a detailed description of the Refunded Obligations and their call date.

**MATURITY SCHEDULE**

**CUSIP Prefix<sup>(1)</sup>: 006644**

Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 1,250,000	2019	3.000%	0.860%	G69	\$ 1,775,000	2027	5.000%	1.910% <sup>(2)</sup>	H68
1,305,000	2020	4.000%	0.970%	G77	1,865,000	2028	5.000%	2.000% <sup>(2)</sup>	H76
1,360,000	2021	4.000%	1.090%	G85	1,485,000	2029	5.000%	2.080% <sup>(2)</sup>	H84
1,430,000	2022	4.000%	1.220%	G93	1,565,000	2030	5.000%	2.140% <sup>(2)</sup>	H92
1,495,000	2023	4.000%	1.360%	H27	1,645,000	2031	5.000%	2.200% <sup>(2)</sup>	J25
1,550,000	2024	4.000%	1.480%	H35	1,715,000	2032	5.000%	2.260% <sup>(2)</sup>	J33
1,615,000	2025	4.000%	1.630%	H43	1,810,000	2033	5.000%	2.320% <sup>(2)</sup>	J41
1,695,000	2026	5.000%	1.780%	H50					

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Town, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first available call date of February 15, 2026.

**OPTIONAL REDEMPTION** . . . The Town reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, Bond Counsel, (see "APPENDIX C - Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on June 9, 2016 (the "Delivery Date").

*This Official Statement, which includes the cover page, Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.*

*The information set forth herein has been obtained from the Town and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*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 respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.*

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Town's undertaking to provide certain information on a continuing basis.*

*NEITHER THE TOWN, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.*

*IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES 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.*

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

*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 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 STATEMENT.*

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The cover page hereof, this page, the schedule, the appendices included herein and any addenda, supplement, or amendment hereto, are part of the Official Statement.

## OFFICIAL STATEMENT SUMMARY

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

<b>THE TOWN</b> .....	The Town is a political subdivision and home-rule municipal corporation of the State, located in Dallas County, Texas. The Town covers approximately 4.4 square miles (see "INTRODUCTION - Description of the Town").
<b>THE BONDS</b> .....	The \$23,560,000 General Obligation Refunding Bonds, Series 2016 (the "Bonds") are scheduled to mature on February 15 in the years 2019 through 2033 (see "THE BONDS - Description of the Bonds").
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the Delivery Date and is payable August 15, 2016, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of The Bonds "and "THE BONDS - Redemption").
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and a Bond Ordinance passed by the City Council of the Town in which the City Council delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" which contained the final terms of sale and completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance") (see "THE BONDS - Authority for Issuance").
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the Town, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the Town (see "THE BONDS - Security and Source of Payment").
<b>REDEMPTION</b> .....	The Town reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, under existing law interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds". See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used to refund a portion of the Town's outstanding debt for debt service savings and to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein and SCHEDULE I attached hereto for a detailed description of the Refunded Obligations and their call dates.
<b>RATINGS</b> .....	The Bonds and presently outstanding tax supported debt of the Town are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION - Ratings").
<b>BOOK-ENTRY-ONLY SYSTEM</b> .....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC 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 within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
<b>PAYMENT RECORD</b> .....	The Town has never defaulted on the payment of its tax-supported indebtedness.

# **SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated Town Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Net Funded Tax Debt Outstanding <sup>(3)</sup>	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections to Tax Levy
2012	13,680 <sup>(1)</sup>	\$ 3,028,042,568	\$ 221,348	\$ 73,739,314	\$ 5,390	2.44%	99.00%
2013	13,840 <sup>(1)</sup>	3,134,894,878	226,510	77,428,154	5,595	2.47%	98.90%
2014	15,180 <sup>(1)</sup>	3,490,007,698	229,908	84,967,000	5,597	2.43%	96.20%
2015	15,530 <sup>(1)</sup>	3,805,580,841	245,047	80,133,849	5,160	2.11%	96.30%
2016	15,530 <sup>(2)</sup>	4,036,723,767	259,931	72,717,479 <sup>(4)</sup>	4,682	1.80%	97.01% <sup>(5)</sup>

(1) Source: North Central Texas Council of Governments ("NCTCOG")

(2) Source: Estimated by Town officials.

(3) The above statement of indebtedness does not include currently outstanding convention center revenue bonds payable from a hotel occupancy tax and revenues of the convention center, as provided in the ordinance authorizing such bonds and outstanding general obligation debt for which repayment is provided from revenues of the waterworks and sewer system, the drainage fund and the airport fund ("self-supporting debt"). See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 10 – Computation of Self-Supporting Debt" herein.

(4) Projected; includes a portion of the Bonds, excludes the Refunded Obligations.

(5) Collections through March 1, 2016.

For additional information regarding the Town, please contact:

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Scott Neils	Nick Bulaich
Town of Addison	or FirstSouthwest, a Division of Hilltop Securities Inc.
P.O. Box 9010	777 Main Street, Suite 1200
Addison, Texas 75001	Fort Worth, Texas 76102
(972) 450-7001	(817) 332-9710

## TOWN OFFICIALS, STAFF, AND CONSULTANTS

### ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Todd Meier Mayor	5 Years	May, 2017	Business Person/Attorney
Al Angell Councilmember	Newly Elected	May, 2018	Retired
Jim Duffy Councilmember	Newly Elected	May, 2018	Retired Construction Executive
Bruce Arfsten Councilmember	5 Years	May, 2017	Residential Real Estate
Paul Walden Councilmember	Newly Elected	May, 2018	Commercial Insurance Underwriter
Ivan Hughes Councilmember	1 Year	May, 2017	Human Resources
Dale Wilcox Councilmember	1 Year	May, 2017	Civic Leader

### SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Wesley Pierson	City Manager	1/2 Year
Cheryl Delaney	Deputy City Manager	1 1/2 Years
Scott Neils	Interim Finance Director	1/2 Year

### CONSULTANTS AND ADVISORS

Auditors .....	Weaver L.L.P. Dallas, Texas
Bond Counsel .....	Bracewell LLP Dallas, Texas
Financial Advisor.....	FirstSouthwest a Division of Hilltop Securities Inc. Fort Worth, Texas

**OFFICIAL STATEMENT**  
**RELATING TO**  
**\$23,560,000**  
**TOWN OF ADDISON, TEXAS**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$23,560,000 Town of Addison, Texas, General Obligation Refunding Bonds, Series 2016 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance adopted by the City Council authorizing the issuance of the Bonds except as otherwise indicated herein. In the Bond Ordinance, as permitted by the provisions of Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), the City Council delegated the authority to a designated officer (the "Pricing Officer") of the Town to establish the terms and details of the Bonds and to effect the sale of the Bonds through the Pricing Officers' execution of a "Pricing Certificate" (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Town and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Town's Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), Fort Worth, Texas.

All financial and other information presented in this Official Statement has been provided by the Town from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION – Forward-Looking Statements Disclaimer").

**DESCRIPTION OF THE TOWN . . .** The Town is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the Town's Home Rule Charter. The Town's Home Rule Charter originally adopted in 1978, was last amended in 2010. The Town operates under the Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office for Councilmembers is two years with the terms of the Mayor and three of the Councilmembers expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the Town. Some of the services that the Town provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the Town was 13,056, and the estimated 2016 population is 15,530. The Town covers approximately 4.4 square miles and is located within the Dallas, Texas, Standard Metropolitan Statistical Area (SMSA).

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to refund a portion of the Town's outstanding debt (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See SCHEDULE I for a detailed listing of the Refunded Obligations and their call date.

**REFUNDED OBLIGATIONS . . .** The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the redemption date thereof, from funds to be deposited pursuant to an Escrow Agreement (the "Escrow Agreement") between the Town and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriters, together with other available funds of the Town, if any, the Town will deposit with the Escrow Agent an amount which, together with the Federal Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Federal Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase obligations authorized by Chapter 1207, Texas Government Code, as amended (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Town will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the Town payable from taxes or other revenues nor for the purpose of applying any limitation on the issuance of debt.

**SOURCES AND USES OF PROCEEDS** . . . The proceeds from the sale of the Bonds, together with other Town funds, if any are necessary, will be applied as follows:

Sources:

Principal Amount	\$ 23,560,000.00
Original Issue Premium	4,903,153.60
Transfers from Prior Issue Debt Service Funds	404,392.50
Total Sources of Funds	<u>\$ 28,867,546.10</u>

Uses:

Deposit to Escrow Fund	\$ 28,570,490.66
Costs of Issuance <sup>(1)</sup>	297,055.44
Total Uses of Funds	<u>\$ 28,867,546.10</u>

(1) Including Underwriters' Discount.

## THE BONDS

**DESCRIPTION OF THE BONDS** . . . The Bonds are dated May 1, 2016, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of their initial delivery to the Underwriters, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing August 15, 2016, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

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

**SECURITY AND SOURCE OF PAYMENT** . . . The principal of and interest on the Bonds is payable from a direct and continuing annual ad valorem tax levied by the Town, within the limits prescribed by law, upon all taxable property in the Town.

**TAX RATE LIMITATION** . . . All taxable property within the Town is subject to the assessment, levy and collection by the Town of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, including the Bonds, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the Town, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all Town purposes. The Home Rule Charter of the Town adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Assessed Valuation for all Town purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for debt service on all tax supported debt, based on a 90% collection rate and as calculated at the time of issuance.

**OPTIONAL REDEMPTION** . . . The Town reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the Town may select the maturities of Bonds to be redeemed. If less than all the Bonds of any 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. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

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

The Town reserves the right, in the case of an optional redemption, 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 Town retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the Town delivers a certificate of the Town 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 obligations subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the Town 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.

*Limitation on Transfer of Bonds Called for Redemption.* Neither the Town 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.

**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 The Depository Trust Company ("DTC"), New York, New York, 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 Town believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The Town cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC 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 and series 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as



well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or the Paying Agent/Registrar, on the 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 Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or 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 one or both series of the Bonds at any time by giving reasonable notice to the Town or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, obligation certificates are required to be printed and delivered.

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

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

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

**Effect of Termination of Book-Entry-Only System . . .** In the event that the Book-Entry-Only System of the Bonds is discontinued, printed certificates will be issued to the DTC Participants or the registered owner of the Bonds, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the Town retains the right to replace the Paying Agent/Registrar. The Town covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, financial institution or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the Town agrees to promptly cause a written notice thereof to be sent to each registered

owner of the Bonds affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, Bond certificates will be printed and delivered to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of such Bond Certificates and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective 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 mail, first class, postage prepaid, to the new registered owner or his designee. 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 registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the Town nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see " THE BONDS - 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. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or 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 payment date. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System".

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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 (a "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 Town. 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 registration 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.

**REMEDIES . . .** The Ordinance provides for specific events of default. If the Town defaults in the payment of the principal of or interest on any Bond when due, or the Town defaults in the observance or performance of any of the covenants, conditions, or obligations of the Town, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the Town, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Town to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the Town to observe any covenant under the Bonds. Although a registered owner of Bonds could presumably obtain a judgment against the Town if a default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the Town. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Town, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." Because it is not clear that the Texas Legislature has effectively waived the Town's immunity from suit of money damages, registered owners of the Bonds may not be able to bring suit against the Town for breach of the Ordinance or the Bonds. As noted above, the Ordinance provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the Town under the Ordinance. Neither the remedy of

mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the Town, permits the Town to waive sovereign immunity in the proceedings authorizing its obligations, but in connection with the issuance of the obligations, the Town has not waived sovereign immunity in the proceedings authorizing the Bonds.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the Town to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the Town 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 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 Bond owners of an entity which has sought protection under Chapter 9. Therefore, should the Town avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions 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.

**DEFEASANCE . . .** The Ordinance provides that the Town may discharge its Bonds to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (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 of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date the governing body of the Town adopts or approves the proceedings authorizing the issuance of refunding bonds to refund the obligations, that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current state law, after such deposit as described above, the Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the Town 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 Town: (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.

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 may 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 Texas law.

**AMENDMENTS . . .** The Town may amend the Ordinance without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Town may, with the consent of the registered owners of a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding Bonds, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount, the redemption price, or the rate of interest, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by registered owners of such Bonds for consent to any such amendment, addition, or rescission of the Ordinance.

## TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the Town is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value the preceding year plus (b) the property's appraised value in the preceding year plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The Town may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the Town by petition filed with the appropriate Appraisal Review Board.

Reference is made to Title I of the Texas Tax Code (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Senate Joint Resolution 1 ("SJRI"), passed during the 84th Texas Legislature, authorized a constitutional amendment to allow the Legislature to prohibit a municipality that adopts an optional homestead exemption from reducing or repealing the amount of the exemption. SJRI was approved by the voters in the November 2015 Constitutional election, and Senate Bill 1, also passed during the 84th Texas Legislature, prohibits municipalities from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse.

If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization. The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. House Joint Resolution 75 ("HJR75"), passed during the 84th Texas legislature, proposed a constitutional amendment that allows the Legislature to provide for an exemption from ad valorem taxation of all or part of the market value of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran and who would have had qualified for the full exemption before the law authorizing a residence homestead exemption took effect. The proposition authorized by HJR75 was approved by voters in the November 2015 constitutional election. As such, the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation of all or part of the market value of the residence homestead if the spouse has not remarried.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Sections 1-d and 1-d-1.

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

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

Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is stored under a contract bailment by a public warehouse operator at one or more public warehouse facilities that are not in any way owned or controlled by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The Town may create one or more tax increment financing districts ("TIF") within the Town, and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the Town against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF.

The Town also may enter into tax abatement agreements to encourage economic development. Under tax abatement agreement, a property owner typically agrees to construct certain improvements on its property. The Town in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

The Town also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs or promote state or local economic development and to stimulate business and commercial activity in the Town. In accordance with a program established pursuant to Chapter 380, the Town may make loans or grants of public funds for economic development purposes, however, no bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the Town. Any agreement into which the Town has entered pursuant to Chapter 380 is hereinafter referred to as a "Chapter 380 Agreement".

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** The City Council of the Town is required to adopt the annual tax rate for the Town before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the Town, and a failure to adopt a tax rate by such required date will result in the tax rate for the Town for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the Town for the preceding tax year. Furthermore, the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the Town's website if the Town owns, operates or controls an internet website and public notice be given by television if the Town has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the Town must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the Town by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the Town is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of August 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on August 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on August 1 of each year and the final installment due on February 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the Town's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**TOWN APPLICATION OF TAX CODE . . .** The Town grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000. The disabled are also granted an exemption of \$60,000.

To those who apply, the Town grants an additional exemption of 20% of the market value of residence homesteads with a minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the Town against the exempt value of residence homesteads for the payment of debt.

The Town does not tax nonbusiness personal property or aircraft.

The Town contracts with the Dallas County Tax Assessor to collect its taxes.

The Town does not permit split payments, and discounts are not allowed.

The Town does tax freeport property.

The Town does tax goods-in-transit.

The Town does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The Town has not adopted a tax abatement policy and does not have any tax abatement agreements in place.

The Town has not adopted the freeze for elderly and disabled homeowners.

The Town has not created any TIFs and does not participate in any TIFs created by other governmental entities.

The Town does have Chapter 380 Agreements in place and anticipates expending approximately \$155,500 under those agreements during Fiscal Year 2016.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2015/16 Market Valuation Established by Dallas Central Appraisal District <sup>(1)</sup>		\$ 4,465,123,510
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 109,184,682	
Disabled Veterans Exemptions	535,900	
Agricultural Land Use Reductions	664,672	
Over 65	30,450,000	
Disabled Person	930,000	
Government/Airport Exemptions	282,978,460	
Parcels Under \$500	34,790	
Mineral Rights	200	
Capped Value Loss	3,614,028	
Pollution Control	<u>7,011</u>	<u>428,399,743</u>
2015/16 Taxable Assessed Valuation		<u><u>\$ 4,036,723,767</u></u>
Town Funded Debt Payable from Ad Valorem Taxes (as of 3-1-16)		
General Obligation Bonds	\$ 41,830,000	
Certificates of Obligation	32,640,000 <sup>(2)</sup>	
The Bonds	<u>23,560,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 98,030,000
Less Self-Supporting Debt: <sup>(3)</sup>		
Hotel Fund General Obligation Debt	\$ 1,380,000	
Airport Fund General Obligation Debt	4,060,000	
Drainage Fund General Obligation Debt	6,505,000	
Water and Sewer System General Obligation Debt	<u>13,367,521 <sup>(4)</sup></u>	<u>25,312,521</u>
Net Funded Debt Payable from Ad Valorem Taxes		<u><u>\$ 72,717,479</u></u>
Interest and Sinking Fund as of 3-1-16		\$ 20,440,490
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		2.43%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		1.80%

2016 Estimated Population - 15,530  
Per Capita Taxable Assessed Valuation - \$259,931  
Per Capita Total Funded Debt \$6,312  
Per Capita Net Funded Debt - \$4,682

(1) As reported on the Town's 2015 Certified Tax Roll.

(2) Excludes the Refunded Obligations.

(3) General obligation debt in the amount shown for which repayment is provided from other revenues as identified herein. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the Town's current policy to provide these payments from the respective fund revenues. This policy is subject to change in the future. To the extent such policy is changed and such self-supporting debt is not paid from the identified revenues, such debt will be paid from ad valorem taxes.

(4) Includes a portion of the Bonds.



**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 667,942,120	14.96%	\$ 634,246,000	15.01%	\$ 600,276,420	15.42%
Real, Residential Multi-Family	747,414,440	16.74%	695,486,060	16.46%	556,026,390	14.29%
Real, Vacant Lots/Tracts	122,348,550	2.74%	121,316,420	2.87%	118,705,520	3.05%
Real, Farm and Ranch Improvements	664,900	0.01%	664,900	0.02%	664,900	0.02%
Real, Commercial and Industrial	2,200,500,130	49.28%	2,083,772,220	49.32%	1,991,599,140	51.18%
Minerals, Oil and Gas	200	0.00%	200	0.00%	200	0.00%
Real, Railroad	2,801,750	0.06%	2,573,660	0.06%	2,320,550	0.06%
Real and Tangible Personal, Utilities	23,382,600	0.52%	22,820,220	0.54%	20,853,580	0.54%
Tangible Personal, Aircraft	104,203,700	2.33%	103,784,950	2.46%	80,824,620	2.08%
Tangible Personal, Commercial	507,884,130	11.37%	477,115,210	11.29%	447,510,330	11.50%
Tangible Personal, Industrial	75,068,250	1.68%	71,184,340	1.68%	63,521,120	1.63%
Tangible Personal, Other	12,912,740	0.29%	11,701,970	0.28%	9,351,990	0.24%
Total Appraised Value Before Exemptions	\$ 4,465,123,510	100.00%	\$ 4,224,666,150	100.00%	\$ 3,891,654,760	100.00%
Less: Total Exemptions/Reductions	(428,399,743)		(419,085,309)		(401,647,062)	
Taxable Assessed Value	<u>\$ 4,036,723,767</u>		<u>\$ 3,805,580,841</u>		<u>\$ 3,490,007,698</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2013		2012	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 593,764,970	16.80%	\$ 587,685,260	17.03%
Real, Residential Multi-Family	410,654,340	11.62%	387,558,770	11.23%
Real, Vacant Lots/Tracts	125,917,640	3.56%	139,255,040	4.04%
Real, Farm and Ranch Improvements	664,900	0.02%	-	0.00%
Real, Commercial and Industrial	1,821,453,070	51.52%	1,747,060,700	50.63%
Minerals, Oil and Gas	200	0.00%	-	0.00%
Real, Railroad	2,113,670	0.06%	1,983,810	0.06%
Real and Tangible Personal, Utilities	20,971,160	0.59%	19,569,570	0.57%
Tangible Personal, Aircraft	89,085,700	2.52%	116,861,760	3.39%
Tangible Personal, Commercial	405,724,570	11.48%	384,851,390	11.15%
Tangible Personal, Industrial	57,454,160	1.63%	59,201,990	1.72%
Tangible Personal, Other	7,446,210	0.21%	6,832,220	0.20%
Total Appraised Value Before Exemptions	\$ 3,535,250,590	100.00%	\$ 3,450,860,510	100.00%
Less: Total Exemptions/Reductions	(400,355,712)		(422,817,942)	
Taxable Assessed Value	<u>\$ 3,134,894,878</u>		<u>\$ 3,028,042,568</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Funded Tax Debt Outstanding <sup>(3)</sup>	Ratio Funded Tax Debt to Taxable Assessed Valuation	Net Funded Debt Per Capita
2012	13,680 <sup>(1)</sup>	\$ 3,028,042,568	\$ 221,348	\$ 73,739,314	2.44%	\$ 5,390
2013	13,840 <sup>(1)</sup>	3,134,894,878	226,510	77,428,154	2.47%	5,595
2014	15,180 <sup>(1)</sup>	3,490,007,698	229,908	84,967,000	2.43%	5,597
2015	15,530 <sup>(1)</sup>	3,805,580,841	245,047	80,133,849	2.11%	5,160
2016	15,530 <sup>(2)</sup>	4,036,723,767	259,931	72,717,479 <sup>(4)</sup>	1.80%	4,682

(1) Source: North Central Texas Council of Governments ("NCTCOG")

(2) Source: Estimated by Town officials.

