



OFFICIAL STATEMENT

Dated July 15, 2013

Ratings:
Moody's: "Aa1"
S&P: "AAA"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

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



\$4,665,000
TOWN OF ADDISON, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, TAX-EXEMPT SERIES 2013

Dated Date: July 15, 2013

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$4,665,000 Town of Addison, Texas, General Obligation Bonds, Tax-Exempt Series 2013 (the "Tax-Exempt Bonds") will accrue from July 15, 2013 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2014, 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 Tax-Exempt 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 Tax-Exempt Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Tax-Exempt Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Tax-Exempt 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 Tax-Exempt Bonds. See "The Obligations - 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 Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Tax-Exempt Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1331, Texas Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, and an election held within the Town on May 12, 2012 (the "Election") and are direct obligations of the Town of Addison, Texas (the "Town"), payable from a continuing ad valorem tax levied annually on all taxable property within the Town, within the limits prescribed by law, as provided in the ordinance authorizing the issuance of the Tax-Exempt Bonds (the "Tax-Exempt Bond Ordinance" and together with the AMT Bond Ordinance, Taxable Bond Ordinance and the Certificate Ordinance, the "Ordinances") (see "The Obligations - Authority for Issuance" and "The Obligations - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Tax-Exempt 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, 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; (ii) acquire and improve of land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (iii) pay the costs of issuing the Tax-Exempt Bonds.

MATURITY SCHEDULE

CUSIP Prefix (1): 006644

Table with 10 columns: Amount, Maturity, Initial Rate, Initial Yield, CUSIP Suffix (1), Amount, Maturity, Initial Rate, Initial Yield, CUSIP Suffix (1). Rows list bond amounts from \$140,000 to \$220,000 with corresponding maturity dates and yields.

(Accrued Interest from July 15, 2013 to be added)

(1) CUSIP numbers are included solely for the convenience of the owners of the Tax-Exempt Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Town, the Underwriters or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2023.

REDEMPTION . . . The Town reserves the right, at its option, to redeem Tax-Exempt Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

SEPARATE ISSUES . . . The Tax-Exempt Bonds are being offered by the Town concurrently with the "Town of Addison, Texas, General Obligation Bonds, Series 2013A (AMT)" (the "AMT Bonds"), "Town of Addison, Texas, General Obligation Bonds, Taxable Series 2013B" (the "Taxable Bonds") and "Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2013" (the "Certificates"), under a common Official Statement, and such Tax-Exempt Bonds, AMT Bonds, Taxable Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Tax-Exempt Bonds, AMT Bonds, Taxable Bonds, and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Tax-Exempt Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by their counsel Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright.

DELIVERY . . . It is expected that the Tax-Exempt Bonds will be available for delivery through DTC on August 20, 2013.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

BOSC, INC.
A subsidiary of BOK Financial Corporation

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OFFICIAL STATEMENT

Dated July 15, 2013

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, (i) interest on the AMT Bonds (as defined below) is excludable from gross income for federal income tax purposes except for any period an AMT Bonds is held by a person who, within the meaning of section 147(a) of the Internal Revenue Code, as amended, is a "substantial user" or a "related person" to a "substantial user" of the facilities financed or refinanced with the proceeds of the AMT Bonds, as described under "Tax Matters - The AMT Bonds - Tax Exemption" herein, and (ii) interest on the AMT Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "Tax Matters" herein for a discussion of the opinion of Bond Counsel.



\$1,875,000
TOWN OF ADDISON, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, SERIES 2013A (AMT)

Dated Date: July 15, 2013

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$1,875,000 Town of Addison, Texas, General Obligation Bonds, Series 2013A (AMT) (the "AMT Bonds") will accrue from July 15, 2013 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2014, 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 AMT 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 AMT Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the AMT Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the AMT 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 AMT Bonds. See "The Obligations - 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 Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The AMT Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1331, Texas Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, and an election held within the Town on May 12, 2012 (the "Election") and are direct obligations of the Town of Addison, Texas (the "Town"), payable from a continuing ad valorem tax levied annually on all taxable property within the Town, within the limits prescribed by law, as provided in the ordinance authorizing the issuance of the AMT Bonds (the "AMT Bond Ordinance" and together with the Tax-Exempt Bond Ordinance, Taxable Bond Ordinance and the Certificate Ordinance, the "Ordinances") (see "The Obligations - Authority for Issuance" and "The Obligations - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the AMT 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.

MATURITY SCHEDULE

CUSIP Prefix (1): 006644

Table with 10 columns: Amount, Maturity, Initial Rate, Initial Yield, CUSIP Suffix (1), Amount, Maturity, Initial Rate, Initial Yield, CUSIP Suffix (1). Rows include \$60,000 (2014), \$70,000 (2017), and \$70,000 (2018).