(3) The above statement of indebtedness does not include currently outstanding convention center revenue bonds payable from a hotel occupancy tax and revenues of the convention center, as provided in the ordinance authorizing such bonds and general obligation debt for which repayment is provided from revenues of the waterworks and sewer system, the airport fund and drainage fund ("self-supporting debt"). See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 10 – Computation of Self-Supporting Debt" herein.

(4) Projected; includes a portion of the Bonds, excludes the Refunded Obligations.

**TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2012	\$ 0.5800	\$ 0.3819	\$ 0.1981	\$ 17,562,650	98.40%	99.00%
2013	0.5800	0.3593	0.2207	18,182,390	98.70%	98.90%
2014	0.5718	0.3588	0.2130	20,000,565	96.20%	96.20%
2015	0.5618	0.3437	0.2181	21,430,622	96.30%	96.30%
2016	0.5792	0.3767	0.2024	23,378,708	97.01% <sup>(1)</sup>	97.01% <sup>(1)</sup>

(1) Collections for partial year only, through March 1, 2016.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2015/16 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
FPG Colonnade LP	Office Buildings	\$ 193,098,000	4.78%
Post Addison Circle	Mixed Development	142,498,640	3.53%
Savoye LLC	Apartments	110,522,110	2.74%
Fiori LLC	Land, Hotel	77,839,310	1.93%
5100 Belt Line Road Investors LLC	Retail	75,195,140	1.86%
COP Spectrum Center LLC	Land, Office Buildings	72,898,250	1.81%
Gaedeke Holdings IX LLC	Office Buildings	68,200,000	1.69%
Real Pink Limited	Office Buildings	65,275,000	1.62%
Sir Properties Trust	Office Buildings	51,572,280	1.28%
Quorum Drive TX Partners LLC	Apartments	51,250,000	1.27%
		<u>\$ 908,348,730</u>	<u>22.50%</u>

**GENERAL OBLIGATION DEBT LIMITATION** . . . No general obligation debt limitation is imposed on the Town under current State law or the Town's Home Rule Charter (see "THE BONDS - Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY <sup>(1)</sup>**

2016 Net Principal and Interest Requirements for Debt	\$ 7,666,056
\$0.1928 Tax Rate at 98.50% Collection Produces	\$ 7,666,061
Average Annual Net Principal and Interest Requirements for Debt, 2016 - 2037	\$ 3,281,755
\$0.0826 Tax Rate at 98.50% Collection Produces	\$ 3,284,319
Maximum Net Principal and Interest Requirements for Debt, 2016	\$ 7,666,056
\$0.1928 Tax Rate at 98.50% Collection Produces	\$ 7,666,061

(1) Includes a portion of the Bonds, less self-supporting debt (See "Table 10 – Computation of Self-Supporting Debt"). Excludes the Refunded Obligations.

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the Town are paid out of ad valorem taxes levied by such entities on properties within the Town. Such entities are independent of the Town and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Town, the Town has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the Town.

Taxing Jurisdiction	2015/16 Taxable Assessed Value	2015/16 Tax Rate	Total G.O. Debt	Estimated % Applicable	Overlapping G.O. Debt As of 3-1-16	Authorized But Unissued Debt as of 3/1/2016
Town of Addison	\$ 4,036,723,767	\$ 0.57915	\$ 72,717,479 <sup>(1)</sup>	100.00%	\$ 72,717,479	\$ 26,000,000
Carrollton/Farmers Branch Independent School District	17,083,929,532	1.28170	244,625,000	1.34%	3,277,975	1,000,000
Dallas County	181,636,043,684	0.24310	73,655,000	2.22%	1,635,141	6,200,000
Dallas County Community College District	197,279,330,872	0.12370	303,215,000	2.22%	6,731,373	-
Dallas County Hospital District	188,977,365,634	0.28600	728,005,000	2.22%	16,161,711	-
Dallas County Schools	185,031,668,477	0.01000	54,700,000	2.22%	1,214,340	-
Dallas Independent School District	92,439,839,696	1.28210	2,485,260,000	3.66%	90,960,516	1,254,163,313
Total Direct and Overlapping G.O. Debt					<u>\$ 192,698,535</u>	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					4.77%	
Per Capita Overlapping G.O. Debt					\$ 12,408.15	

(1) Includes a portion of the Bonds, less self-supporting debt. Excludes the Refunded Obligations.

**TABLE 8 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year	Outstanding Debt		The Bonds <sup>(2)</sup>		Total	Less	Less	Less	Less	Total	% of Principal Retired
	Service Requirements <sup>(1)</sup>				Debt Service	Amount	Amount	Amount	Amount	Net Tax	
	Principal	Interest	Principal	Interest	Requirements	by Airport Fund	by Hotel Fund	by Water and Sewer System <sup>(3)</sup>	by Drainage Fund	Debt Service Requirements	
2016	\$ 7,075,000	\$ 3,428,690	\$ -	\$ 195,333	\$ 10,699,023	\$ 587,691	\$ 711,300	\$ 993,927	\$ 544,716	\$ 7,666,056	
2017	6,930,000	2,625,328	-	1,065,450	10,620,778	587,016	711,200	1,068,857	544,266	6,643,988	
2018	6,260,000	2,421,796	-	1,065,450	9,747,246	590,816	710,500	1,076,194	543,716	5,760,569	
2019	4,400,000	2,254,924	1,250,000	1,046,700	8,951,624	597,966	-	1,055,638	546,566	4,454,754	
2020	3,540,000	2,134,881	1,305,000	1,001,850	7,981,731	602,866	-	1,069,613	542,791	3,459,611	29.27%
2021	3,270,000	2,028,140	1,360,000	948,550	7,606,690	219,766	-	1,068,988	542,266	3,467,120	
2022	3,320,000	1,911,474	1,430,000	892,750	7,554,224	219,666	-	1,080,813	544,766	3,386,229	
2023	3,460,000	1,777,009	1,495,000	834,250	7,566,259	218,691	-	1,086,488	544,991	3,386,839	
2024	3,610,000	1,628,340	1,550,000	773,350	7,561,690	216,816	-	1,086,213	542,866	3,392,445	
2025	3,775,000	1,476,684	1,615,000	710,050	7,576,734	214,691	-	1,089,988	544,866	3,402,139	52.94%
2026	3,945,000	1,322,115	1,695,000	635,375	7,597,490	217,191	-	1,095,613	545,866	3,408,445	
2027	4,120,000	1,160,099	1,775,000	548,625	7,603,724	219,191	-	1,097,628	545,866	3,417,414	
2028	3,825,000	996,403	1,865,000	457,625	7,144,028	215,816	-	1,097,656	544,866	2,963,064	
2029	4,000,000	834,277	1,485,000	373,875	6,693,152	217,876	-	993,325	544,891	3,078,184	
2030	4,170,000	667,383	1,565,000	297,625	6,700,008	215,348	-	999,506	545,914	3,076,615	80.01%
2031	4,345,000	504,948	1,645,000	217,375	6,712,323	217,365	-	998,491	545,749	3,088,344	
2032	4,495,000	345,436	1,715,000	133,375	6,688,811	218,814	-	994,725	544,371	3,082,526	
2033	3,245,000	197,932	1,810,000	45,250	5,298,182	219,703	-	998,250	546,703	1,678,276	
2034	1,995,000	96,288	-	-	2,091,288	-	-	561,000	-	1,530,288	
2035	570,000	49,950	-	-	619,950	-	-	-	-	619,950	98.86%
2036	585,000	30,459	-	-	615,459	-	-	-	-	615,459	
2037	610,000	10,294	-	-	620,294	-	-	-	-	620,294	100.00%
	<u>\$ 81,545,000</u>	<u>\$ 27,902,849</u>	<u>\$ 23,560,000</u>	<u>\$ 11,242,858</u>	<u>\$ 144,250,706</u>	<u>\$ 5,797,292</u>	<u>\$ 2,133,000</u>	<u>\$ 19,512,910</u>	<u>\$ 9,806,040</u>	<u>\$ 72,198,607</u>	

DEBT INFORMATION

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt. Excludes the Refunded Obligations.

(2) Average life of the issue – 10.070 years. Interest on the Bonds has been calculated at the rates stated on the cover page hereof.

(3) Includes a portion of the Bonds.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION <sup>(1)</sup>**

General Purpose Debt Service Requirements, Fiscal Year Ending 9/30/16 . . . . .	\$ 7,666,056
Budgeted Interest and Sinking Fund Balance, as of 9/30/15 . . . . .	\$ 898,304
Budgeted Interest and Sinking Fund Tax Levy @ 98% Collection . . . . .	8,161,580
Other Revenues and Income . . . . .	<u>13,740</u>
	<u>9,073,624</u>
Projected Ending Fund Balance, 9/30/16 . . . . .	<u><u>\$ 1,407,568</u></u>

(1) Source: Town's 2015-2016 Budget.

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT****Waterworks and Sewer System**

Net Revenues Available from Waterworks and Sewer System, Fiscal Year 9-30-15 . . . . .	\$ 1,474,485
Less: Waterworks and Sewer System General Obligation Bond Requirements, 2016 Fiscal Year . . . . .	<u>993,927</u>
Balance . . . . .	<u><u>\$ 480,558</u></u>

Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting . . . . . 100.00%

**Hotel Special Revenue Fund**

Hotel Special Revenue Fund Balance, Fiscal Year 9-30-15 . . . . .	\$ 2,057,137
Less: Hotel Revenue Fund General Obligation Bond Requirements, 2016 Fiscal Year . . . . .	<u>711,300</u>
Balance . . . . .	<u><u>\$ 1,345,837</u></u>

Percentage of Hotel Revenue Fund General Obligation Bonds Self-Supporting . . . . . 100.00%

**Airport Enterprise Fund**

Net Revenues Available from Airport Revenue, Fiscal Year 9-30-15 . . . . .	\$ 1,687,505
Less: Airport Fund General Obligation Bond Requirements, 2016 Fiscal Year . . . . .	<u>587,691</u>
Balance . . . . .	<u><u>\$ 1,099,814</u></u>

Percentage of Airport Fund General Obligation Bonds Self-Supporting . . . . . 100.00%

**Stormwater Drainage Enterprise Fund**

Net Revenues Available from Stormwater Revenue, Fiscal Year 9-30-15 . . . . .	\$ 1,184,882
Less: Drainage Fund General Obligation Bond Requirements, 2016 Fiscal Year . . . . .	<u>544,716</u>
Balance . . . . .	<u><u>\$ 640,166</u></u>

Percentage of Drainage Fund General Obligation Bonds Self-Supporting . . . . . 100.00%

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

Purpose	Date Authorized	Amount		
		Amount Authorized	Heretofore Issued	Unissued Balance
Street Improvements	5/12/2012	\$ 29,500,000	\$ 6,500,000	\$ 23,000,000
Parking Facilities	5/12/2012	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
		<u><u>\$ 32,500,000</u></u>	<u><u>\$ 6,500,000</u></u>	<u><u>\$ 26,000,000</u></u>

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . .** The Town does not anticipate issuing additional general obligation debt within the next 12 months.

**TABLE 12 - OTHER OBLIGATIONS**

As of September 30, 2015, the Town has no unfunded debt outstanding.

**PENSION FUND . . .** The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 860 plans administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employees' contributions to the plan, with interest, and the Town-finance monetary credits, with interest. At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions. In addition, the Town can grant, as often as annually, another type of monetary credit referred to as an updated service credit. An updated service credit is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and Town matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and employer-financed monetary credits with interest were used to purchase an annuity. Beginning in 1994, the Town adopted updated service credits on an annually repeating basis.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years. The plan provisions are adopted by the City Council, with the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for employees is 7%, and the Town's contribution rate is currently 9.1%, both as adopted by the City Council. Under the state law governing TMRS, the actuary annually determines the Town contribution rate. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the Town matching percent, which are the obligation of the Town as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the Town to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 30-year amortization period. Contributions are made monthly by both employees and the Town.

As of the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	169
Inactive Employees Entitled to But Not Yet Receiving Benefits	179
Active Employees	256
	<hr/> 604

*Contribution . . .* Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 9.93% and 9.91% in calendar years 2014 and 2015, respectively. The Town's contributions to TMRS for the year ended September 30, 2015, were \$1,777,431, and were equal to the required contributions.

*Net Pension Liability . . .* The Town's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

**Discount Rate** . . . The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee 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.

The following presents the net pension liability of the Town, calculated using the discount rate of 7.0%, as well as what the Town's net pension liability would be if it were calculate using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 37,218,667	\$ 18,658,835	\$ 3,487,151

For more information concerning the Town's pension plan and funding progress relating thereto see "APPENDIX B – Excerpts from the Town's Annual Financial Report" – Note IV.B.1 and Required Supplemental Information.

**OTHER POST-EMPLOYMENT BENEFITS** . . . In addition to the pension benefits described above, as required by state law and defined by Town Policy, the Town makes available health care benefits to all employees who retire from the Town and who are receiving benefits from a Town-sponsored retirement program (Texas Municipal Retirement System and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses and dependents through the Town's group health insurance plan, which covers both active and retired members. Current retirees in the health plan and active employees with 20 years or more of service or at age 60 or more with five years or more of service at retirement are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report. Benefit provisions for retirees are not mandated by any form of employment agreement. The continued provision of these benefits is based entirely on the discretion of the Town of Addison City Council.

**Funding Policy** . . . Before age 65, the Town will pay a \$150 monthly stipend toward the retiree's healthcare premium if the retiring employee meets the eligibility criteria at the time of termination and elects coverage in the health plan. For members who retire after 65 or were eligible for the \$150 stipend before age 65, the Town will pay a \$75 monthly stipend directly to the retiree. Current retirees contribute to the health plan the total blended premium for active and retired participants, less the \$150 stipend provided by the Town. The Town contribution to the health plan consists of total premiums in excess of retiree contributions.

Retirees receiving medical benefits during fiscal year 2015 contribute \$377 to \$1,323 per month depending on coverage levels selected. In fiscal year 2015, total retiree contributions were \$104,626.

**Annual OPEB Cost and Net OPEB Obligation** . . . The Town's annual other postemployment benefit (OPEB) cost (expense) for the health plan is calculated based on the annual required contribution (ARC) of the Town, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The Town of Addison utilized the actuarial services of Gabriel, Roeder, Smith & Company (GRS), a company who has been providing actuarial consulting services since 1938, under the shared services arrangement provided by GRS and North Central Texas Council of Governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the net OPEB obligation for 2015.

Annual Required Contribution	\$ 199,471
Interest on OPEB Obligation	23,864
Adjustment to ARC	(22,110)
Annual OPEB Cost (Expense)	<u>\$ 201,225</u>
Contributions Made	(164,742)
Change in OPEB Obligation	<u>\$ 36,483</u>
Net OPEB Obligation (Asset) – Beginning of Year	428,990
Net OPEB Obligation (Asset) – End of Year	<u>\$ 465,473</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2015 and the preceding three fiscal years were as follows:

Fiscal Year	Annual OPEB Costs	Actual Contributions	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2012	\$ 182,900	\$ 148,348	81.10%	\$ 386,542
2013	183,625	155,383	84.60%	414,784
2014	189,313	175,107	92.50%	428,990
2015	201,225	164,742	81.90%	465,473

For more information concerning the OPEB plan and funding progress relating thereto see "APPENDIX B – Excerpts from the Town's Annual Financial Report" – Note IV.B.2.



## FINANCIAL INFORMATION

**TABLE 13 – CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Revenues:					
<u>Program Revenues</u>					
Charges for Services	\$ 5,022,039	\$ 5,335,442	\$ 5,604,940	\$ 6,188,713	\$ 7,671,920
Operating Grants and Contributions	25,806	19,093	73,578	164,749	223,792
Capital Grants and Contributions	158,253	-	-	568,285	3,429,804
<u>General Revenues</u>					
Property Taxes	20,385,225	19,484,538	17,975,149	17,400,696	15,772,858
Other Taxes	22,443,410	22,040,521	20,626,694	18,982,785	17,398,190
Other	181,811	743,851	594,781	868,902	921,242
Total Revenues	\$ 48,216,544	\$ 47,623,445	\$ 44,875,142	\$ 44,174,130	\$ 45,417,806
Expenses:					
General Government	\$ 8,730,944	\$ 7,938,875	\$ 7,021,312	\$ 6,485,716	\$ 6,709,095
Public Safety	16,820,899	15,765,099	15,229,474	15,130,157	14,914,759
Development Services	1,032,105	932,247	925,830	879,253	866,023
Street and Sanitation	8,105,373	6,450,628	8,387,857	5,028,071	4,913,524
Parks and Recreation	5,517,049	5,597,254	5,062,784	4,963,327	4,742,946
Visitor Services	6,106,103	7,358,141	7,239,033	6,852,198	6,431,136
Interest on Long-term Debt	3,018,672	3,037,574	2,916,703	1,898,595	2,261,571
Total Expenses	\$ 49,331,145	\$ 47,079,818	\$ 46,782,993	\$ 41,237,317	\$ 40,839,054
Increase (Decrease) in Net Assets	\$ (1,114,601)	\$ 543,627	\$ (1,907,851)	\$ 2,936,813	\$ 4,578,752
Transfers	590,619	(4,626,322)	-	-	-
Net Assets - October 1	132,672,255 <sup>(1)</sup>	152,362,956 <sup>(1)</sup>	155,059,394 <sup>(1)</sup>	151,998,474	147,419,722
Net Assets - September 30	<u>\$ 132,148,273</u>	<u>\$ 148,280,261</u>	<u>\$ 153,151,543</u>	<u>\$ 154,935,287</u>	<u>\$ 151,998,474</u>

(1) Restated due to GASB No. 65 "Items Previously Reported as Assets and Liabilities". Fiscal year 2015 also includes restatement for a liability of sales tax to be paid back to the State Comptroller (see "APPENDIX B – Excerpts from the Town's Annual Financial Report" – Note IV E. and IV F.)

**TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
<b>Revenues</b>					
Taxes	\$ 25,594,530	\$ 25,753,853	\$ 23,510,020	\$ 22,822,102	\$ 20,936,751
Franchise Fees	2,828,420	2,818,869	2,695,073	2,727,370	2,760,188
Licenses and Permits	1,011,223	901,645	886,423	953,709	1,210,058
Intergovernmental Revenues	-	-	-	-	-
Service Fees	1,507,653	1,485,206	1,469,715	1,443,787	1,414,120
Fines and Forfeitures	725,189	877,776	959,684	1,071,177	1,062,986
Interest Income	69,431	5,933	3,790	19,928	25,514
Rental and Other	355,574	382,982	305,212	267,435	266,926
Total Revenues	<u>\$ 32,092,020</u>	<u>\$ 32,226,264</u>	<u>\$ 29,829,917</u>	<u>\$ 29,305,508</u>	<u>\$ 27,676,543</u>
<b>Expenditures</b>					
General Government	\$ 7,654,051	\$ 6,639,762	\$ 6,347,191	\$ 6,082,779	\$ 6,353,784
Public Safety	16,677,666	15,871,423	14,878,938	14,372,574	14,553,921
Development Services	1,090,973	962,584	927,684	886,705	885,218
Streets	1,803,139	1,727,403	1,750,500	1,612,699	1,612,011
Parks and Recreation	4,755,341	4,874,394	4,316,689	4,269,381	4,061,666
Total Expenditures	<u>\$ 31,981,170</u>	<u>\$ 30,075,566</u>	<u>\$ 28,221,002</u>	<u>\$ 27,224,138</u>	<u>\$ 27,466,600</u>
Revenues Over (Under) Expenditures	\$ 110,850	\$ 2,150,698	\$ 1,608,915	\$ 2,081,370	\$ 209,943
Other Sources (Uses), Net	(4,015,000)	-	(2,581)	(75,000)	(700,000)
Change in Fund Balance	<u>\$ (3,904,150)</u>	<u>\$ 2,150,698</u>	<u>\$ 1,606,334</u>	<u>\$ 2,006,370</u>	<u>\$ (490,057)</u>
Beginning Fund Balance	<u>15,506,011 <sup>(1)</sup></u>	<u>13,979,398</u>	<u>12,373,064</u>	<u>10,366,694</u>	<u>10,856,751</u>
Ending Fund Balance	<u><u>\$ 11,601,861</u></u>	<u><u>\$ 16,130,096</u></u>	<u><u>\$ 13,979,398</u></u>	<u><u>\$ 12,373,064</u></u>	<u><u>\$ 10,366,694</u></u>

(1) Restated. Fiscal year 2015 also includes restatement for a liability of sales tax to be paid back to the State Comptroller (see "APPENDIX B – Excerpts from the Town's Annual Financial Report" – Note IV E.)

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

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

Fiscal Year Ended 9/30	1% Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2011	\$ 9,632,640	59.42%	\$ 0.3149	\$ 738
2012	11,089,866	63.14%	0.3666	811
2013	12,217,439	67.19%	0.3897	892
2014	14,222,194	71.11%	0.4075	937
2015	14,104,584	65.82%	0.3706	891

#### FINANCIAL POLICIES

The financial statements of the Town has been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

*Government-wide and Fund Financial Statements ...* The governmental-wide financial statement (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Government 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

*Measurement Focus, Basis of Accounting and Basis of Presentation . . .* The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 50 days of the end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closer/post close costs, are recorded only when the liability has matured.

Property taxes, sales taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Town receives the cash as the resulting receivables are deemed immaterial.

*Budgetary Procedures . . .* The City Council follows these procedures in establishing the budgets reflected in the financial statements:

1. At least 60 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. Transfers between expenditure accounts in one department may occur with the approval of the Chief Financial Officer. Transfers between operating departments may occur with the approval of the City Manager and Chief Financial Officer provided that a department's total budget is not changed by more than five percent. Transfers between fund or transfers between departments which change a department's total budget by more than five percent must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

For all budgets of the Town, the Town Charter requires only that funds be certified as available for expenditure. Legally, expenditures may exceed budgeted appropriations as long as those expenditures are certified as funds being available.

Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors. Open encumbrances are reported as reservations of fund balance at September 30, 2015.

5. Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets for the Capital Project Funds are normally established pursuant to the terms of the related bond indentures, that is, project basis.

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 amended.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement (the "Certificate") for Excellence in Financial Reporting to the Town of Addison, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2015. The Certificate is the highest form of recognition for excellence in state and local government financial reporting. A Certificate of Achievement is valid for a period of one year only.

In addition to the Certificate, the Town received GFOA's Award for Distinguished Budget Presentation (the "Award") for its fiscal year 2015 annual budget document. Together, the Award and the Certificate are evidence of the Finance department's dedication to producing documents which effectively communicate the Town's financial condition to elected officials, city administrators, and the general public.

## **INVESTMENTS**

The Town invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both State law and the Town's investment policies are subject to change.

**LEGAL INVESTMENTS . . .** Under Texas law, the Town is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, , including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit or share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by an institution that has its main office of a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and provided for by law for Town deposits, or (ii) where (a) the funds are invested by the Town through (A) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Town as required by law, or (B) a depository institution that has its main office or branch office in the State of Texas that is selected by the Town, (b) the broker or the depository institution selected by the Town 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 Town, (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 Town appoints the depository institution selected under (a) above, a custodian 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 Town with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1) above, (iii) require the securities being purchased by the Town or cash held by the Town to be pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the Town to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

A political subdivision such as the Town may enter into 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 (6) 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 (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Town, held in the Town's name and deposited at the time the investment is made with the Town or a third party designated by the Town; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The Town 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 Town 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.

**INVESTMENT POLICIES . . .** Under Texas law, the Town 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 includes a list of authorized investments for Town funds, maximum allowable stated maturity of any individual investment, 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 PFLA. All Town 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, Town 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 the probable income to be derived." At least quarterly the investment officers of the Town shall submit an investment report detailing: (1) the investment position of the Town, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value, and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 strategy statements and (b) state law. No person may invest Town funds without express written authority from the City Council.

**ADDITIONAL PROVISIONS . . .** Under Texas law, the Town is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the Town to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Town to: (a) receive and review the Town's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Town and the business organization that are not authorized by the Town's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Town and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Town's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) 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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the Town's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Town.

**TABLE 15 - CURRENT INVESTMENTS**

As of March 1, 2016, the Town's investable funds were invested in the following categories:

Description	Percent	Book Value	Market Value
TexPool	4.91%	\$ 4,614,773	\$ 4,614,773
TexStar	20.55%	19,329,780	19,329,780
Agency Securites	43.56%	40,978,072	40,982,581
Certificate of Deposit	26.74%	25,154,799	25,154,799
Commercial Paper	4.24%	3,989,456	3,989,908
	<u>100.00%</u>	<u>\$ 94,066,880</u>	<u>\$ 94,071,841</u>

## **TAX MATTERS**

### **TAX EXEMPTION**

In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations. See "APPENDIX C – Form of Bond Counsel's Opinion" for the form of opinion of Bond Counsel to be delivered on the date of initial delivery of the Bonds.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The Town has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Town, the Town's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Town, the Town's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the "Report") of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the Town should fail to comply with the covenants in the Ordinance or if the foregoing representations or the Report should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT or REMIC), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on certain tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations are includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Town as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

### **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

**Collateral Tax Consequences** . . . Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

**Tax Accounting Treatment of Original Issue Premium . . .** The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

**Tax Accounting Treatment of Original Issue Discount Bonds . . .** The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the sub-captions "Tax Exemption", "Additional Federal Income Tax Considerations - Collateral Tax Consequences" and "Additional Federal Income Tax Considerations – Tax Legislative Changes" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Town nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**Tax Legislative Changes . . .** Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

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

**ANNUAL REPORTS** . . . The Town shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the Town ending in or after 2016, financial information and operating data with respect to the Town of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and (2) if not provided as part such financial information and operating data, audited financial statements of the Town when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Ordinance or such other accounting principles as the Town 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 Town 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 Town 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 Town may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Securities and Exchange Commission Rule 15c2-12.

Accordingly, the Town must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the Town changes its fiscal year. If the Town changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the Town otherwise would be required to provide financial information and operating data pursuant to this Section.

**NOTICE OF CERTAIN EVENTS** . . . The Town will also provide timely notices of certain events to the MSRB. The Town 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 Town, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the Town will provide timely notice of any failure by the Town to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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

**AVAILABILITY OF INFORMATION** . . . The Town has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS** . . . The Town has agreed to update information and to provide notices of certain specified events only as described above. The Town 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 Town makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Town 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 Town to comply with its agreement.



The Town's continuing disclosure agreements for the Bonds may be amended by the Town 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 Town, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Town (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The Town may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule 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 the Bonds in the primary offering of such Bonds. If the Town amends its agreements, it must 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 information and data provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** Under its continuing disclosure agreement for the Town's Combination Tax and Revenue Certificates of Obligation, Series 2008, the Town is required to file notice with the MSRB if the audit of the Town's financial statements is not complete by March 31 in a particular year and, in such event, to file unaudited financial statements for the applicable year by March 31. While the Town included unaudited financial information regarding changes in net assets of governmental activities and General Fund revenues and expenditures in its 2015 Annual Report, the Town did not file unaudited financial statements by March 31, 2016 or make a failure to file notice that the audit of financial statements was not complete by such date. The Town did give notice on its cover sheet for the filing of its Annual Report for fiscal year ended September 30, 2015 filed with the MSRB on March 30, 2016 that the audit of the 2015 financial statements was not available. The Town did file its fiscal year 2015 audited financial statements on May 2, 2016 with the MSRB. The 2015 audited financial statements were not available on March 31 due to internal staffing changes at the Town and the implementation of a new financial management and accounting software system. The Town has since addressed such issues and anticipates timely filing its audited financial statements in accordance with its continuing disclosure undertakings in the future. This was the only instance in the last five years where the Town did not file audited financial statements with the MSRB prior to March 31 in a year.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding unenhanced tax supported debt of the Town are rated "Aa1" by Moody's and "AAA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Town makes no 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 either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

In the opinion of Town officials the Town is not a party to any litigation or other proceeding pending or to their knowledge threatened, in or before any court, agency or other administrative body (either state or federal) which, if decided adversely to the Town, would have a material adverse effect on the financial condition or operations of the Town.

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

### **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). The Bonds have not been approved or disapproved by the Securities and Exchange Commission, nor has the Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. 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 acts of any jurisdiction. The Town 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.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before the Bonds are eligible investments for sinking funds and other public funds. 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 at least \$1 million of capital and savings and loan associations.

The Town has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds to any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. No review by the Town has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

#### **LEGAL OPINIONS**

The Town will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the Town, 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, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "Plan of Financing" (except under the subcaption "Sources and Uses of Proceeds"), "The Bonds" (exclusive of the subcaptions "Book-Entry-Only System" and "Remedies" and the last sentence under "Tax Rate Limitation"), "Tax Matters" and "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (except for the last sentence of the first paragraph thereof), "Registration and Qualification of Bonds for Sale," and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "Other Information" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas Counsel to the Underwriters, whose legal fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion the 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.

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from Town records, audited and unaudited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinance. 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.

## **FINANCIAL ADVISOR**

FirstSouthwest, a Division of Hilltop Securities Inc., is employed as Financial Advisor to the Town 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. FirstSouthwest, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Town has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Town and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the Town, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yields. Such report will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Obligations.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by FirstSouthwest on behalf of the Town. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by FirstSouthwest on behalf of the Town and has not evaluated or examined the assumptions or information used in the computations.

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Town at an underwriting discount of \$139,713.05 from the initial prices to the public as shown on the cover page hereof. 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.

Piper Jaffray & Co., an underwriter 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.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

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 respective 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.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Town, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) 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 Town.

The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Official Statement, and in any other information provided by the Town, that are not purely historical, are forward-looking statements, including statements regarding the Town'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 Town on the date hereof, and the Town assumes no obligation to update any such forward-looking statements. The Town'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 Town. 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.

#### **CONSULTANT REVIEW OF INTERNAL PROCEDURES AND CONTROLS**

In April 2014, as part of the transition to a new city manager, the Town commissioned a third-party consultant, Kanter Financial Forensics, LLC ("Kanter"), to review the Town's operations, policies, procedures and accounting and finance internal control environment and provide advice on current best practices associated therewith.

Copies of the July 2014, October 2014 and April 2016 reports are available on request made to the Town.

#### **MISCELLANEOUS**

The Ordinance authorized the issuance of the Bonds and approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

/s/ SCOTT NEILS  
PRICING OFFICER  
Town of Addison, Texas

## SCHEDULE OF REFUNDED OBLIGATIONS

## Combination Tax Revenue Certificates of Obligation, Series 2008

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
5/1/2008	2/15/2019	4.000%	\$ 1,380,000	\$ 1,380,000
	2/15/2020	4.000%	1,445,000	1,445,000
	2/15/2021	4.125%	1,510,000	1,510,000
	2/15/2022	4.250%	1,585,000	1,585,000
	2/15/2023	4.250%	1,660,000	1,660,000
	2/15/2024	5.000%	1,735,000	1,735,000
	2/15/2025	4.375%	1,820,000	1,820,000
	2/15/2026	4.500%	1,905,000	1,905,000
	2/15/2027	5.000%	1,995,000	1,995,000
	2/15/2028	4.500%	2,090,000	2,090,000
	2/15/2029	4.500%	1,715,000	1,715,000
	2/15/2030	4.625%	1,795,000	1,795,000
	2/15/2031	5.000%	1,880,000	1,880,000
	2/15/2032	4.625%	1,965,000	1,965,000
	2/15/2033	4.625%	2,060,000	2,060,000
			<u>\$ 26,540,000</u>	<u>\$ 26,540,000</u>

The 2019 - 2033 maturities will be redeemed prior to original maturity on February 15, 2018 at par.

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE TOWN

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**DESCRIPTION OF THE TOWN . . .** The Town of Addison (4.4 square miles in area), incorporated in 1953, is located in Dallas County 12 miles north of downtown Dallas. Addison is bounded on the east by the extension of the Dallas North Tollway and is bisected east to west by Belt Line Road.

**GOVERNMENT . . .** The Town is governed by a City Council composed of six councilmembers and the Mayor. The Mayor and councilmembers serve staggered two-year terms. The day-to-day operations of Addison are conducted by a Town Manager who is selected by the City Council. The Town's Home Rule Charter was adopted in 1978 and was last amended in January, 1993. The charter provides for a City Council comprised of the Mayor and six councilmembers. Under the charter the Mayor may vote on all items coming before the Council.

**POPULATION . . .** The U.S. Census Bureau set the 1970 population at 550, the 1980 population at 5,553, the 1990 population at 8,783 and the 2010 population at 13,056, and the NCTCOG estimates the 2016 population to be 15,530.

**ECONOMY . . .** Addison is located in the "platinum corridor" of North Dallas and has been called the "epicenter of a new downtown uptown". The Dallas area has become a major financial center of the nation and is rapidly emerging as a national leader in the areas of corporate headquarter locations, product distribution centers, light "clean" manufacturing in such areas as electronics and data processing, and as a principal fashion center. Addison manifests the best features of the area by creating an environment conducive to office, retail and residential uses. With its beautifully landscaped boulevards and strict enforcement of building, sign and landscaping codes, the Town has attracted quality development without the nuisances usually associated with rapid urbanization. Fine restaurants, boutiques and specialty stores are located in the Town to serve the growing work force and the affluent Addison-North Dallas area. Addison is a prime and desirable location for many businesses seeking relocation in the area.

Among the top employers in the Town are the following:

Company	Type of Business	Estimated Number of Employees
Bank of America	Finance	3,500
Mary Kay Cosmetics Inc.	Cosmetics	1,200
Hilton Worldwide, Incorporated	Hospitality	616
Rexel	Industrial Electrical Supplies	500
Intercontinental Hotel	Hospitality	450
Concentra Operating Corporation	Medical	400
Barrett Daffin Frappier Turner and Engel LLP	Mortgage	400
United Surgical Partners International	Medical	379
USAA Financial Planning Services	Finance	374

Source: Addison Town staff.

**AIRPORT . . .** The Town of Addison owns a general aviation airport, a single runway facility ranked by the Federal Aviation Administration as the busiest airport of its kind. The runway is 7,200 feet in length and can accommodate general aviation aircraft through 120,000 pounds gross weight including Boeing 737's and DC9's. The airport is home to 291 aircraft valued at over \$88 million and houses several fixed base operations, which provide fuel and maintenance services. The airport is used extensively by corporate executives who wish to conduct business in offices located in the north Dallas area.

**TRANSPORTATION . . .** Direct access to downtown Dallas is afforded via the Dallas North Tollway. Nearby highways and freeways provide convenient access to the entire Dallas/Fort Worth Metroplex including the Richardson telecommunications corridor, the Plano corporate campus, and the Dallas/Fort Worth International Airport.

In addition to Addison Airport, commercial air transportation is available at Dallas' Love Field and at the Dallas/Fort Worth International Airport. Rail service for Addison is provided by the Cotton Belt Railroad and numerous motor freight lines from nearby Dallas are available.

**EDUCATIONAL FACILITIES . . .** Addison is served by the Dallas Independent School District and the Carrollton-Farmers Branch Independent School District, it is also served by two private schools, Trinity Christian Academy and Greenhill School; all serve the K/12 grades. Brookhaven Community College, a part of the Dallas County Community College, is located in the Town and seven major colleges and universities are located within a 40-mile radius of the Town and include University of North Texas, Southern Methodist University, Texas Christian University, University of Texas at Dallas and University of Texas at Arlington.

#### **BUILDING PERMITS**

Fiscal Year	Number of Permits	Commercial	Residential	Total Value
2011	1,450	\$ 41,600,000	\$ 68,100,000	\$ 109,700,000
2012	1,120	41,338,498	48,656,566	89,995,064
2013	1,130	52,746,268	5,474,759	58,221,027
2014	1,256	61,616,297	5,138,869	66,755,166
2015	1,236	71,173,830	2,703,265	73,877,095

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**APPENDIX B**

EXCERPTS FROM THE  
TOWN OF ADDISON, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this Appendix consists of excerpts from the Town of Addison, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2015, and is not intended to be a complete statement of the Town's financial condition. Reference is made to the complete Report for further information.

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of Town Council  
Town of Addison, 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 Town of Addison, Texas (the Town) as of and for the year ended September 30, 2015, and the related notes to basic financial statements, which collectively comprise the Town'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 entity'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 entity'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 Town, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and the Hotel Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note IV.E. to the financial statements, the Town adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*, as of September 30, 2015. Also discussed in Note IV.E. to the financial statements, the Town made a prior period adjustment for the accrual of a sales tax liability, as of September 30, 2015. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis; Schedule of Changes in Net Pension Liability and Related Ratios - TMRS; Schedule of Contributions - TMRS; and the Retiree Health Plan Analysis of Funding Progress on pages 11 through 18 and 62 through 64 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2016, on our consideration of the Town'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 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 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 Town's internal control over financial reporting and compliance.

*Weaver and Tidwell LLP*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
April 18, 2016





## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the Town of Addison, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Addison for the fiscal year ended September 30, 2015. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section. ***All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars (000's).***

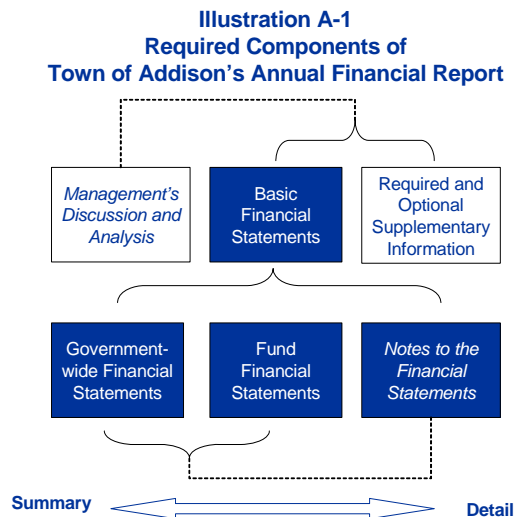
### Financial Highlights

- The Town's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the 2015 fiscal year by \$218,578. This amount represents an increase over the previous year of \$367.
- As of September 30, 2015, the Town's governmental funds reported combined ending fund balances of \$56,921, a decrease of \$7,306. The majority of the decrease is due to no debt issuance in 2015 with additional outlay for scheduled retirement of existing debt.
- At the end of the 2015 fiscal year, the fund balance for the General Fund was \$11,602, or 36.3 percent of total fund expenditures. Fund balance decreased \$3,904 during the year.
- At year-end, the Town of Addison's outstanding debt totals \$132,468, a decrease of \$12,259 from the previous year, which is attributed to the scheduled retirement of existing debt during the year.

### Overview of Financial Statements

This annual report is comprised of four segments as dictated by generally accepted accounting principles (GAAP): *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and *other supplementary information*. The basic financial statements include two kinds of statements that present different views of the Town.

- The *government-wide financial statements* provide both long-term and short-term information about the Town's overall financial status.
- The fund financial statements focus on individual parts of Addison's government, reporting the Town's operations in more detail than the government-wide statements.
  - The *governmental funds statements* explain how general government services such as public safety were financed in the short-term, as well as what remains for future spending.
  - *Proprietary fund statements* offer short-term and long-term financial information about the activities the government operates as business-like, such as the airport.



The financial statements also include *notes*, which elaborate on some of the information in the financial statements, providing more detailed data. These financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Illustration A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included other information such as the Town's statistical section, which, through the use of tables, presents comparative economic and financial data to give users of this report a perspective of the Town's financial performance over a number of years.

Illustration A-2 summarizes the major features of the Town's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

<b>Illustration A-2</b> <b>Major Features of Town of Addison's Government-wide and Fund Financial Statements</b>			
	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire Town government	Activities of the Town that are not proprietary, such as police, fire, and parks	Activities the Town operates similar to a private-sector business: airport, water/sewer utility, and storm water
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of net position * Statement of revenues, expenses, and changes in net position * Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Addison's finances in a manner similar to a private-sector business. These statements can be located on pages 20-21 of this document.

- The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows and outflows, with the difference reported as *net position*. Over time, increases or decreases in net position **may** indicate the improvement or deterioration of the Town's financial position.
- The *statement of activities* presents information showing the Town's change in net position during the concluded fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements of the Town are divided into two categories:

- *Governmental activities* – These are functions such as fire, police, and visitor services that are principally supported by taxes and intergovernmental revenue.
- *Business-type activities* – These functions are intended to recover all or a significant portion of their costs through user fees and charges. The Town's airport and utility system fall within this category.

## Fund Financial Statements

A *fund* is a grouping of related accounts used to maintain control over resources which have been segregated for specific activities or objectives. The Town of Addison, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

*Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as *governmental activities*. However, unlike the government-wide financial statements, governmental fund financial statements focus on **short-term** inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-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 **short-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 Town of Addison maintains 10 individual 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 all of these funds, with the exception of the Economic Development Fund, Municipal Court Fund, Public Safety Fund, Advanced Funding Grant Fund, and Reimbursement Grant Fund, which are considered non-major funds and are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for all its governmental funds. A budgetary comparison statement is provided for each fund to demonstrate compliance with this budget.