\$405,000 4.125% AMT TERM BONDS DUE FEBRUARY 15, 2023 PRICED TO YIELD 3.60% - CUSIP #006644YD4
\$500,000 4.250% AMT TERM BONDS DUE FEBRUARY 15, 2028 PRICED TO YIELD 4.40% - CUSIP #006644YJ1
\$630,000 4.800% AMT TERM BONDS DUE FEBRUARY 15, 2033 PRICED TO YIELD 4.90% - CUSIP #006644YP7

(Accrued Interest from July 15, 2013 to be added)

(1) CUSIP numbers are included solely for the convenience of the owners of the AMT Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Town, the Underwriters or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION . . . The Town reserves the right, at its option, to redeem AMT Bonds having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The AMT Bonds maturing on February 15, 2023, February 15, 2028 and February 15, 2033 (the "AMT Term Bonds") are subject to mandatory sinking fund redemption prior to maturity (see "The Obligations - Mandatory Redemption").

SEPARATE ISSUES . . . The AMT Bonds are being offered by the Town concurrently with the "Town of Addison, Texas, General Obligation Bonds, Tax-Exempt Series 2013" (the "Tax-Exempt Bonds"), "Town of Addison, Texas, General Obligation Bonds, Taxable Series 2013B" (the "Taxable Bonds") and "Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2013" (the "Certificates"), under a common Official Statement, and such Tax-Exempt Bonds, AMT Bonds, Taxable Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Tax-Exempt Bonds, AMT Bonds, Taxable Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The AMT Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by their counsel Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright.

DELIVERY . . . It is expected that the AMT Bonds will be available for delivery through DTC on August 20, 2013.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

BOSC, INC.
A subsidiary of BOK Financial Corporation

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OFFICIAL STATEMENT

Dated July 15, 2013

Ratings:
Moody's: "Aa1"
S&P: "AAA"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

Interest to be paid on the Taxable Bonds is not excludable from gross income for federal income tax purposes under existing law. See "Tax Matters – The Taxable Bonds" herein.



\$1,250,000
TOWN OF ADDISON, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, TAXABLE SERIES 2013B

Dated Date: July 15, 2013

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$1,250,000 Town of Addison, Texas, General Obligation Bonds, Taxable Series 2013B (the "Taxable Bonds") will accrue from July 15, 2013 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2014, 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 Taxable 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 Taxable Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Taxable Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Taxable 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 Taxable Bonds. See "The Obligations - 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 Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Taxable Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1331, Texas Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, and an election held within the Town on May 12, 2012 (the "Election") and are direct obligations of the Town of Addison, Texas (the "Town"), payable from a continuing ad valorem tax levied annually on all taxable property within the Town, within the limits prescribed by law, as provided in the ordinance authorizing the issuance of the Taxable Bonds (the "Taxable Bond Ordinance" and together with the Tax-Exempt Bond Ordinance, AMT Bond Ordinance and the Certificate Ordinance, the "Ordinances") (see "The Obligations - Authority for Issuance" and "The Obligations – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Taxable 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.

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 006644

\$490,000 3.75% TAXABLE TERM BONDS DUE FEBRUARY 15, 2023 PRICED TO YIELD 3.75% - CUSIP #006644YZ5
\$760,000 5.00% TAXABLE TERM BONDS DUE FEBRUARY 15, 2033 PRICED TO YIELD 5.00% - CUSIP #006644ZK7

(Accrued Interest from July 15, 2013 to be added)

(1) CUSIP numbers are included solely for the convenience of the owners of the Taxable Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Town, the Underwriters or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION . . . The Town reserves the right, at its option, to redeem Taxable Bonds having stated maturities on and after February 15, 2033, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The Taxable Bonds maturing on February 15, 2023 and February 15, 2033 (the "Taxable Term Bonds") are subject to mandatory sinking fund redemption prior to maturity (see "The Obligations - Mandatory Redemption").

SEPARATE ISSUES . . . The Taxable Bonds are being offered by the Town concurrently with the "Town of Addison, Texas, General Obligation Bonds, Tax-Exempt Series 2013" (the "Tax-Exempt Bonds"), "Town of Addison, Texas, General Obligation Bonds, Series 2013A (AMT)" (the "AMT Bonds") and "Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2013" (the "Certificates"), under a common Official Statement, and such Tax-Exempt Bonds, AMT Bonds, Taxable Bonds, and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Tax-Exempt Bonds, AMT Bonds, Taxable Bonds, and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Taxable Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by their counsel Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright.

DELIVERY . . . It is expected that the Taxable Bonds will be available for delivery through DTC on August 20, 2013.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

BOSC, INC.
A subsidiary of BOK Financial Corporation

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Dated July 15, 2013

Ratings:
Moody's: "Aa1"
S&P: "AAA"
(See "Other Information -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

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



\$10,185,000
TOWN OF ADDISON, TEXAS
(Dallas County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2013

Dated Date: July 15, 2013

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$10,185,000 Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2013 (the "Certificates") will accrue from July 15, 2013 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2014, 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 Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See "The Obligations - 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 Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Section 5.11 of the Town's Home Rule Charter, and constitute direct obligations of the Town of Addison, Texas (the "Town"), payable from a combination of (i) an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the Town, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the Town's Waterworks and Sewer System as provided in the ordinance authorizing the issuance of the Certificates (the "Certificate Ordinance" and together with the Tax-Exempt Bond Ordinance, AMT Bond Ordinance and the Taxable Bond Ordinance, the "Ordinances") (see "The Obligations - Authority for Issuance" and "The Obligations – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of 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.