*Proprietary Funds* – Services for which the Town charges customers a fee are generally reported in the proprietary funds. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The Town of Addison maintains two different 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 Town uses enterprise funds to account for its general aviation airport, storm water (drainage), and its utility (water and sewer) system.
- *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and for its management information systems. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The proprietary fund financial statements provide separate information for Addison's airport, utility system, and storm drainage system, all of which are considered to be major funds of the Town of Addison. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 - 61 of this report.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Addison's funding of its obligations to provide pension benefits to Town employees through the Texas Municipal Retirement System and to provide other postemployment benefits to Town employees upon retirement.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented on pages 65 - 73. The Town has included schedules of capital assets starting on page 74.

## Government-wide Financial Analysis

As of the close of the 2015 fiscal year, the Town's net position (assets and deferred outflows exceeding liabilities and deferred inflows) totaled \$218,578 (see Table A-1). Of this amount \$184,752, or 85 percent, represents the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. Because the Town of Addison uses these capital assets to provide services to the community, these assets are not available for future spending. A portion of net position has been restricted for the Town's long-term general obligation debt (\$555), promotion of tourism and hotel industry (\$2,529) and other restrictions (\$567). The remaining amount of net position is labeled as unrestricted and totals \$30,174. This amount is available to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Addison is able to report positive balances in these three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

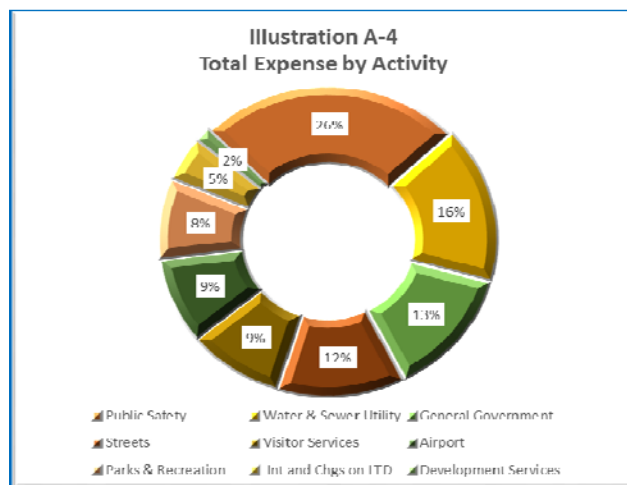
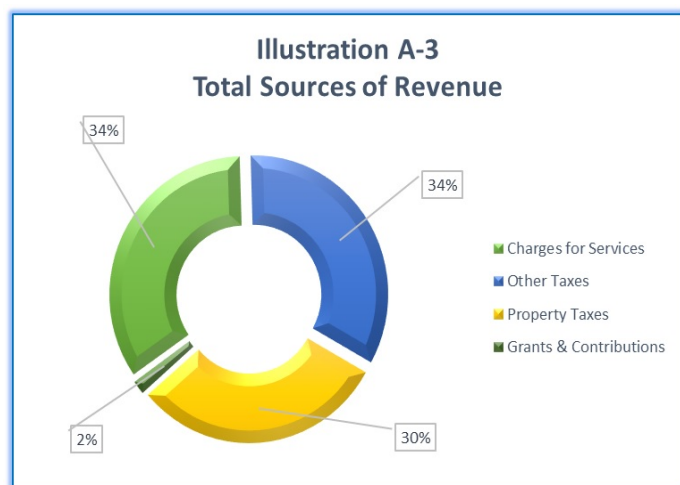
**Table A-1**  
**Town of Addison's Net Position (000's)**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets:</b>						
Current and Other Assets	\$ 71,286	\$ 79,325	\$ 33,667	\$ 34,000	\$ 104,953	\$ 113,325
Capital Assets	168,887	165,827	83,156	82,642	252,043	248,469
<b>Total Assets</b>	<b>240,173</b>	<b>245,152</b>	<b>116,823</b>	<b>116,642</b>	<b>356,996</b>	<b>361,794</b>
<b>Deferred Outflows of Resources:</b>						
Deferred Charges	365	466	26	32	391	498
Deferred Outflows of Pensions	2,458	-	143	-	2,601	-
<b>Total Deferred Outflows of Resources</b>	<b>2,823</b>	<b>466</b>	<b>169</b>	<b>32</b>	<b>2,992</b>	<b>498</b>
<b>Liabilities:</b>						
Long-Term Liabilities Outstanding	104,672	92,696	27,796	27,512	132,468	120,208
Other Liabilities	5,451	4,641	2,724	2,753	8,175	7,394
<b>Total Liabilities</b>	<b>110,123</b>	<b>97,337</b>	<b>30,520</b>	<b>30,265</b>	<b>140,643</b>	<b>127,602</b>
<b>Deferred Inflows of Resources:</b>						
Deferred Inflows of Pensions	725	-	42	-	767	-
<b>Total Deferred Inflows of Pensions</b>	<b>725</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>767</b>	<b>-</b>
<b>Net Assets:</b>						
Net Investment in Capital Assets	121,444	120,035	63,308	69,949	184,752	189,984
<b>Restricted :</b>						
Debt Service	555	606	-	-	555	606
Tourism/Hotel	2,529	1,682	-	-	2,529	1,682
Child Safety	191	102	-	-	191	102
Justice Administration	64	32	-	-	64	32
Court Technology	92	80	-	-	92	80
Building Security	177	66	-	-	177	66
Public Safety	25	-	-	-	25	-
Court Security	19	19	-	-	19	19
Unrestricted	7,052	25,659	23,122	16,461	30,174	42,120
<b>Total Net Position</b>	<b>\$ 132,148</b>	<b>\$ 148,280</b>	<b>\$ 86,430</b>	<b>\$ 86,409</b>	<b>\$ 218,578</b>	<b>\$ 234,689</b>

As reflected in Table A-2, the Town's net position increased \$367 during the 2015 fiscal year. The increase is a result of excess revenues realized by the Business-type Activities.

**Table A-2**  
**Town of Addison's Changes in Net Position (000's)**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 5,022	\$ 5,335	\$ 16,742	\$ 16,451	\$ 21,764	\$ 21,786
Operating Grants & Contributions	158	-	-	-	158	-
Capital Grants & Contributions	26	19	1,026	7,661	1,052	7,680
<b>General Revenues:</b>						
Property Taxes	20,385	19,485	-	-	20,385	19,485
Other Taxes	22,443	22,041	-	-	22,443	22,041
Other	773	744	614	(15)	1,387	729
<b>Total Revenues</b>	<b>48,807</b>	<b>47,624</b>	<b>18,382</b>	<b>24,097</b>	<b>67,189</b>	<b>71,721</b>
<b>Expenses:</b>						
General Government	8,731	7,939	-	-	8,731	7,939
Public Safety	16,821	15,765	-	-	16,821	15,765
Development Services	1,032	932	-	-	1,032	932
Streets	8,105	6,451	-	-	8,105	6,451
Parks & Recreation	5,517	5,597	-	-	5,517	5,597
Visitor Services	6,106	7,358	-	-	6,106	7,358
Interest and Fiscal Charges on Long-Term Debt	3,019	3,038	-	-	3,019	3,038
Airport	-	-	5,894	6,027	5,894	6,027
Storm water	-	-	848	768	848	768
Water & Sewer Utility	-	-	10,749	10,317	10,749	10,317
<b>Total Expenses</b>	<b>49,331</b>	<b>47,080</b>	<b>17,491</b>	<b>17,112</b>	<b>66,822</b>	<b>64,192</b>
Increase (decrease) in net position before transfers	(524)	544	891	6,985	367	7,529
Transfers	-	(4,626)	-	4,626	-	-
<b>Change in Net Position</b>	<b>(524)</b>	<b>(4,082)</b>	<b>891</b>	<b>11,611</b>	<b>367</b>	<b>7,529</b>
Restated	-	(15,608)	-	(871)	-	(16,479)
Net Position - Beginning	132,672	152,362	85,538	74,798	218,210	227,160
<b>Net Position - Ending</b>	<b>\$ 132,148</b>	<b>\$ 132,672</b>	<b>\$ 86,430</b>	<b>\$ 85,538</b>	<b>\$ 218,578</b>	<b>\$ 218,210</b>



## Governmental Activities

Governmental activities decreased the Town of Addison's net position by \$524.

## Business-Type Activities

The Town's business-type activities experienced an \$891 increase in net position with the Airport Fund recording an increase of \$797, while the Utility Fund posted a decrease of \$824, and the Storm Water Fund an increase of \$917. Of the Airport Fund's increase, \$1,026 is attributed to capital grants for improvements at the Addison Airport.

## Financial Analysis of the Government Funds

*Governmental funds* – The focus of the Town of Addison's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending following the end of the fiscal year.

As of September 30, 2015, the Town's governmental funds reported combined ending fund balances of \$56,921, a decrease of \$7,306 compared to balances a year earlier. Of the ending balance, \$11,271 or 16.0 percent is *unassigned* and is available to the Town for future spending. Most of the remaining fund balance is *restricted* for future capital projects (\$40,902), promotion of tourism and hotel industry (\$2,529), debt service (\$831) or *committed* for Economic Development (\$753). Components of the net increase of total fund balance are:

- In the General Fund, expenditures totaled \$31,981 compared to revenues of \$32,092. Revenues decreased \$134 from the previous year. The decrease was due to receiving less sales taxes revenues due to a major sales tax payer moving out of Addison. Expenditures increased \$1,906 from the 2014 fiscal year. This increase is primarily due to public safety (\$806) and general government expenditures (\$1,000).
- In the Hotel Fund, expenditures and transfers out to other funds totaled \$6,666 compared to revenues of \$7,512. Fund revenues increased \$331 from the previous year, due to an increase in non-property taxes. Expenditures decreased \$635 from fiscal year 2014 due in large part to the reduction in spending for the fiscal year 2015.
- Capital project funds recorded a net decrease in fund balance of \$4,316, primarily due to ongoing expenditures for capital projects.

*Proprietary funds* - The Town of Addison's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net position of the Airport Fund at the end of the fiscal year amounted to \$3,502; the Utility Fund reported an unrestricted net position of \$16,729, while the Stormwater Fund reported an unrestricted net position of \$2,891.

## General Fund Budgetary Highlights

Major differences between the original budget and the final amended budget are described below:

- Revenues were amended to recognize decreases in sales tax revenue (\$803). In total, the amendments resulted in a budget decrease of \$804 in revenue and a decrease of \$401 in expenditures. Allocations to various departments were made that did not result in a net change to appropriations.

The adjustments resulted in decreasing budgeted revenue 3.0 percent and decreasing expenditures by 1.0 percent. The projected deficit of \$4,853 (expenditures and other uses exceeding revenues) changed to a deficit of \$5,241. Fund balance actually decreased \$3,904.

## Capital Asset and Debt Administration

*Capital assets* – As detailed in Table A-3 below, the Town of Addison's investment in capital assets for its governmental and business-type activities as of September 30, 2015, totals \$252,042 (net of accumulated depreciation). This amount represents a \$3,573 increase from the previous year and is attributed to investment in new assets exceeding depreciation of existing assets. Projects that are in progress include the Belt Line Road Utility Undergrounding, Pedestrian Connectivity, Midway Road Revitalization, and Addison Road Rehabilitation. More information related to the Town's capital assets can be found in Sections; I, D, 4 and III, D of the Notes to Financial Statements.

**Table A-3**

### Town of Addison's Capital Assets (Net of Depreciation) (000's)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 66,245	\$ 66,233	\$ 16,945	\$ 16,945	\$ 83,190	\$ 83,178
Buildings	9,993	10,566	8,435	7,676	18,428	18,242
Improvements other than Buildings	75,485	77,263	55,081	48,570	130,566	125,833
Machinery and Equipment	4,725	3,657	753	666	5,478	4,323
Construction in Progress	12,439	8,109	1,941	8,784	14,380	16,893
Total Capital Assets	<u>\$ 168,887</u>	<u>\$ 165,828</u>	<u>\$ 83,155</u>	<u>\$ 82,641</u>	<u>\$ 252,042</u>	<u>\$ 248,469</u>

*Long-term debt* – At the end of the 2015 fiscal year, the Town of Addison had total bonded debt outstanding of \$112,019 as detailed in Table A-4. The Town did not issue new debt during 2015. The Town of Addison maintains an underlying bond rating of "AAA" from Standard & Poor's and "Aa1" from Moody's. Several of the Town's outstanding debt issuances are insured. Because of the strength of the Town's credit ratings, future bond sales should obtain competitive bids with relatively low financing rates. More information related to the Town's long-term debt can be found in Section III, G of the Notes to Financial Statements.

**Table A-4**  
**Town of Addison's Outstanding Debt (000's)**

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 48,157	\$ 45,096	\$ 1,805	\$ 2,145	\$ 49,962	\$ 47,241
Certificates of Obligation	37,514	39,611	24,543	25,322	62,057	64,933
<b>Total Debt Outstanding</b>	<u>\$ 85,671</u>	<u>\$ 84,707</u>	<u>\$ 26,348</u>	<u>\$ 27,467</u>	<u>\$ 112,019</u>	<u>\$ 112,174</u>

## **Economic Factors and Next Year's Budget and Rates**

The development of the Town's budget is guided by several factors including the Town's strategic plan and prevailing economic conditions. The fiscal year 2016 budget plan adopted by the City Council adheres to the Town's financial policies and preserves the Town's strong financial position while providing excellent levels of service. The annual budget is adopted within context of five-year financial plans for the General, Hotel, Airport, and Utility funds. The long-term financial plans project operating revenues and expenses and changes in fund balances related to the Town's adopted financial policy to work to maintain a minimum 25% fund balance for these funds.

Major programs in the general fund continue to focus on public safety, community development and parks to ensure the high quality of life enjoyed by Addison citizens and visitors.

Revenues assumptions in the general fund are expected to follow the growth curve of job creation and economic activity. Other revenues, such as property tax revenue and sales tax revenue, are forecasted using historical results or specific calculations. Certified taxable property values in Addison totaled \$4,036,723,767 for fiscal year 2015 which represented a 6.0 percent increase from the previous year. The property tax rate was increased from \$.5618 to \$.5791 per \$100 appraised value. Of the 2016 budget tax rate, \$.3767 was levied for operation/maintenance and \$.2024 for debt service. (Note: The preceding tax rates are not reflected in \$000's of dollars).

Sales tax collections for the Town were conservatively budgeted due to the loss of a major sales tax contributor from the amount collected in 2014. After four consecutive years of increases in annual collections, sales tax collections are projected to remain flat for fiscal year 2016.

Hotel occupancy tax collections increased 10 percent from the previous year. This represents four consecutive years of increasing annual collections.

## **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town of Addison's finances and to show the Town's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Town of Addison  
Finance Department  
P.O. Box 9010  
Addison, TX 75001  
Telephone: (972) 450-7098  
Email: [oriley@addisontx.gov](mailto:oriley@addisontx.gov)











## Basic Financial Statements



**Town of Addison, Texas**  
**Basic Financial Statements**

TOWN OF ADDISON  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 64,912,897	\$ 24,322,595	\$ 89,235,492
Receivables, Net of Allowances for Uncollectibles	5,281,751	2,530,890	7,812,641
Prepaid Items	267,357	-	267,357
Inventories, at Cost	63,176	-	63,176
Investment in Joint Venture	760,508	6,813,249	7,573,757
Capital Assets, Net of Accumulated Depreciation			
Land	66,245,287	16,945,437	83,190,724
Buildings	9,992,668	8,435,245	18,427,913
Improvements other than Buildings	75,485,047	55,080,649	130,565,696
Machinery and Equipment	4,725,327	752,848	5,478,175
Construction in Progress	12,439,161	1,941,489	14,380,650
<b>Total Assets</b>	<b>240,173,179</b>	<b>116,822,402</b>	<b>356,995,581</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charge on Refunding	364,646	26,452	391,098
Deferred Outflows on Pensions	2,458,079	142,810	2,600,889
<b>Total Deferred Outflows of Resources</b>	<b>2,822,725</b>	<b>169,262</b>	<b>2,991,987</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	5,390,527	1,632,167	7,022,694
Intergovernmental Payable	-	10,129	10,129
Customer Deposits	60,665	1,081,657	1,142,322
Non-Current Liabilities			
Due within One Year	5,899,099	1,337,350	7,236,449
Due in More Than One Year	98,772,768	26,458,303	125,231,071
<b>Total Liabilities</b>	<b>110,123,059</b>	<b>30,519,606</b>	<b>140,642,665</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows on Pensions	724,572	42,096	766,668
<b>Total Deferred Inflows of Resources</b>	<b>724,572</b>	<b>42,096</b>	<b>766,668</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	121,444,364	63,308,088	184,752,452
Restricted for:			
Debt Service	555,279	-	555,279
Promotion of Tourism and Hotel Industry	2,529,271	-	2,529,271
Child Safety	190,635	-	190,635
Justice Administration	63,638	-	63,638
Court Technology	91,942	-	91,942
Building Security	176,512	-	176,512
Court Security	19,190	-	19,190
Public Safety	25,484	-	25,484
Unrestricted	7,051,958	23,121,874	30,173,832
<b>Total Net Position</b>	<b>\$ 132,148,273</b>	<b>\$ 86,429,962</b>	<b>\$ 218,578,235</b>

See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

TOWN OF ADDISON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Program Revenues				Net (Expense)/Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 8,730,944	\$ 688,005	\$ -	\$ -	\$ (8,042,939)	\$ -	\$ (8,042,939)
Public Safety	16,820,899	945,217	13,376	-	(15,862,306)	-	(15,862,306)
Development Services	1,032,105	1,015,053	-	-	(17,052)	-	(17,052)
Streets	8,105,373	400,561	12,430	-	(7,692,382)	-	(7,692,382)
Parks and Recreation	5,517,049	82,681	-	158,253	(5,276,115)	-	(5,276,115)
Visitor Services	6,106,103	1,890,522	-	-	(4,215,581)	-	(4,215,581)
Interest on Long-Term Debt	3,018,672	-	-	-	(3,018,672)	-	(3,018,672)
<b>Total Governmental Activities</b>	<b>49,331,145</b>	<b>5,022,039</b>	<b>25,806</b>	<b>158,253</b>	<b>(44,125,047)</b>	<b>-</b>	<b>(44,125,047)</b>
Business-Type Activities:							
Airport	5,893,611	5,138,479	-	1,025,835	-	270,703	270,703
Utilities	10,748,886	9,877,262	-	-	-	(871,624)	(871,624)
Stormwater	848,354	1,726,526	-	-	-	878,172	878,172
<b>Total Business-Type Activities</b>	<b>17,490,851</b>	<b>16,742,267</b>	<b>-</b>	<b>1,025,835</b>	<b>-</b>	<b>277,251</b>	<b>277,251</b>
<b>Total Primary Government</b>	<b>\$ 66,821,996</b>	<b>\$ 21,764,306</b>	<b>\$ 25,806</b>	<b>\$ 1,184,088</b>	<b>(44,125,047)</b>	<b>277,251</b>	<b>(43,847,796)</b>
<b>GENERAL REVENUES</b>							
Taxes							
Property Taxes, Levied for General Purposes					20,385,225	-	20,385,225
Sales Taxes					14,104,584	-	14,104,584
Franchise Taxes					2,828,420	-	2,828,420
Hotel/Motel Taxes					5,510,406	-	5,510,406
Interest on Investments					181,811	100,928	282,739
Miscellaneous					590,619	512,888	1,103,507
<b>Total General Revenues</b>					<b>43,601,065</b>	<b>613,816</b>	<b>44,214,881</b>
<b>Change in Net Position</b>					<b>(523,982)</b>	<b>891,067</b>	<b>367,085</b>
<b>NET POSITION, Beginning of Year as Restated</b>					<b>132,672,255</b>	<b>85,538,895</b>	<b>218,211,150</b>
<b>NET POSITION, End of Year</b>					<b>\$ 132,148,273</b>	<b>\$ 86,429,962</b>	<b>\$ 218,578,235</b>

See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

**Governmental Funds**  
**Balance Sheet**  
**September 30, 2015**

	General Fund	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash and Investments	\$ 11,980,579	\$ 2,371,954	\$ 833,800	\$ 488,270	\$ 42,134,997	\$ 1,200,431	\$ 59,010,031
Receivables:							
Ac Valorem Taxes, Including Interest and Penalties, Net	192,464	-	119,880	-	1,275	10,543	324,162
Non-Property Taxes	2,760,698	475,994	-	-	-	-	3,236,692
Service Fees, Net	672,094	585	-	-	-	-	672,679
Ambulance, Net	247,937	-	-	-	-	-	247,937
Interest	9,085	1,510	567	272	28,607	833	40,874
Intergovernmental	-	-	-	-	-	229,837	229,837
Other	300,645	110,498	-	-	114,482	-	525,625
Interfund	519,753	-	-	-	-	-	519,753
Prepaid Items	267,357	-	-	-	-	-	267,357
Inventories, At Cost	63,176	-	-	-	-	-	63,176
Total Assets	\$ 17,013,788	\$ 2,960,541	\$ 954,247	\$ 488,542	\$ 42,279,361	\$ 1,441,644	\$ 65,138,123
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE:</b>							
Liabilities:							
Accounts Payable and Accrued Liabilities	\$ 2,777,163	\$ 569,863	\$ 3,000	\$ -	\$ 1,376,456	\$ 144,690	\$ 4,871,172
Interfund Payable	-	293,000	-	-	-	226,753	519,753
Intergovernmental Payable	116,311	1,444	-	-	-	-	117,755
Customer Deposits	13,733	46,932	-	-	-	-	60,665
Total Liabilities	2,907,207	911,239	3,000	-	1,376,456	371,443	5,569,345
Deferred Inflows of Resources:							
Unavailable Resources	2,504,720	8,573	119,881	-	1,275	13,716	2,648,165
Total Deferred Inflows of Resources	2,504,720	8,573	119,881	-	1,275	13,716	2,648,165
Fund Balances:							
Nonspendable	267,357	-	-	-	-	-	267,357
Prepaid Items	63,176	-	-	-	-	-	63,176
Inventories	-	-	-	-	-	-	-
Restricted	-	-	831,366	-	-	-	831,366
Debt Service	-	2,040,729	-	488,542	-	-	2,529,271
Promotion of Tourism and Hotel Industry	-	-	-	-	-	-	40,901,630
Capital Projects	-	-	-	-	40,901,630	-	88,479
Restricted - Child Safety	-	-	-	-	-	-	28,893
Justice Administration	-	-	-	-	-	-	28,893
Court Technology	-	-	-	-	-	-	77,831
Building Security	-	-	-	-	-	-	63,789
Court Security	-	-	-	-	-	-	19,190
Public Safety	-	-	-	-	-	-	25,484
Committed	-	-	-	-	-	-	-
Economic Development	-	-	-	-	-	752,819	752,819
Unassigned	11,271,328	-	-	-	-	-	11,271,328
Total Fund Balance	11,601,861	2,040,729	831,366	488,542	40,901,630	1,056,485	56,920,613
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 17,013,788	\$ 2,960,541	\$ 954,247	\$ 488,542	\$ 42,279,361	\$ 1,441,644	\$ 65,138,123

See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

**TOWN OF ADDISON**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Total Fund Balances - Governmental Funds	\$ 56,920,613
The Town uses internal service funds to charge the costs of certain activities such as replacement of capital assets and information technology to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position. The effect of this consolidation is to increase net position.	10,438,339
Capital assets used in governmental activities, including infrastructure and developer contributions, are not financial resources and therefore are not reported in fund financial statements. Capital assets of \$164,350,330, net of accumulated depreciation of \$108,498,447, exclusive of the capital assets of internal service funds with a net carrying value of \$ 4,537,160 , included above, increased net position in the government-wide financial statements.	164,350,330
Investments in Joint Venture are not financial resources and are not reported in the fund financial statements. Investments in Joint Venture of \$ 760,508 increased net position in the government-wide financial statements.	760,508
Deferred losses on refundings of debt have been reflected net of amortization in the government-wide financial statements.	364,646
Bonds payable, contractual obligations, and related premium and discount amounts have not been included in the fund financial statements.	(85,671,168)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(900,910)
Net OPEB obligation is not reflected in the fund financial statements.	(465,473)
Deferred outflows on pension costs, net of amortization, are not reflected in fund financial statements	2,458,079
Deferred inflows on pension costs, net of amortization, are not reflected in fund financial statements	(724,572)
Net pension liability is not reflected in fund financial statements	(17,634,316)
Interest payable on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due. The effect of recording accrued interest is to decrease net position.	(395,968)
Revenue from property taxes, sales taxes, franchise fees, court bonds, ambulance billing, and intergovernmental grants is a deferred inflow in the fund financial statements until it is considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible accounts, in the government-wide statements.	2,648,165
<b>Net Position of Governmental Activities</b>	<b>\$ 132,148,273</b>

See accompanying notes to basic financial statements.



**Town of Addison, Texas**  
**Basic Financial Statements**

**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Year Ended September 30, 2015**

	General Fund	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>							
Ad Valorem Taxes	\$ 11,378,975	\$ -	\$ 7,984,536	\$ -	\$ 226,899	\$ 969,714	\$ 20,560,124
Non-Property Taxes	14,215,555	5,512,956	-	-	-	-	19,728,511
Franchise Fees	2,828,420	-	-	-	-	-	2,828,420
Licenses and Permits	1,011,223	-	-	-	-	-	1,011,223
Intergovernmental	-	-	-	-	158,253	22,359	180,612
Service Fees	1,507,653	967,659	-	-	-	68,395	2,543,707
Fines and Forfeitures	725,189	-	-	-	-	38,955	764,144
Earnings on Investments	69,431	7,376	9,892	1,416	184,005	5,560	277,680
Rental Charges	236,667	964,722	-	-	-	-	1,201,389
Recycling Proceeds	10,403	-	-	-	-	-	10,403
Other	108,504	59,334	-	-	32,042	-	199,880
Total Revenues	32,092,020	7,512,047	7,994,428	1,416	601,199	1,104,983	49,306,093
<b>EXPENDITURES:</b>							
Current:							
General Government	7,654,051	-	3,049	365	-	-	7,657,465
Public Safety	16,677,666	-	-	-	-	22,060	16,699,726
Development Services	1,090,973	-	-	-	-	-	1,090,973
Streets	1,803,139	-	-	-	-	-	1,803,139
Parks and Recreation	4,755,341	-	-	-	-	-	4,755,341
Visitor Services	-	5,454,910	-	-	-	-	5,454,910
Municipal Court	-	-	-	-	-	60,426	60,426
Economic Development	-	-	-	-	-	1,281,649	1,281,649
Debt Service:							
Principal Retirement	-	-	4,833,152	640,000	-	-	5,473,152
Interest and Fiscal Charges	-	-	3,347,020	70,800	-	-	3,417,820
Capital Projects:							
Engineering and Contractual Services	-	-	-	-	5,076,254	-	5,076,254
Construction and Equipment	-	-	-	-	3,840,912	-	3,840,912
Total Expenditures	31,981,170	5,454,910	8,183,221	711,165	8,917,166	1,364,135	56,611,767
Excess/(Deficiency) of Revenues over Expenditures	110,850	2,057,137	(188,793)	(709,749)	(8,315,967)	(259,152)	(7,305,674)
<b>OTHER FINANCING SOURCES/(USES):</b>							
Transfers In	-	-	-	-	-	-	-
Transfers Out	(4,015,000)	(1,211,082)	-	710,800	4,000,000	515,282	5,226,082
Total Other Financing Sources/(Uses)	(4,015,000)	(1,211,082)	-	710,800	4,000,000	515,282	(5,226,082)
Net Change in Fund Balance	(3,904,150)	846,055	(188,793)	1,051	(4,315,967)	256,130	(7,305,674)
Fund Balances at Beginning of Year, as Restated	15,506,011	1,194,674	1,020,159	487,491	45,217,597	800,355	64,226,287
Fund Balances at End of Year	\$ 11,601,861	\$ 2,040,729	\$ 831,366	\$ 488,542	\$ 40,901,630	\$ 1,056,485	\$ 56,920,613

See accompanying notes to basic financial statements.

**TOWN OF ADDISON  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Total Net Change in Fund Balances - Governmental Funds	\$	(7,305,674)
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The Town uses internal service funds to charge the costs of certain activities such as replacement of capital assets and information technology to appropriate functions in other funds. The revenues and expenses of the internal service funds are included in governmental activities in the government-wide statement of activities. The effect of this consolidation is to increase net position.		694,771
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Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. Developer contributions are recorded as capital grants and contributions in the government-wide financial statements. The effect of removing the capital outlays and recording the developer contributions is to increase net position.		8,248,806
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Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.		(6,501,843)
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The issuance of long term debt increases the current financial resources of governmental funds while the repayment of the principal of long term debt consumes the current financial resources of governmental funds, but both have no effect on net position. The amortization of prepaid insurance associated with the issuance of long-term debt, bond premiums, bond discounts, and deferred gain/loss on refunding of long term debts is reported in the statement of activities but does not require the use of current financial resources. Therefore the effect of the amortization of these various items are not reported in the statement of revenues, expenditures, and changes in fund balance. This amount represents the increase(decrease) in net position of the following:

Bond repayments	5,473,152		
Amortization	<u>200,175</u>		5,673,327

The change in compensated absences liability is not shown in the fund financial statements. The net effect of the current year's decrease in liability is to increase net position.		(80,041)
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The change in the net OPEB obligation is not shown in the fund financial statements. The effect of recording the increase in liability is to decrease net position.		(36,483)
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Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due. The effect of recording the decrease in accrued interest is to increase net position.		198,973
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Increase in pension liability and amortization of pension costs decrease net position		(916,888)
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Revenue from property taxes, sales taxes, franchise fees, court bonds, ambulance billing, and intergovernmental grants not recognized in fund financial statements on the modified accrual basis is recognized on the accrual basis in the government-wide financial statements.		<u>(498,930)</u>
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<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(523,982)</u></b>
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See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Year Ended September 30, 2015**

	2015			
	Budget		Actual GAAP	Variance With
	Original	Final	Basis	Final Budget
				Positive
				(Negative)
<b>REVENUES:</b>				
Ad Valorem Taxes	\$ 11,736,390	\$ 11,736,390	\$ 11,378,975	\$ (357,415)
Non-Property Taxes	14,320,000	13,391,275	14,215,555	824,280
Franchise Fees	2,627,000	2,887,000	2,828,420	(58,580)
Licenses and Permits	740,000	740,000	1,011,223	271,223
Service Fees	1,443,500	1,403,500	1,507,653	104,153
Fines and Forfeitures	900,000	700,000	725,189	25,189
Earnings on Investments	20,000	50,000	69,431	19,431
Rental Charges	250,000	250,000	236,667	(13,333)
Recycling Proceeds	24,000	24,000	10,403	(13,597)
Other	25,000	100,000	108,504	8,504
Total Revenues	32,085,890	31,282,165	32,092,020	809,855
<b>EXPENDITURES:</b>				
General Government	7,725,574	7,917,927	7,654,051	263,876
Public Safety	16,827,332	16,411,780	16,677,666	(265,886)
Development Services	1,125,030	1,211,290	1,090,973	120,317
Streets	2,037,535	1,962,447	1,803,139	159,308
Parks and Recreation	5,193,405	5,004,266	4,755,341	248,925
Total Expenditures	32,908,876	32,507,710	31,981,170	526,540
Excess (deficiency) of revenues over expenditures	(822,986)	(1,225,545)	110,850	1,336,395
<b>OTHER FINANCING SOURCES/(USES):</b>				
Transfers Out	(4,030,000)	(4,015,000)	(4,015,000)	-
Total Other Financing Sources/(Uses)	(4,030,000)	(4,015,000)	(4,015,000)	-
Net Change in Fund Balance	(4,852,986)	(5,240,545)	(3,904,150)	1,336,395
Fund Balances at Beginning of Year, as Restated	15,506,011	15,506,011	15,506,011	-
Fund Balances at End of Year	\$ 10,653,025	\$ 10,265,466	\$ 11,601,861	\$ 1,336,395

See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

**Hotel Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Year Ended September 30, 2015**

	2015			
	Budget		Actual GAAP	Variance With
	Original	Final	Basis	Final Budget
				Positive
				(Negative)
<b>REVENUES:</b>				
Hotel/Motel Occupancy Taxes	\$ 5,439,311	\$ 5,839,311	\$ 5,512,956	\$ (326,355)
Proceeds from Special Events	1,400,000	1,350,000	967,659	(382,341)
Earnings on Investments	5,000	5,000	7,376	2,376
Rental Charges	983,750	1,033,750	964,722	(69,028)
Other	5,000	5,000	59,334	54,334
Total Revenues	7,833,061	8,233,061	7,512,047	(721,014)
<b>EXPENDITURES:</b>				
Visitor Services	-	71,500	36,304	35,196
Visit Addison	847,992	847,992	765,288	82,704
Conference Centre	1,178,942	1,178,942	959,140	219,802
Marketing	975,889	975,889	872,579	103,310
Special Events	2,358,050	2,358,050	2,279,532	78,518
Performing Arts	551,521	551,521	542,067	9,454
Total Expenditures	5,912,394	5,983,894	5,454,910	528,984
Excess/(Deficiency) of Revenues over Expenditures	1,920,667	2,249,167	2,057,137	(192,030)
<b>OTHER FINANCING SOURCES/(USES):</b>				
Transfer to Debt Service Fund	(1,211,082)	(1,211,082)	(1,211,082)	-
Net Change in Fund Balance	709,585	1,038,085	846,055	(192,030)
Fund Balances at Beginning of Year	1,194,674	1,194,674	1,194,674	-
Fund Balances at End of Year	\$ 1,904,259	\$ 2,232,759	\$ 2,040,729	\$ (192,030)

See accompanying notes to basic financial statements.

**Town of Addison, Texas**  
**Basic Financial Statements**

**Proprietary Funds**  
**Statement of Net Position**  
**September 30, 2015**

	Business Type Activities - Enterprise Funds				Governmental Activities
	Airport	Utility	Stormwater	Total	Internal Service
<b>ASSETS:</b>					
Current Assets:					
Cash and Investments	\$ 4,124,027	\$ 10,489,605	\$ 9,708,963	\$ 24,322,595	\$ 5,902,866
Interest Receivable	2,499	7,120	6,552	16,171	3,945
Accounts Receivable, Net	77,578	2,186,634	250,507	2,514,719	-
Total Current Assets	4,204,104	12,683,359	9,966,022	26,853,485	5,906,811
Non-Current Assets:					
Capital Assets:					
Land	15,633,373	1,312,064	-	16,945,437	-
Buildings	2,600,302	8,069,661	-	10,669,963	-
Improvements other than Buildings	53,872,596	44,780,829	50,000	98,703,425	-
Machinery and Equipment	1,536,031	2,049,785	-	3,585,816	15,096,884
Accumulated Depreciation	(22,580,860)	(26,108,352)	(1,250)	(48,690,462)	(11,225,495)
Total Capital Assets, Net of Accumulated Depreciation	51,061,442	30,103,987	48,750	81,214,179	3,871,389
Construction in Progress	424,472	1,457,991	59,026	1,941,489	665,771
Net Property, Plant, and Equipment	51,485,914	31,561,978	107,776	83,155,668	4,537,160
Investment in Joint Venture	-	6,813,249	-	6,813,249	-
Total Assets	55,690,018	51,058,586	10,073,798	116,822,402	10,443,971
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Deferred Charge on Refunding	26,452	-	-	26,452	-
Deferred Outflows on Pension Costs	-	142,810	-	142,810	-
Total Deferred Outflows of Resources	26,452	142,810	-	169,262	-
<b>LIABILITIES:</b>					
Current Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 475,730	\$ 793,676	\$ 85,209	\$ 1,354,615	\$ 5,632
Accrued Interest Payable	16,940	223,562	34,677	275,179	-
Current Compensated Absences Payable	-	2,373	-	2,373	-
Current Maturities of Long-Term Debt	517,500	549,850	270,000	1,337,350	-
Intergovernmental Payable	10,129	-	-	10,129	-
Customer Deposits	199,598	882,059	-	1,081,657	-
Total Current Liabilities	1,219,897	2,451,520	389,886	4,061,303	5,632
Non-Current Liabilities:					
Compensated Absences, Net of Current Portion	-	56,257	-	56,257	-
Long-Term Debt, Net of Current Portion	4,477,330	15,131,598	6,793,118	26,402,046	-
Total Liabilities	5,697,227	17,639,375	7,183,004	30,519,606	5,632
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Deferred Inflows on Pension Costs	-	42,096	-	42,096	-
<b>NET POSITION:</b>					
Net Investment in Capital Assets	46,517,536	16,790,552	-	63,308,088	4,537,160
Unrestricted	3,501,707	16,729,373	2,890,794	23,121,874	5,901,179
Total Net Position	\$ 50,019,243	\$ 33,519,925	\$ 2,890,794	\$ 86,429,962	\$ 10,438,339

See accompanying notes to basic financial statements.

**Proprietary Funds**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Year ended September 30, 2015**

	Business Type Activities - Enterprise Funds				Governmental Activities
	Airport	Utility	Stormwater	Total	Internal Service
<b>OPERATING REVENUES:</b>					
Water	\$ -	\$ 5,678,134	\$ -	\$ 5,678,134	\$ -
Sewer	-	4,436,230	-	4,436,230	-
Drainage	-	-	1,729,899	1,729,899	-
Penalties	-	64,949	-	64,949	-
Water and Sewer Taps and Other Fees	-	12,580	-	12,580	-
Fuel Flowage Fees	829,044	-	-	829,044	-
Customs Agent Fees	61,379	-	-	61,379	-
Rental Charges	4,248,056	-	-	4,248,056	-
Other Income	512,888	1,200	-	514,088	-
Department Contributions	-	-	-	-	1,550,000
<b>Total Operating Revenues</b>	<b>5,651,367</b>	<b>10,193,093</b>	<b>1,729,899</b>	<b>17,574,359</b>	<b>1,550,000</b>
<b>OPERATING EXPENSES:</b>					
Salaries and Fringe Benefits	318,036	1,329,625	72,315	1,719,976	-
Supplies	58,326	132,338	946	191,610	337
Maintenance and Materials	2,520,508	415,013	803	2,936,324	-
Contractual Services	1,080,580	1,169,152	510,195	2,759,927	28,313
Water Purchases	-	3,223,750	-	3,223,750	-
Wastewater Purchases	-	2,496,828	-	2,496,828	-
Total Operating Expenses (Excluding Depreciation)	3,977,450	8,766,706	584,259	13,328,415	28,650
Depreciation	1,778,693	1,290,594	1,250	3,070,537	864,189
<b>Total Operating Expenses</b>	<b>5,756,143</b>	<b>10,057,300</b>	<b>585,509</b>	<b>16,398,952</b>	<b>892,839</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(104,776)</b>	<b>135,793</b>	<b>1,144,390</b>	<b>1,175,407</b>	<b>657,161</b>
<b>NON-OPERATING REVENUES/(EXPENSES):</b>					
Investment Income/(Expense)	13,588	48,098	39,242	100,928	25,610
Sale of Assets	-	-	-	-	12,000
Gain/(Loss) on Joint Venture	-	(251,226)	-	(251,226)	-
Interest Expense and Fiscal Charges	(137,468)	(756,191)	(266,218)	(1,159,877)	-
<b>Total Non-Operating Revenues/(Expenses)</b>	<b>(123,880)</b>	<b>(959,319)</b>	<b>(226,976)</b>	<b>(1,310,175)</b>	<b>37,610</b>
<b>NET INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>(228,656)</b>	<b>(823,526)</b>	<b>917,414</b>	<b>(134,768)</b>	<b>694,771</b>
Capital Grants and Contributions	1,025,835	-	-	1,025,835	-
<b>CHANGE IN NET POSITION</b>	<b>797,179</b>	<b>(823,526)</b>	<b>917,414</b>	<b>891,067</b>	<b>694,771</b>
Net Position at Beginning of Year, as Restated	49,222,064	34,343,451	1,973,380	85,538,895	9,743,568
Net Position at End of Year	\$ 50,019,243	\$ 33,519,925	\$ 2,890,794	\$ 86,429,962	\$ 10,438,339

**Town of Addison, Texas**  
**Basic Financial Statements**

**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended September 30, 2015**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	<u>Airport</u>	<u>Utility</u>	<u>Stormwater</u>	<u>Total</u>	<u>Internal Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash Received from Customers	\$ 6,090,069	\$ 9,857,119	\$ 1,733,385	\$ 17,680,573	\$ 1,550,000
Payments to Suppliers	(3,646,133)	(6,557,424)	(474,326)	(10,677,883)	(139,051)
Payments to Employees for Services	(318,036)	(2,287,326)	(72,315)	(2,677,677)	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>2,125,900</u>	<u>1,012,369</u>	<u>1,186,744</u>	<u>4,325,013</u>	<u>1,410,949</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and Construction of Capital Assets	(388,195)	(1,818,648)	(109,026)	(2,315,869)	(2,630,411)
Principal Paid on Long-Term Debt	(445,000)	(381,848)	(265,000)	(1,091,848)	-
Interest and Fiscal Charges Paid on Long-Term Debt	(138,767)	(731,446)	(283,439)	(1,153,652)	-
Proceeds from Sale of Capital Assets	-	-	-	-	12,000
<i>Net Cash Provided/(Used) by Capital and Related Financing Activities</i>	<u>(971,962)</u>	<u>(2,931,942)</u>	<u>(657,465)</u>	<u>(4,561,369)</u>	<u>(2,618,411)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Interest on Cash and Investments	13,009	48,980	38,600	100,589	26,249
<i>Net Cash Provided/(Used) by Investing Activities</i>	<u>13,009</u>	<u>48,980</u>	<u>38,600</u>	<u>100,589</u>	<u>26,249</u>
<i>Net Increase/(Decrease) in Cash and Cash Equivalents</i>	<u>1,166,947</u>	<u>(1,870,593)</u>	<u>567,879</u>	<u>(135,767)</u>	<u>(1,181,213)</u>
Cash and Cash Equivalents, October 1	<u>2,957,080</u>	<u>12,360,198</u>	<u>9,141,084</u>	<u>24,458,362</u>	<u>7,084,079</u>
Cash and Cash Equivalents, September 30	<u>\$ 4,124,027</u>	<u>\$ 10,489,605</u>	<u>\$ 9,708,963</u>	<u>\$ 24,322,595</u>	<u>\$ 5,902,866</u>
Reconciliation of Income/(Loss) from Operations to Net Cash Provided/(Used) by Operating Activities:					
Operating Income/(Loss)	\$ (104,776)	\$ 135,793	\$ 1,144,390	\$ 1,175,407	\$ 657,161
Adjustments to Reconcile Income/(Loss) from Operations to Net Cash Provided/(Used) by Operating Activities:					
Depreciation	1,778,693	1,290,594	1,250	3,070,537	864,189
Change in Assets and Liabilities:					
(Increase)/Decrease in Accounts Receivables	446,334	(517,466)	3,486	(67,646)	-
Increase/(Decrease) in Accounts Payable	13,281	64,766	37,618	115,665	(110,401)
Increase/(Decrease) in Customer Deposits	(7,632)	38,682	-	31,050	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>\$ 2,125,900</u>	<u>\$ 1,012,369</u>	<u>\$ 1,186,744</u>	<u>\$ 4,325,013</u>	<u>\$ 1,410,949</u>
<b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Capital Grants and Contributions	\$ 893,242	\$ -	\$ -	\$ 893,242	\$ -
Gain/(Loss) of Joint Venture	-	(251,226)	-	(251,226)	-
<i>Net Non-Cash Items from Capital and Related Financing Activities</i>	<u>\$ 893,242</u>	<u>\$ (251,226)</u>	<u>\$ -</u>	<u>\$ 642,016</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.





**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Town of Addison, Texas ("Town"), relating to the funds included in the accompanying financial statements, conform to the generally accepted accounting principles applicable to state and local governments. The following represent the more significant accounting and reporting policies and practices used by the Town.

**A. Reporting Entity**

The Town is a municipal corporation incorporated on June 15, 1953, under the Constitution of the State of Texas (Home Rule Amendment). The Town's charter was last amended in November 2010. The Town operates as a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the Town and its inhabitants.

The Town is a financial reporting entity as defined by GASB Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 61 "The Financial Reporting Entity: Omnibus: an amendment of GASB Standards No. 14 and No. 34." As required by generally accepted accounting principles (GAAP), the Town's financial statements include all required activities relating to the Town and its operations. In accordance with the standards, the Town does not have component units requiring inclusion.

**B. Basic Financial Statements**

The basic financial statements include both government-wide financial statements (based on the Town as a whole) and fund financial statements. Both sets of financial statements classify activities as either governmental activities, which are supported by taxes and intergovernmental revenues, or business-type activities, which rely on fees and charges for support.

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

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. "Measurement focus" refers to what is being measured, and "basis of accounting" refers to the timing of revenue and expenditure recognition in financial statements. The government-wide financial statements and the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied.

The governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., 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.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Town considers all revenues available if they are collected within thirty (30) days after year-end. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.

Ad Valorem (property), sales, and hotel taxes, as well as franchise fees, recorded in the General Fund and Ad Valorem tax revenues recorded in the Economic Development Fund and General Obligation Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

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 between the Town's airport and utility functions and various other functions of the Town, and charges of the internal service funds to the Airport and Utility funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

The Town reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. Revenues which are not allocated by law or contractual agreement to other funds are accounted for in this fund.

Hotel Fund – The Hotel Fund is used to account for tax revenues received from local hotels. Expenditures must fall within the guidelines set forth in the Texas Hotel Occupancy Tax Act (Article 1269: Vernon's Texas Civil Statutes).

General Obligation Debt Service Fund – The General Obligation Debt Service Fund accounts for the accumulation of resources to be used for the payment of principal and interest on the general obligation bonded debt of the Town.

Hotel Debt Service Fund – The Hotel Debt Service Fund accounts for the accumulation of resources to be used for the payment of principal and interest on the Hotel Occupancy Tax Revenue certificates of obligation.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources related to the acquisition, construction, or improvements of major capital assets.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Additionally, the Town reports the following non-major governmental funds:

Municipal Court Fund – The Municipal Court Fund accounts for the Town's court building security and technology fees that are generated from court citation fines. According to state law, the revenue generated from these fees may only be spent on the municipal court function.

Public Safety Fund – The Public Safety Fund accounts for awards of monies or property by the courts relating to cases that involve the Addison Police Department. In prior years, this fund was classified as an expendable trust fund.

Advanced Funding Grant Fund – The Advanced Funding Grant Fund accounts for grant monies that are received prior to the related expenditure, and therefore the fund may carry a balance from year to year if the Town does not expend the monies within the fiscal year.

Economic Development Fund – The Economic Development Fund accumulates resources to support efforts that attract commercial enterprises to Addison and encourage existing businesses to remain in Addison.

Reimbursement Grant Fund – The Reimbursement Grant Fund accounts for expenditures for which the Town expects to be reimbursed. For any reimbursements not received prior to the fiscal year end, the Town will record a receivable. Amounts not received within 30 days of the fiscal year end are reported as deferred revenue.

The Town reports the following major proprietary funds:

Airport Fund – The Airport Fund accounts for all revenue generated by the Town's general aviation airport. The Town is required to spend this revenue on airport functions. The airport's operating, maintenance, and capital expenses are supported solely by airport income.

Utility Fund – The Utility Fund provides water and sewer services to the residents and businesses of the Town. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing.

Stormwater Fund - The Town's Stormwater Fund is financed and operated in a manner similar to private business enterprises, where costs of providing the services to the public are financed primarily through user charges. All operating, maintenance, and capital expenses are supported solely by the approved user fees.

Additionally, the Town reports the following internal service funds:

Capital Replacement Fund – The Capital Replacement Fund is used to accumulate sufficient resources to replace existing capital equipment that have reached or exceeded their useful lives. Resources are acquired through charges to operating departments in the funds. The charges are calculated using a straight-line amortization of each piece of equipment based upon the item's expected life. The funds are used to finance replacement equipment when needed.

Information Technology Replacement Fund – The Information Technology Replacement Fund is used to accumulate sufficient resources to replace existing information technology systems. Resources are acquired through charges to operating departments in the funds. The charges are calculated using a straight-line amortization of each component of a system based upon the component's expected life. The funds are used to finance replacement equipment when needed.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity**

**1) Cash and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. To maximize investment opportunities, all funds participate in a pooling of cash and investments.

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities; obligations of the State of Texas and related agencies; obligations of state, agencies, counties, cities and other political subdivisions of any state rated A or above by Standard & Poor's Corporation or Moody's Investors Service; certificates of deposit issued by state or national banks and savings banks domiciled in Texas; fully collateralized direct repurchase agreements; prime domestic banker's acceptances (BA's); commercial paper with a stated maturity of 180 days or less and a rating of not less than A-1+ or its equivalent; and state or local government investment pools.

Investments for the Town are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The Town considers quoted market price at September 30, 2015 to be the fair value of investments. The government investment pools, TexPool and TexSTAR, operate in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of pool shares.

**2) Receivables and Payables**

All receivables for the Town are reported net of an allowance for uncollectibles. The allowances are based on historical collections data and evaluated periodically.

The Town's property tax lien is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the Town. Values are assessed at 100% of the estimated market value. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance.

**3) Inventories and Prepaid Items**

In accordance with the consumption method of accounting, both inventories and prepaid items are recorded as expenditures when consumed rather than when purchased.

Inventories are stated at cost. Cost is determined for inventories of supplies and fuel using the moving-average method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in the government-wide and fund financial statements. The prepaid items of the Town consist primarily of prepaid software licensing agreements, health insurance premiums, and postage.

NOTES TO FINANCIAL STATEMENTS  
September 30, 2015

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) Capital Assets

Capital assets include land, buildings, equipment, and improvements. Improvements include upgrading facilities other than buildings such as streets or sewers and infrastructure, including pavement, storm sewers, and right-of-way contributed by developers. Capital expenditures are defined as purchases that meet specific guidelines as listed below:

- Expected useful life must be one year or more.
- Original unit cost of the item should be \$5,000 or greater and includes all costs enabling the item into operation, such as freight, installation, and accessories.
- The item should not be consumed, unduly altered, or materially reduced in value immediately by use.
- Bulk purchases of smaller equipment with a useful life of at least one year will be capitalized if the total amount of the purchase exceeds \$25,000.

The Land and Improvements other than Buildings categories associated with governmental activities include amounts for infrastructure. Related accumulated depreciation of Improvements other than Buildings includes amounts associated with infrastructure. Subsequently, infrastructure is tracked and reported as a separate component of general capital assets associated with governmental activities.

The internal service funds may record assets that have an original cost of \$5,000 or less as assets are considered part of an overall system. Individual items may be retired and replaced as parts of the larger system.

Contributed assets are recorded at fair market value as of the date donated. Depreciation of property, plant, and equipment by major classes is provided by the straight-line method based on the following estimated useful lives by major class of depreciable capital assets:

Buildings.....	50 years
Improvements other than Buildings.....	20-50 years
Equipment.....	3-50 years

Depreciation of current year additions and retirements is computed at one-half the straight-line rate.

5) Compensated Absences

Vacation, holiday, and sick pay costs are charged to operations when taken by the employees of the Town. In the event of termination, an employee is reimbursed for all accumulated vacation and holiday days not exceeding two years' accumulation. The amounts of such liabilities have been provided for in the government-wide financial statements. No reimbursements upon termination are made for accumulated sick leave; accordingly, no liability for unused sick leave has been provided. The Town's liability for compensated absences increased \$93,593 for a total liability of \$959,540.

6) Grants and Contributions

Included in capital grants and contributions in the government-wide financial statements is \$1,025,835 of capital contributions for improvements at the Addison Airport and \$158,253 for improvements at Vitruvian Park. Operating grants included \$25,806 of funding for general government initiatives.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**7) Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report 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 Town 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 contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

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. The Town has only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

**8) Fund Equity**

The Town reports governmental fund balances per GASB 54 definitions as follows:

Nonspendable – Amounts that are not in spendable form or are required to be maintained intact, such as inventory or prepaid amounts or that are legally or contractually required to remain intact

Restricted – Amounts that can be spent only for specific purposes stipulated by external parties, such as grants, court technology fees, and court building security fees or that are imposed by law through constitutional provisions or enabling legislation

Committed – Amounts whose use is constrained by specific limitations that the Town imposes itself, as determined by a resolution by the Town Council, such as economic development funding

Assigned – Amounts intended to be used for specific purposes. Intent may be expressed by the governing body or by an official or body to which the governing body delegates the authority. The City Council has delegated the CFO or his designee as the official authorized to assign fund balance for a specific purpose as approved by the fund balance policy.

Unassigned – Amounts not contained in other classifications that can be used for any purpose

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by Town management based on Council direction.

The Town will utilize funds for expenditures from the most restrictive fund balance first when more than one fund balance classification is available.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

9) Minimum Fund Balance Policy

It is the desire of the Town 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 25 percent of budgeted expenditures.

10) Net Position

Net position represents the difference between assets and liabilities. 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 Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. Budgetary Information

Budget Policy – The City Council follows these procedures in establishing the budget reflected in the financial statements:

- 1) Prior to August 1 each year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means to finance them.
- 2) Public hearings are conducted where all interested persons' comments concerning the budget are heard.
- 3) The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
- 4) The department level is the legal level of control enacted by the Town Charter. The Town has also adopted a budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the Chief Financial Officer. Transfers between operating departments may occur with the approval of the City Manager and Chief Financial Officer provided a department's total budget is not changed by more than five percent. Transfers between funds or transfers between departments that change a department's total budget by more than five percent must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors.

- 5) Budgets for the General, Special Revenue, and Debt Service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets for the Capital Project funds are normally established pursuant to the terms of the related bond indentures, that is, project basis. Accordingly, no comparison of budget to actual is presented in the financial statements.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

*Budget Data* – The budget amounts presented in the statements reflect original and amended budget amounts. During the fiscal year, one budget amendment was approved by the City Council. In the General Fund, Non-Property Tax revenue was decreased \$928,725 due to the loss of a major sales tax contributor. Franchise fee revenue was increased \$195,000, as amounts received related to gas franchise fees exceeded the budgeted amount. Miscellaneous revenues were decreased \$70,000 each due to lower than anticipated activity in these accounts. The City Manager Office budget was increased \$249,994 due to a retirement of former City Manager and hiring of Interim City Manager. The City Council Projects (\$144,133) and Development Services (\$131,000), budgets were increased related to COSO initiatives and new code enforcement positions funding in fiscal year 2015. This budget amendment included departmental savings of \$401,166 due to departments delaying spending for noncrucial operations and vacant positions not filled by the end of fiscal 2015.

*Excess of Expenditures over Appropriations* – For the year ended September 30, 2015, expenditures in the General Fund - Police exceeded appropriations by \$58,930 due to increased salaries and overtime associated with high department turnover and unanticipated legal expenditures. Also for the General Fund, expenditures in Combined Services exceeded appropriation by \$97,583 due to the implementation of several COSO initiatives Town-wide, as directed by Council. Available fund balance was sufficient to provide for the excess expenditures.

Encumbrance accounting is employed in governmental funds.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

The Town has six bank accounts: the Operating Account, Controlled Disbursement Account, Payroll Account, ACH/Wire Account, Benefits Account, and the Addison Airport Account. The Controlled Disbursements and Payroll accounts are zero-balance accounts. The ACH/Wire Account is used for all receipts and expenditures made by ACH or wire transfer. The Town uses the Operating Account as an operating pool available for all funds. Each fund type's portion of this pool is reported on the Combined Balance Sheet as "Cash and Investments." The other demand accounts are reported in the same manner. The Addison Airport account is a checking account used by the management companies at the Airport to cover operational expenses.

The investment policies of the Town are governed by state statutes and an Investment Policy Ordinance adopted by the City Council. Major provisions of the Town's investment policy include: responsibility for investments, authorized investments, bank and security dealer selection and qualifying procedures, safekeeping and custodial procedures, statement of investment objectives, and investment reporting procedures.

**Cash**

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 or instrumentalities that have a market value of not less than the principal amount of the deposits. The Town's deposits were fully insured or collateralized as required by the state statutes at September 30, 2015. Included in Cash and Investments is \$5,925 of petty cash. At year-end, the carrying amount of the Town's deposits was a debit balance of \$37,275,334. The respective bank balance totaled \$40,193,543. In addition, collateral with a market value of \$43,298,730 and unused letters of credit in the amount of \$18,827,364 were held by the pledging financial institution's account at the Federal Reserve Bank in the Town's name.

In order to maximize interest earnings, the Town utilizes a controlled disbursement account that allows the Town to deposit only as much money needed to fund checks presented for payment each day. The amount required is withdrawn from the operating pool.



**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

External Investment Pools

The Town's pool investments as of September 30, 2015 were invested in TexPool and TexSTAR (Texas Short Term Asset Reserve program).

Federated Investors is the full service provider for the TexPool program. As the provider, the responsibilities include managing the assets, providing participant services, and arranging for all custody and other functions in support of the operations under a contract with the State Comptroller of Public Accounts. JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMFAM provides investment management, fund accounting, transfer agency and custodial services, and FSAM provides administrative, marketing and participant services.

TexPool and TexSTAR are not registered with the Securities and Exchange Commission (SEC) as investment companies. TexPool and TexSTAR are investment pools that have been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

The fair value of the Town's position in the external investment pool is the same as the value of the pool shares.

Investments

As of September 30, 2015, the Town held the following investments:

	Fair Value	Average Maturity (Days)
Agency Securities	\$ 17,029,717	250
Commercial Paper	4,998,030	71
Certificates of Deposit	35,213,550	228
<i>Total Investment in Securities</i>	<u>57,241,297</u>	<u>221</u>
TexStar	25,315,391	1
TexPool	4,611,095	1
<i>Total Investment in Pools</i>	<u>29,926,486</u>	<u>1</u>
<i>Total Investments</i>	<u>\$ 87,167,783</u>	146

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Town records investments at fair value. However, for investments with maturities of one year or less at time of purchase, the Town reports these investments at book value. The carrying value of the Town's investments at September 30, 2015 was \$87,167,783, of which \$34,924,516 had maturities of less than one year at time of purchase.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

*Interest Rate Risk* – In accordance with its investment policy, the Town manages its exposure to declines in fair value by limiting the weighted average days to maturity of its investment portfolio to 18 months (540 days).

*Credit Risk* – The reported investments meet the criteria specified in the Town's investment policy related to the specific types of instruments presented.

- a) Debt obligations with a maturity not to exceed five years from the date of purchase issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). The Town's investments in bonds of U.S. Agencies were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's. Mortgage-backed securities may be held as collateral although principal-only and interest-only mortgage-backed securities as well as all types of collateralized mortgage obligations (CMO) and real estate mortgage investment conduits (REMICs) are expressly prohibited.
- b) Prime commercial paper with an original maturity of one hundred eighty days or less which at the time of purchase, is rated at least A-1 by Standard and Poor's, P-1 by Moodys or F1 by Fitch.
  - (1) At the time of purchase, the commercial paper must be rated by at least two of the above stated ratings agencies at the above stated minimum credit rating.
  - (2) If more than two of the above rated agencies rates an issuer, all the rating agencies must rate the issuer in accordance with the above stated minimum credit criteria.
  - (3) If the commercial paper issuer has senior debt\* outstanding, the senior debt must be rated by each service that publishes a rating of the issue at least:
    - A-1 by Moodys
    - A+ by Standard and Poor's
    - A+ by Fitch(\*Senior Debt is defined as the most senior secured or unsecured debt of an issuer with an original maturity exceeding one year)

If the commercial paper issuer is given a "plus (+) rating", the maximum maturity of 270 days or less will be allowed.

- c) Time Certificates of Deposit with a maturity not to exceed three years from the date of purchase, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, in depository institutions that have a main office or a branch in the state of Texas which have been approved by the Town in accordance with its Investment Policy. In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principal and interest of each CD federally insured may be purchased through a selected depository institution with its main office or branch office in Texas. This depository shall act as the custodian for the various certificates on behalf of the Town.
- d) State and Local Investment Pools organized under the Interlocal Cooperation Act that meets the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the CFO and authorized by the City Council. TexPool and TexSTAR are both currently rated AAAM by Standard and Poor's.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

*Concentration of Credit Risk* – It is the Town's policy to avoid a concentration of assets in a specific maturity, a specific issue, or a specific class of securities. The applicable limits on the Town's current investments are Instrumentality Securities (70%) of which the Town's portfolio is currently at 20%, Commercial Paper (30%) of which the Town's portfolio is currently at 6%, Certificates of Deposit (50%) of which the Town's portfolio is currently at 40%, and Local Government Investment Pools (40%) of which the Town's portfolio is currently at 34%.

**B. Ad Valorem (Property) Taxes**

Property taxes attach as an enforceable lien on property as of January 1. The Town's property tax is levied on the assessed value listed as of the prior January 1 for all real and business personal property located in the Town. Assessed values are established by Dallas Central Appraisal District at 100% of the estimated market value and certified by the Appraisal Review Board. The assessed taxable value for the roll of January 1, 2014, upon which the fiscal year 2015 levy is based, was \$3,805,580,841.

The Town is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The tax rate for the year ended September 30, 2015 was \$.5618 per \$100, of which \$.3437 was allocated for general government and \$.2181 was allocated for the payment of principal and interest on general obligation and certificates of obligation long-term debt.

Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. Current tax collections for the year ended September 30, 2015 were 95.73% of the original tax levy. In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the Town may at its own expense require annual reviews of appraised values. The Town may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this arrangement, the Town continues to set tax rates on Town property.

However, if the effective tax rate, excluding tax rates for retirement of bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the Town may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year. This legislation also provides that, if approved by the qualified voters in the Town, both the appraisal and collection functions may be placed with the appraisal district.

Taxes are recognized as revenue beginning on the date of levy when they become available. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Taxes not expected to be collected within thirty (30) days of the fiscal year ending are recorded as deferred inflows of resources and recognized as they become available. Taxes collected prior to the levy date to which they apply are recorded as unearned revenues and recognized as revenue of the period to which they apply. An allowance for uncollectible taxes is provided based on an analysis of historical trends. The allowance for uncollectible taxes at September 30, 2015 was \$82,058.

**Town of Addison, Texas**  
**Basic Financial Statements**

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Receivables**

As of September 30, 2015, receivables for the Town's individual major governmental funds, non-major governmental funds, and internal service funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General	Hotel	Debt Service	Hotel Debt Service	Capital Projects	Non-Major Funds	Internal Service Funds	Total
Taxes:								
Ad Valorem	\$ 241,735	\$ -	\$ 151,166	\$ -	\$ 1,342	\$ 11,978	\$ -	\$ 406,221
Non-Property	2,760,698	475,994	-	-	-	-	-	3,236,692
Franchise Fees	-	-	-	-	-	-	-	-
Service Fees	975,205	-	-	-	-	-	-	975,205
Ambulance	542,733	-	-	-	-	-	-	542,733
Interest	9,085	1,510	567	272	28,607	833	3,945	44,819
Other	308,145	111,083	-	-	114,482	229,837	-	763,547
Gross Receivables	\$ 4,837,601	\$ 588,587	\$ 151,733	\$ 272	\$ 144,431	\$ 242,648	\$ 3,945	\$ 5,969,217
Less: Allowance for Uncollectibles	654,678	-	31,286	-	67	1,435	-	687,466
Net Receivables	<u>\$ 4,182,923</u>	<u>\$ 588,587</u>	<u>\$ 120,447</u>	<u>\$ 272</u>	<u>\$ 144,364</u>	<u>\$ 241,213</u>	<u>\$ 3,945</u>	<u>\$ 5,281,751</u>

The above allowance for uncollectible accounts represents reserves for ambulance (\$294,797), court warrants (\$310,611), and property taxes (\$82,058).

**Town of Addison, Texas**  
**Basic Financial Statements**

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**D. Capital Assets**

Capital Asset activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Capital Assets, not Depreciable:					
Land	\$ 66,233,100	\$ 12,187	\$ -	\$ -	\$ 66,245,287
Construction in Progress	8,108,551	8,386,203	(228,004)	(3,827,589)	12,439,161
<i>Total Capital Assets, not Depreciable</i>	<u>74,341,651</u>	<u>8,398,390</u>	<u>(228,004)</u>	<u>(3,827,589)</u>	<u>78,684,448</u>
Capital Assets, Depreciable:					
Buildings	22,026,374	-	-	-	22,026,374
Improvements other than Buildings	165,224,676	134,104	-	3,827,589	169,186,369
Machinery and Equipment	17,150,527	2,122,021	(558,305)	-	18,714,243
<i>Total Capital Assets, Depreciable</i>	<u>204,401,577</u>	<u>2,256,125</u>	<u>(558,305)</u>	<u>3,827,589</u>	<u>209,926,986</u>
Less Accumulated Depreciation for:					
Buildings	(11,460,566)	(573,140)	-	-	(12,033,706)
Improvements other than Buildings	(87,961,733)	(5,747,635)	8,046	-	(93,701,322)
Machinery and Equipment	(13,493,918)	(1,053,305)	558,307	-	(13,988,916)
<i>Total Accumulated Depreciation</i>	<u>(112,916,217)</u>	<u>(7,374,080)</u>	<u>566,353</u>	<u>-</u>	<u>(119,723,944)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>91,485,360</u>	<u>(5,117,955)</u>	<u>8,048</u>	<u>3,827,589</u>	<u>90,203,042</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 165,827,011</u>	<u>\$ 3,280,435</u>	<u>\$ (219,956)</u>	<u>\$ -</u>	<u>\$ 168,887,490</u>
<b>Business-type Activities:</b>					
Capital Assets, not Depreciable:					
Land	\$ 16,945,437	\$ -	\$ -	\$ -	\$ 16,945,437
Construction in Progress	8,784,117	1,867,568	-	(8,710,196)	1,941,489
<i>Total Capital Assets, not Depreciable</i>	<u>25,729,554</u>	<u>1,867,568</u>	<u>-</u>	<u>(8,710,196)</u>	<u>18,886,926</u>
Capital Assets, Depreciable:					
Buildings	9,706,870	963,093	-	-	10,669,963
Improvements other than Buildings	89,470,844	522,386	-	8,710,196	98,703,426
Machinery and Equipment	3,617,779	231,067	(263,029)	-	3,585,817
<i>Total Capital Assets, Depreciable</i>	<u>102,795,493</u>	<u>1,716,546</u>	<u>(263,029)</u>	<u>8,710,196</u>	<u>112,959,206</u>
Less Accumulated Depreciation for:					
Buildings	(2,030,950)	(203,768)	-	-	(2,234,718)
Improvements other than Buildings	(40,900,520)	(2,722,257)	-	-	(43,622,777)
Machinery and Equipment	(2,951,486)	(144,512)	263,029	-	(2,832,969)
<i>Total Accumulated Depreciation</i>	<u>(45,882,956)</u>	<u>(3,070,537)</u>	<u>263,029</u>	<u>-</u>	<u>(48,690,464)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>56,912,537</u>	<u>(1,353,991)</u>	<u>-</u>	<u>8,710,196</u>	<u>64,268,742</u>
<i>Business-type Activities Capital Assets, net</i>	<u>\$ 82,642,091</u>	<u>\$ 513,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,155,668</u>

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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

Depreciation expense was charged to departments of the Town as follows:

	Governmental Activities	Business-type Activities
General Government	\$ 89,353	\$ -
Public Safety	166,921	-
Development Services	5,734	-
Streets	4,778,608	-
Parks and Recreation	746,976	-
Visitor Services	722,299	-
IT Replacement	339,924	-
Capital Replacement	524,265	-
Airport Fund		1,778,693
Utility Fund		1,290,594
Stormwater Fund		1,250
	<u>\$ 7,374,080</u>	<u>\$ 3,070,537</u>

The following tabulation presents the estimated significant commitment under unfinished capital construction and equipment contracts that are fully funded as of September 30, 2015:

Project	Estimated Commitments	Less Expenditures to Date	Total Commitment Remaining
<u>Governmental Activities</u>			
Belt Line Road Underground Utilities	\$ 20,830,000	\$ 6,371,214	\$ 14,458,786
Pedestrian Connectivity Improvements	3,500,000	809,506	2,690,494
Vitruvian Public Infrastructure	10,021,107	1,843,729	8,177,378
Public Safety Radio Replacement	3,000,000	2,588,620	411,380
Addison Road Rehabilitation	2,274,473	823,871	1,450,602
	<u>\$ 39,625,580</u>	<u>\$ 12,436,940</u>	<u>\$ 27,188,640</u>
<u>Business-type Activities</u>			
Water Storage Facility	\$ 3,531,189	\$ 1,637,514	\$ 1,893,675
Mary Kay/Keller Springs Basin Improvements	1,700,000	114,458	1,585,542
	<u>\$ 5,231,189</u>	<u>\$ 1,751,972</u>	<u>\$ 3,479,217</u>

**E. Interlocal Sanitary Sewer Interceptor Agreement**

The Town is party to an interlocal agreement, which establishes a non-profit water supply corporation (North Dallas County Water Supply Corporation) for the purpose of constructing, maintaining, and operating a joint sanitary sewer interceptor with the City of Farmers Branch. The non-profit water supply corporation is governed by a six-member board composed of three appointees from each entity.

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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

The Town was obligated for construction costs of the project in proportion to its percentage of allocated flows for each specific portion of the project as set forth in the agreement. The Town is also obligated to pay 55% of all general overhead costs. Operating and maintenance costs since the project became operational shall be paid in accordance with respective percentages of allocated flows as set forth in the agreement.

The Town's net investment and its share of general overhead expenses are reported in the Town's Utility Fund (an enterprise fund). The Town's equity interest in the North Dallas County Water Supply Corporation of \$6,813,249, net of related debt, is included in Unrestricted Net Position. Complete financial statements for the North Dallas County Water Supply Corporation can be obtained from Charles Cox, Secretary/Treasurer, North Dallas County Water Supply Corporation, 13000 William Dodson Parkway, Farmers Branch, Texas.

**F. Joint Venture and Shared Radio System**

The North Texas Emergency Communications Center, Inc. (NTECC) is a joint venture between the Town of Addison, City of Carrollton, City of Coppell, and City of Farmers Branch (the "Cities") formed during fiscal year 2015 to establish and operate a joint public safety dispatch center. The affairs of the NTECC are managed by a four-person board of directors representing each of the four participating Cities.

The Cities are responsible for funding capital and operating costs of the NTECC in the proportions stated in the inter-local agreement. The Town financed its portion of construction funds with proceeds from Combination Tax and Revenue Certificates of Obligation, Series 2012. The Town of Addison's equity interest (19%) in the NTECC is reported as investment in joint venture in the governmental activities on the government-wide Statement of Net Position. Condensed financial information for the NTECC joint venture is presented below. Complete financial statements for the NTECC can be obtained from Pamela Hodges, Controller, City of Carrollton, 1945 E Jackson Road, Carrollton, Texas.

**STATEMENT OF NET POSITION**

As of September 30, 2015

	Total	Town's Interest
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,622,936	\$ 308,358
Prepays	27,347	5,196
Capital assets:		
Construction in progress	4,002,674	760,508
Total Assets	<u>\$ 5,652,957</u>	<u>\$ 1,074,062</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 233,929	\$ 44,447
Unearned revenue	1,396,501	265,335
Compensated absences	19,853	3,772
Total current liabilities	1,650,283	313,554
Fund balances:		
Unassigned	-	-
Total Liabilities and fund balances	1,650,283	313,554
<b>NET POSITION</b>	<u>\$ 4,002,674</u>	<u>\$ 760,508</u>

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION**  
As of September 30, 2015

	Total	Town's Interest
Operating contributions	\$ 821,382	\$ 156,063
Capital contributions	2,490,265	473,150
General & administrative current expenses	928,973	176,505
Changes in Net Position	2,382,674	452,708
Net position at beginning of year	1,620,000	307,800
Net Position at end of year	<u>\$ 4,002,674</u>	<u>\$ 760,508</u>

Additionally, the Cities have entered into an inter-local 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 the NTECC in the future. The Town has financed its portion of construction funds with proceeds from Combination Tax and Revenue Certificates of Obligation, Series 2012. The Cities are responsible for funding a portion of the radio system in the proportions stated in the inter-local agreement. The Town of Addison's portion of the system costs at September 30, 2015 of \$2,588,620 is capitalized as construction in progress in the governmental activities on the government-wide Statement of Net Position.

**G. Long-Term Debt**

The long-term debt of the Town consisted of the following as of September 30, 2015:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<b>Combination Tax and Revenue Certificates of Obligation Series of 2008</b>		
A series of 6,900 bonds at \$5,000 each dated May 1, 2008. The bonds were issued for the purpose of constructing improvements to (i) water, sewer, drainage, park and streets including sidewalks, street lighting, landscaping, extensions and relocations, and acquisition of land and rights-of-way; (ii) acquisition and construction of a water tower; (iii) acquisition of land for street and other municipal purposes (collectively with items (i) and (ii)); and (iv) payment of professional services of attorneys, financial advisors and other professionals in connection with the issuance of the certificates. The bonds mature serially through 2033 with interest rates ranging from 4% to 5%. The bonds are callable at par value plus accrued interest on or after February 15, 2018 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from a combination of Ad Valorem taxes and a limited pledge (not to exceed \$1,000) of surplus net revenues of the Town's Utility Fund.	23,148,849	7,166,151
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		



**NOTES TO FINANCIAL STATEMENTS**  
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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>
<b>General Obligation Refunding Bonds Series of 2011</b>		
<p>A series of 1,778 bonds at \$5,000 each dated October 25, 2011. The bonds were issued to refund a portion of the Town's outstanding General Obligation Refunding Bonds, Series 2001, General Obligation Refund and Improvement Bonds, Series 2002 and Combination Tax and Revenue Certificates of Obligation, Series 2003; for interest savings, and costs of issuance associated with the sale of the bonds. The bonds mature serially through 2033 with interest rates ranging from 2.0% to 3.0%. The bonds are not callable. Bonds and interest are payable from a combination of Ad Valorem taxes and hotel occupancy taxes.</p> <p>Ratings: Moody's "Aa1"; Standard &amp; Poor's "AAA"</p>	4,455,000	-
<b>Combination Tax and Revenue Certificates of Obligation Series of 2012</b>		
<p>A series of 2,967 bonds at \$5,000 each dated August 15, 2012. The bonds were issued for the purpose of (i) acquiring and installing radio and telecommunication equipment for Town public safety operations, (ii) designing, acquiring, improving, constructing, and renovating water, wastewater and street infrastructure improvements, including drainage infrastructure, within the Vitruvian Park area of the Town; and (iii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the certificates. The bonds mature serially through 2032 with interest rates ranging from 1.5% to 4%. The bonds are callable at par value plus accrued interest on or after February 15, 2022 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from a combination of Ad Valorem taxes and a limited pledge (not to exceed \$1,000) of surplus net revenues of the Town's Utility Fund.</p> <p>Ratings: Moody's "Aa1"; Standard &amp; Poor's "AAA"</p>	14,445,000	-

**NOTES TO FINANCIAL STATEMENTS**  
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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<b>General Obligation Refunding and Improvement Bonds Series of 2012</b>		
<p>A series of 4,518 bonds at \$5,000 each dated August 15, 2012. The bonds were issued to fund various public improvement projects up to \$19,830,000 to include construction, engineering, and other professional service; refund the Town's outstanding General Obligation Bonds, Series 2004, and General Obligation Refunding and Improvement Bonds, Series 2005; and pay the costs of issuance associated with the sale of the bonds. The bonds mature serially through 2032 with interest rates ranging from 2% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2022 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes.</p> <p>Ratings: Moody's "Aa1"; Standard &amp; Poor's "AAA"; AMBAC Insured</p>	21,040,000	-
<b>General Obligation Bonds, Tax-Exempt Series of 2013</b>		
<p>A series of 933 bonds at \$5,000 each dated July 15, 2013. The bonds will be used to provide funds to (i) engineer, construct, improve, repairing, develop, extend and expand streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the Town, included related streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting and the acquisition of land therefore; (ii) acquire and improve of land and interest in land to provide improvements, additions and access to the Addison Municipal Airport, and (iii) pay the costs of issuing the Tax-Exempt Bonds. The bonds mature serially through 2033 with interest rates ranging from 2% to 5%.</p> <p>Ratings: Moody's "Aa1"; Standard &amp; Poor's "AAA"</p>	4,365,000	-
<b>General Obligation Bonds Series 2013A (AMT)</b>		
<p>A series of 375 bonds at \$5,000 each dated July 15, 2013. The bonds will be used to provide funds to: (i) acquire and improve of land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (ii) pay the costs of issuing the AMT bonds. The bonds mature serially through 2018 with interest rates ranging from 2% to 2.25%.</p> <p>Ratings: Moody's "Aa1"; Standard &amp; Poor's "AAA"</p>	1,745,000	-

**NOTES TO FINANCIAL STATEMENTS**  
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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<b>General Obligation Bonds Taxable Series of 2013B</b>		
A series of 250 bonds at \$5,000 each dated July 15, 2013. The bonds, together with other available Town funds, will be used to provide funds to: (i) acquire and improve of land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (ii) pay the costs of issuing the Taxable Bonds. The bonds mature serially through 2033 with interest rates ranging from 3.75% to 5%. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	1,170,000	-
<b>Combination Tax and Revenue Certificates of Obligation Series of 2013</b>		
A series of 2,037 bonds at \$5,000 each dated July 15, 2013. The Certificates will be used for (i) (a) designing, acquiring, improving, constructing and renovating facilities and infrastructure at the Addison Municipal Airport and the acquisition and improvement of land and interests in land to provide improvements, additions and access to the airport, (b) designing, acquiring, improving, constructing, and renovating City drainage and stormwater infrastructure and facilities ((a) and (b) together, the "Project") and (ii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The bonds mature serially through 2033 with interest rates ranging from 2% to 5%. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	-	9,485,000
<b>General Obligation Bonds, Tax-Exempt Series 2014</b>		
A series of 2,400 bonds at \$5,000 each dated February 15, 2014. The bonds will be used to provide funds for: (i) engineering, constructing, reconstructing, improving, repairing, developing, extending and expanding streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the Town, including related streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting, and the acquisition of land therefor; relocating utilities currently located in or adjacent to the Belt Line Road right-of-way and acquiring, constructing, and developing Belt Lind Road roadway and streetscape improvements and the acquisition of land therefor; and (iii) for the payment of the costs of issuing the Tax-Exempt Bonds. The bonds mature serially through 2032 with interest rates ranging from 3% to 3.625%. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	11,805,000	-

**NOTES TO FINANCIAL STATEMENTS**  
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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>
<b>Certificates of Obligation Series 2014</b>		
A series of 1,513 bonds at \$5,000 each dated February 15, 2014. The Certificates will be used for (i) designing, constructing, installing, acquiring and equipping additions, extensions and improvements to the Town's water and wastewater system, and the acquisition of land and interests in land for such projects, (the "Project") and (ii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The bonds mature serially through 2034 with interest rates ranging from 1% to 4%.	-	7,455,000
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
<b>General Obligation Refunding Bonds Series 2014 (AMT)</b>		
A series of 429 bonds at \$5,000 each dated February 15, 2014. The bonds will be used to: (i) refund a portion of the Town's outstanding Combination Tax and Revenue Certificates of Obligation, Series 2004 for debt service savings, and (ii) to pay the costs of issuing the AMT Bonds. The bonds mature serially through 2020 with interest rates ranging from 1% to 2%.	-	1,805,000
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
<b>TOTAL LONG-TERM DEBT OUTSTANDING</b>	<u><u>\$ 82,173,849</u></u>	<u><u>\$ 25,911,151</u></u>

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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

Changes in Long-Term Liabilities

A summary of long-term liability activity for the year ended September 30, 2015 was as follows (in thousands of dollars):

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 48,985	\$ -	\$ (4,405)	\$ 44,580	\$ 4,210
Premium on General Obligation Bonds	3,938	-	(309)	3,629	-
Discount on General Obligation Bonds	(56)	-	4	(52)	-
Certificates of Obligation	38,662	-	(1,068)	37,594	1,590
Premium on Certificates of Obligation	20	-	(1)	19	-
Discount on Certificates of Obligation	(103)	-	4	(99)	-
Net Pension Liability	-	17,634	-	17,634	-
Compensated Absences	821	901	(821)	901	99
Net OPEB Obligation	429	199	(163)	465	-
Long-Term Liabilities – Governmental Activities	<u>\$ 92,696</u>	<u>\$ 18,734</u>	<u>\$ (6,759)</u>	<u>\$ 104,671</u>	<u>\$ 5,899</u>
<b>Business-type Activities:</b>					
General Obligation Refunding Bonds	\$ 2,145	\$ -	\$ (340)	\$ 1,805	\$ 345
(Payable from levy of Ad Valorem tax)					
Combination Tax and Revenue Certificates of Obligation	2,815	-	(105)	2,710	110
(Payable from levy of Ad Valorem tax)					
Premium on Combination Tax and Revenue C.O.	122	-	(7)	115	-
Combination Tax and Revenue Certificates of Obligation	15,003	-	(382)	14,621	549
(Payable from utility system revenues)					
Premium on Combination Tax and Revenue C.O.	38	-	(3)	35	-
Combination Tax and Revenue Certificates of Obligation	7,040	-	(265)	6,775	270
(Payable from storm water system revenues)					
Premium on Combination Tax and Revenue C.O.	304	-	(17)	287	-
Note Payable	-	375	(10)	365	62
Net Pension Liability	-	1,025	-	1,025	-
Compensated Absences	45	58	(45)	58	1
Long-Term Liabilities – Business-type Activities	<u>\$ 27,512</u>	<u>\$ 1,458</u>	<u>\$ (1,174)</u>	<u>\$ 27,796</u>	<u>\$ 1,337</u>

The Town intends to retire all of its general obligation bonds (other than those recorded in the enterprise funds), plus interest, from future Ad Valorem tax levies, interest income, and transfers from other funds. The Town is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. There is \$831,366 available in the General Obligation Debt Service Fund to service the general obligation bonds.

Proprietary fund-type debt is to be repaid from net revenues of the enterprise funds and is, accordingly, recorded as enterprise fund debt. The Note Payable referenced above in the Business-type Activities was created in July 2015 as part of a ground lease early termination agreement at the Addison Airport. The Town of Addison will pay \$375,000 in 72 equal payments of \$5,208 each month, accruing no interest, beginning August 1, 2015. This creates an annual principal only payment of \$62,500 for years 2016 through 2019 and annual payment of \$54,000 in 2020.

There are a number of limitations and restrictions contained in the various general obligations, certificates of obligation, and revenue bond indentures. The Town is in compliance with all significant limitations and restrictions at September 30, 2015.

For the governmental activities, compensated absences are generally liquidated in the General Fund, Economic Development Fund and Hotel Fund. The net OPEB obligation is generally liquidated in the General Fund.

**Town of Addison, Texas**  
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**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

The debt service requirements on the aforementioned bonded debt are as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds:				
2016	\$ 4,210,000	\$ 1,650,208	\$ 345,000	\$ 22,875
2017	3,980,000	1,527,720	350,000	19,400
2018	3,205,000	1,410,626	360,000	15,400
2019	2,615,000	1,303,217	370,000	10,375
2020	1,710,000	1,221,748	380,000	3,800
2021-2025	9,380,000	5,020,184	-	-
2026-2030	11,710,000	2,749,660	-	-
2031-2035	7,770,000	457,767	-	-
2036-2037	-	-	-	-
	<u>\$ 44,580,000</u>	<u>\$ 15,341,130</u>	<u>\$ 1,805,000</u>	<u>\$ 71,850</u>
Certificates of Obligation:				
2016	\$ 1,590,151	\$ 1,431,135	\$ 929,850	\$ 924,197
2017	1,638,331	1,376,949	961,669	900,709
2018	1,704,148	1,319,108	990,852	876,112
2019	1,763,782	1,263,849	1,031,218	849,333
2020	1,823,417	1,206,405	1,071,583	818,277
2021-2025	10,270,602	4,942,242	6,094,398	3,429,096
2026-2030	10,434,299	2,719,027	7,415,701	1,983,681
2031-2035	7,174,119	747,360	5,610,880	410,936
2036-2037	1,195,000	40,753	-	-
	<u>\$ 37,593,849</u>	<u>\$ 15,046,828</u>	<u>\$ 24,106,151</u>	<u>\$ 10,192,341</u>

**H. Property Under Operating Leases**

The Town leases land with a book value of \$63,560 to tenants under non-cancelable lease agreements. The following is a schedule by year of minimum lease rental receipts as of September 30, 2015.

2015	2016	2017	Thereafter	Total
\$ 260,000	\$ 260,000	\$ 220,000	\$ 35,000	\$ 775,000

**I. Interfund Receivables, Payables, and Transfers**

A summary of interfund receivables and payables at September 30, 2015 is as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 519,753	\$ -
Grant Fund	-	226,753 Loan for grant expenditures, reimbursement expected in next year
Hotel Fund	-	293,000 Loan for HVAC system, reimbursement expected in next year
Total	<u>\$ 519,753</u>	<u>\$ 519,753</u>

**Town of Addison, Texas**  
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**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

Transfers between funds during the year ended September 30, 2015 were comprised of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose of Transfer</u>
General Fund	\$ -	\$ 4,000,000	For capital projects
General Fund	-	15,000	For economic development
Capital Project Fund	4,000,000	-	For capital projects
Economic Development Fund	15,000	-	For economic development
Economic Development Fund	500,282	-	For economic development
Hotel Fund	-	500,282	For economic development
Hotel Fund	-	710,800	For payment of debt service
Hotel Debt Service Fund	710,800	-	For payment of debt service
<i>Total Transfers</i>	<u>\$ 5,226,082</u>	<u>\$ 5,226,082</u>	

**IV. OTHER INFORMATION**

**A. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Town maintained workers compensation, general liability and property coverage through the Texas Municipal League Intergovernmental Risk Pool (TMLIRP). The Town pays an annual premium to TMLIRP for such coverage. TMLIRP purchases reinsurance and the Town does not retain risks of loss exceeding deductibles. The Town's general liability coverage is \$5,000,000 and \$10,000,000 in the aggregate. Settled claims have not exceeded insurance coverage in each of the past four years.

Prior to the 2001 fiscal year, the Town participated in a retained-risk program with TMLIRP under which the Town assumed the risk of paying for all individual claims with a specific stop-loss of \$175,000 and an annual aggregate stop-loss of \$525,000. Outstanding claims associated with the risk retention program are accounted for in the General Fund and are recorded as Accounts Payable. During fiscal year 2008, the one remaining claim met the stop-loss of \$175,000, and the Town has no future liability for this claim.

For the period of October to December 2014, the Town offered health benefits through one of two plans operated by Blue Cross Blue Shield. Employees were able to choose either an HMO (health maintenance organization) plan or a PPO (preferred provider organization) plan. For the period of January 1, to September 30, 2015, the Town offered health benefits through one of two plans operated by Aetna, employees were able to choose either a PPO (preferred provider organization) or an HSA (high deductible health savings account). The Town also offers a dental plan through Delta Dental. The HMO, PPO, and dental plans are funded by joint contributions from the employees and the Town and are accounted for in the respective operating funds.

Blue Cross, Aetna and Delta Dental plans are fully insured contracts. Monthly premiums paid to Aetna, Blue Cross and Delta Dental were based upon fixed employee and dependent rates that are established each year.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**IV. OTHER INFORMATION (CONTINUED)**

**B. Employee's Retirement System**

**1) Pension Plan**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, Town specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the Town'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 Town's Total Pension Liability is obtained from TMRS through a report prepared for the Town by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

**Plan Description**

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 860 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. 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' 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, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The report is also available on the System's web site at: <http://www.tmr.org/publications.php>.

**Benefits Provided**

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

Benefits depend upon the sum of the employee's contributions to the plan and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for services rendered before the plan began based on an amount equal to two times what would have been contributed by the employee plus interest. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions. Beginning in 1994, the Town adopted an annually repeating type of monetary credit referred to as an updated service credit which when added to the employee's accumulated contributions and the monetary credits for service since the plan began would be the total monetary credits and employee contributions accumulated with interest, if the current employee contribution rate and Town matching percent had always been in existence. The calculation included a three year exponential average of the actual salaries paid during the prior fiscal years.



**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**IV. OTHER INFORMATION (CONTINUED)**

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits plus interest were used to purchase an annuity. Also in 1994, the Town adopted annually repeating annuity increases for its retirees equal to 70% of the change in the consumer price index.

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at certain ages, based on the years of service with the Town. The service retirement eligibilities for the Town are: 5 years/age 60, 20 years/any age. Plan provisions for the Town are as follows:

Deposit Rate:	7%
Matching Ratio (Town to Employee):	2 to 1
A member is vested after:	5 years

Employees covered by benefit terms.

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	169
Inactive employees entitled to but not yet receiving benefits	179
Active employees	<u>256</u>
Total	<u>604</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the town. Under the state law governing TMRS, the contribution rate for the town is determined annually by the 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. Since the Town needs to know its contribution rates in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The Town elected to contribute at the full rates for calendar year 2015 of 9.91%, and 2014 was 9.93%. Accordingly, contributions to TMRS for the years ended September 30, 2015 and 2014 were \$1,777,431 and \$1,816,613, respectively and were equal to the required contribution.

Net Pension Liability

The Town's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**IV. OTHER INFORMATION (CONTINUED)**

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense including inflation.

Salary increases were based on service-related tables. Mortality rates for active members and retirees were multiplied by 109% for males and by 103% for females. 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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, 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term
		Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**IV. OTHER INFORMATION (CONTINUED)**

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 3.65% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve). A single discount rate of 7.0% was used to measure the total pension liability as of December 31, 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.0%. Based on the stated assumptions and the projection of cash flows, the Town's fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for the Town. The projection of cash flows used to determine the single discount rate for the Town assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years.

Changes in the Net Pension Liability

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
Balance at 12/31/2013	\$ 124,907,757	\$ 107,639,477	\$ 17,268,280
Changes for the year:			
Service cost	2,819,937	-	2,819,937
Interest	8,660,470	-	8,660,470
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(987,858)	-	(987,858)
Changes of assumptions	-	-	-
Contributions - employer	-	1,789,255	(1,789,255)
Contributions - employee	-	1,224,976	(1,224,976)
Net investment income	-	6,157,338	(6,157,338)
Benefit payments, including refunds of employee contributions	(5,193,445)	(5,193,445)	-
Administrative expense	-	(64,289)	64,289
Other	-	(5,286)	5,286
Net changes	5,299,104	3,908,549	1,390,555
Balance at 12/31/2014	\$ <u>130,206,861</u>	\$ <u>111,548,026</u>	\$ <u>18,658,835</u>

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**IV. OTHER INFORMATION (CONTINUED)**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town, calculated using the discount rate of 7.0% as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Town's net pension liability	\$ 37,218,667	\$ 18,658,835	\$ 3,487,151

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.tmr.com](http://www.tmr.com).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2015, the Town recognized pension expense of \$2,844,538. At September 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected & actual economic experience	\$	\$ (766,668)
Contributions subsequent to the measurement date	1,498,949	
Difference between projected and actual investment earnings	1,101,940	
Total	\$ <u>2,600,889</u>	\$ <u>(766,668)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,498,949 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2015 (i.e., recognized in the Town's financial statements September 30, 2016). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Measurement Year ended Dec 31</b>	<b>Net deferred outflows (inflows) of resources</b>
2015	\$ 54,295
2016	54,295
2017	54,295
2018	172,387
2019	-
Thereafter	-
Total	\$ <u>335,272</u>

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**IV. OTHER INFORMATION (CONTINUED)**

2) Postemployment Benefits

Plan Description

In addition to the pension benefits described above, as required by state law and defined by Town Policy, the Town makes available health care benefits to all employees who retire from the Town and who are receiving benefits from a Town-sponsored retirement program (Texas Municipal Retirement System and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses and dependents through the Town's group health insurance plan, which covers both active and retired members. Current retirees in the health plan and active employees with 20 years or more of service or at age 60 or more with five years or more of service at retirement are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report. Benefit provisions for retirees are not mandated by any form of employment agreement. The continued provision of these benefits is based entirely on the discretion of the Town of Addison City Council.

Funding Policy

Before age 65, the Town will pay a \$150 monthly stipend toward the retiree's healthcare premium if the retiring employee meets the eligibility criteria at the time of termination and elects coverage in the health plan. For members who retire after 65 or were eligible for the \$150 stipend before age 65, the Town will pay a \$75 monthly stipend directly to the retiree. Current retirees contribute to the health plan the total blended premium for active and retired participants, less the \$150 stipend provided by the Town. The Town contribution to the health plan consists of total premiums in excess of retiree contributions.

Retirees receiving medical benefits during fiscal year 2015 contribute \$377 to \$1,323 per month depending on coverage levels selected. In fiscal year 2015, total retiree contributions were \$104,626.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) for the health plan is calculated based on the annual required contribution (ARC) of the Town, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The Town of Addison utilized the actuarial services of Gabriel, Roeder, Smith & Company (GRS), a company who has been providing actuarial consulting services since 1938, under the shared services arrangement provided by GRS and North Central Texas Council of Governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the net OPEB obligation for 2015.

Annual Required Contribution	\$ 199,471
Interest on OPEB Obligation	23,864
Adjustment to ARC	<u>(22,110)</u>
Annual OPEB Cost (Expense)	201,225
Contributions Made	<u>(164,742)</u>
Change in OPEB Obligation	36,483
Net OPEB Obligation (Asset) – Beginning of Year	<u>428,990</u>
Net OPEB Obligation (Asset) – End of Year	<u>\$ 465,473</u>

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**IV. OTHER INFORMATION (CONTINUED)**

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2015 and the preceding two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Costs</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 182,900	\$ 148,348	81.1%	\$ 386,542
2013	183,625	155,383	84.6%	414,784
2014	189,313	175,107	92.5%	428,990
2015	201,225	164,742	81.9%	465,473

Funded Status and Funding Progress

As of December 31, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,137,029, none of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was \$17,479,153, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.2%. Of the total actuarial accrued liability, \$1,614,217 or 76% comprises the implied subsidy of health care for current retirees and active employees upon retirement. As noted previously, qualified retirees pay the blended cost of their health coverage, less the \$150 monthly stipend. However, GASB 45 requires governments to report the "implicit rate subsidy" that is provided to retirees who remain with the health plan provided to employees. It is assumed by actuaries that the cost of health care increases with the age of the covered employee or retiree. Since the Town's health plan includes a blended rate that is the same for active employees and retirees, actuaries must estimate the amount the Town is subsidizing for retirees to pay the blended health plan premiums.

For example, the actuarial estimated monthly cost for a 40 year old male employee's health care benefit is \$376.61. The estimate for a male employee or retiree who is 60 years old is \$1,136.69. The difference in these costs not covered by the health plan premium is considered to be the "implicit rate subsidy."

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 trend of healthcare costs. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The analysis of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the Town chose to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero. Because the majority of the actuarial accrued liability is the "implicit rate subsidy" of retiree blended health plan premiums, the Town believes that its actual health plan postemployment benefit will not significantly grow over time and will continue to fund these benefits on a pay-as-you-go method. Changes to how future healthcare benefits are funded on a national basis may cause the Town to reexamine this funding method.

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 the benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**IV. OTHER INFORMATION (CONTINUED)**

In the December 31, 2014 actuarial valuation, the most recent valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions include a 4.5% investment rate of return (compounded annually, net after investment expenses) and an annual healthcare cost trend of 7.5%, reduced by decrements to an ultimate rate of 4.5% after 9 years. Both rates include a 3% inflation assumption. The Town's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over an open period. The remaining amortization period at December 31, 2014 was 30 years.

**C. Contingencies**

The Town is party to various legal actions arising in the ordinary course of business, none of which is believed by the Town's management to have a material impact on the financial condition of the Town. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

**D. Keller Springs Tollway**

In 1999, the North Texas Tollway Authority (the Authority) completed a toll tunnel that connects Midway Road and the North Dallas Tollway. The project benefits the Town by diverting traffic from Belt Line Road, which is at capacity. The project's cost was approximately \$25 million which will be funded by revenue bonds issued by the Authority. Through an agreement with the Authority, the Town has pledged to be a guarantor of the debt service associated with approximately \$2.5 million of the revenue bonds in the event the authority defaults on the bonds. Because the Authority is an extremely viable state agency, the likelihood of a default is negligible.

**E. Restatement of Beginning Net Position**

The beginning net position was restated for a liability of sales tax to be paid back to the State Comptrollers, and the implementation of GASB 68 which resulted in the recording of beginning net pension liability and beginning deferred outflow for contributions made after the measurement. The table below illustrates the effect of the sales tax payback liability and GASB 68 on the Town's net position for fiscal years 2015 and 2014.

	Fund Level			
	Government-wide Statement of Activities		Statement of Revenues, Expenses and Changes in Fund Balance	Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
	Governmental Activities	Business-type Activities	General Fund	Utility Fund
Net position at September 30, 2014 as previously reported	\$ 148,280,261	\$ 86,409,432	\$ 64,850,372	\$ 35,213,988
Sales tax payback as of September 30, 2014	(624,085)		(624,085)	
Recording of net pension liability as of September 30, 2014	(14,983,921)	(870,537)		(870,537)
Net position at September 30, 2015 as restated	\$ 132,672,255	\$ 85,538,895	\$ 64,226,287	\$ 34,343,451

**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**IV. OTHER INFORMATION (CONTINUED)**

F. New Accounting Pronouncements

The GASB has issued the following statements which became effective for fiscal year 2015.

Statement No. 68, Accounting and Financial Reporting for Pensions (effective for periods beginning after June 15, 2014) - The objective of this Statement is to improve accounting and financial reporting of state and local governmental pension plans. This Statement applies to all state-and governmental entities and replaces Statements 27 and 50.

The GASB has issued the following statements which will become effective in future years.

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" – This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the Town in fiscal year 2018.

Statement No. 77, "Tax Abatement Disclosures" – This statement requires governments that enter into tax abatement agreements to provide certain disclosures regarding these commitments. This statement will become effective for the Town in fiscal year 2017.









## Required Supplementary Information



**Town of Addison, Texas**  
**Required Supplementary Information**

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**REQUIRED SUPPLEMENTARY INFORMATION**  
Texas Municipal Retirement System  
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)  
Last Fiscal Year (Previous years are not available)

	Measurement Year 2014
Total pension liability:	
Service cost	\$ 2,819,937
Interest (on the Total Pension Liability)	8,660,470
Changes in benefit terms	-
Difference between expected and actual experience	(987,858)
Change in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(5,193,445)</u>
Net change in total pension liability	5,299,104
Total pension liability - beginning	<u>124,907,757</u>
Total pension liability - ending (a)	<u>130,206,861</u>
Plan fiduciary net position:	
Contributions - employer	1,789,255
Contributions - employee	1,224,976
Net investment income	6,157,338
Benefit payments, including refunds of employee contributions	(5,193,445)
Administrative expense	(64,289)
Other	<u>(5,286)</u>
Net change in plan fiduciary net position	3,908,549
Plan fiduciary net position - beginning	<u>107,639,477</u>
Plan fiduciary net position - ending (b)	<u>111,548,026</u>
Net pension liability - ending (a) - (b)	<u>\$ 18,658,835</u>
Plan fiduciary net position as a percentage of total pension liability	85.67%
Covered employee payroll	\$ 17,479,153
Net pension liability as a percentage of covered employee payroll	106.75%
As of December 31	

**Town of Addison, Texas**  
**Required Supplementary Information**

**REQUIRED SUPPLEMENTARY INFORMATION**

Texas Municipal Retirement System  
Schedule of Contributions (Unaudited)  
September 30, 2015

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (1) / (4)	(6) = (2) / (4)
Fiscal Year	Actuarially determined contribution	Contribution in relation to the actuarially determined contribution	Contribution excess (deficiency)	Covered employee payroll	Actuarially determined contributions as a percentage of covered employee payroll	Contributions as a percentage of covered employee payroll
2006	\$1,885,203	\$ 1,885,203	\$ -	\$ 13,330,709	14.14%	14.14%
2007	1,884,965	1,884,965	-	13,753,045	13.71%	13.71%
2008	1,974,491	1,974,491	-	14,455,362	13.66%	13.66%
2008	1,974,491	1,974,491	-	14,455,362	13.66%	13.66%
2009	2,123,822	2,123,822	-	16,237,145	13.08%	13.08%
2010	2,240,980	2,240,980	-	16,810,483	13.33%	13.33%
2011	2,238,741	2,238,741	-	16,680,756	13.42%	13.42%
2012	1,934,462	1,934,462	-	15,787,262	12.25%	12.25%
2013	1,763,244	1,763,244	-	15,598,079	11.30%	11.30%
2014	1,804,359	1,804,359	-	17,763,954	10.87%	10.87%
2015	1,874,383	1,874,383	-	18,804,927	10.72%	10.72%

**Notes to Schedule:**

Valuation Date:

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

**Methods and Assumption Used to Determine Contribution Rate for 2015:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	14 years
Asset Valuation Method	10 year smoothed market: 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
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

**Other Information:**

Notes  
Granted 70% ad hoc COLA



**Town of Addison, Texas**  
**Required Supplementary Information**

**REQUIRED SUPPLEMENTARY INFORMATION**

Retiree Health Plan  
 Analysis of Funding Progress (Unaudited)  
 September 30, 2015

		(1)	(2)		(3) = (2) - (1)	(4)	(5) = (3)/(4)
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	12/31/08	\$ -	\$ 2,749,111	0.00%	\$ 2,749,111	\$ 15,764,082	17.44%
2011	12/31/10	-	1,968,533	0.00%	1,968,533	15,557,784	12.65%
2013	12/31/12	-	2,003,539	0.00%	2,003,539	15,598,079	12.84%
2015	12/31/14	-	2,137,029	0.00%	2,137,029	16,603,192	12.87%

**Note:** Fiscal year 2009 was the first year the Town implemented GASB Statement No. 45.





**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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[Form of Bond Opinion]

[Date]

\$23,560,000

TOWN OF ADDISON, TEXAS  
GENERAL OBLIGATION REFUNDING BONDS  
SERIES 2016

WE HAVE represented the Town of Addison, Texas (the “Issuer”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as

TOWN OF ADDISON, TEXAS GENERAL OBLIGATION REFUNDING BONDS SERIES 2016, dated May 1, 2016, in the principal amount of \$23,560,000.

The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the bond ordinance adopted by the Town Council of the Issuer authorizing their issuance (the “Bond Ordinance”) and a pricing certificate executed pursuant to the authority delegated in the Bond Ordinance (the “Pricing Certificate,” and, together with the Bond Ordinance, the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the Issuer and The Bank of New York Mellon Trust Company N.A., as escrow agent (the "Escrow Agent"); a report (the "Report") of Grant Thornton LLP, Certified Public Accountants (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the "Refunded Obligations") and the mathematical accuracy of certain computations of the yield on the Bonds and obligations acquired with the proceeds of the Bonds; and customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of the Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;
- (B) A continuing ad valorem tax upon all taxable property within the Town of Addison, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations; and
- (C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Escrow Agreement and therefore, the Refunded Obligations are deemed to be fully paid from the funds provided therefor in such Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Bonds are not “private activity bonds” within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds may be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer’s Financial Advisor and the initial Purchaser with respect to matters solely within the knowledge of the Issuer, the Issuer’s Financial Advisor and the initial Purchaser, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of computations. If such representations or the Report are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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