MATURITY SCHEDULE

CUSIP Prefix ⁽¹⁾: 006644

Amount	Maturity	Initial Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Amount	Maturity	Initial Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 330,000	2014	2.000%	0.300%	ZL5	\$ 490,000	2024	5.000%	3.250% ⁽²⁾	ZW1
370,000	2015	2.000%	0.600%	ZM3	515,000	2025	5.000%	3.500% ⁽²⁾	ZX9
380,000	2016	2.000%	1.000%	ZN1	545,000	2026	5.000%	3.650% ⁽²⁾	ZY7
385,000	2017	2.000%	1.300%	ZP6	575,000	2027	5.000%	3.800% ⁽²⁾	ZZ4
390,000	2018	2.000%	1.650%	ZQ4	600,000	2028	5.000%	3.920% ⁽²⁾	A24
405,000	2019	3.000%	2.000%	ZR2	630,000	2029	4.100%	4.250%	A32
415,000	2020	3.000%	2.300%	ZS0	655,000	2030	4.150%	4.320%	A40
430,000	2021	4.000%	2.600%	ZT8	685,000	2031	4.250%	4.400%	A57
450,000	2022	4.000%	2.850%	ZU5	715,000	2032	4.300%	4.450%	A65
470,000	2023	5.000%	3.050%	ZV3	750,000	2033	4.375%	4.500%	A73

(Accrued Interest from July 15, 2013 to be added)

(1) CUSIP numbers are included solely for the convenience of the owners of the Certificates. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Town, the Underwriters or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2023.

REDEMPTION . . . The Town reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

SEPARATE ISSUES . . . The Certificates are being offered by the Town concurrently with the "Town of Addison, Texas, General Obligation Bonds, Series 2013" (the "Tax-Exempt Bonds"), "Town of Addison, Texas, General Obligation Bonds, Series 2013A" (the "AMT Bonds") and "Town of Addison, Texas, General Obligation Bonds, Taxable Series 2013B" (the "Taxable Bonds"), under a common Official Statement, and such Certificates, Tax-Exempt Bonds, AMT Bonds, and Taxable Bonds are hereinafter sometimes referred to collectively as the "Obligations." The Certificates, Tax-Exempt Bonds, AMT Bonds and Taxable Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by their counsel Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on August 20, 2013.

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This Official Statement, which includes the cover page 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 a representation, promise or guarantee of the Financial Advisor or the Underwriters.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, 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.

NONE OF THE TOWN, ITS FINANCIAL ADVISOR, OR 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 OBLIGATIONS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE OBLIGATIONS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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 and 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 Obligations 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.

THE TOWN..... 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").

THE TAX-EXEMPT BONDS The \$4,665,000 General Obligation Bonds, Tax-Exempt Series 2013 are being issued as serial bonds scheduled to mature on February 15 in the years 2014 through 2033 (see "The Obligations - Description of the Obligations").

THE AMT BONDS..... The \$1,875,000 General Obligation Bonds, Series 2013A (AMT) are being issued as serial bonds scheduled to mature on February 15 in the years 2014 through 2018, and as AMT Term Bonds maturing February 15, 2023, February 15, 2028 and February 15, 2033 (see "The Obligations - Description of the Obligations").

THE TAXABLE BONDS..... The \$1,250,000 General Obligation Bonds, Taxable Series 2013B are scheduled to mature as Taxable Term Bonds maturing February 15, 2023 and February 15, 2033 (see "The Obligations - Description of the Obligations").

THE CERTIFICATES The \$10,185,000 Combination Tax and Revenue Certificates of Obligation, Series 2013 are being issued as serial bonds scheduled to mature on February 15 in the years 2014 through 2033 (see "The Obligations - Description of the Obligations").

PAYMENT OF INTEREST Interest on the Obligations accrues from July 15, 2013, and is payable February 15, 2014, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations - Optional Redemption").

**AUTHORITY FOR ISSUANCE
OF THE TAX-EXEMPT BONDS,
AMT BONDS AND THE**

TAXABLE BONDS..... The Tax-Exempt Bonds, AMT Bonds and the Taxable Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1331, Texas Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, an election held within the Town on May 12, 2012, and separate ordinances passed by the Town Council (see "The Obligations - Authority for Issuance").

**AUTHORITY FOR ISSUANCE
OF THE CERTIFICATES**.....

The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, and the Certificate Ordinance passed by the Town Council (see "The Obligations - Authority for Issuance").

**SECURITY FOR THE
TAX-EXEMPT BONDS, AMT
BONDS AND THE TAXABLE**

BONDS..... The Tax-Exempt Bonds, AMT Bonds and the Taxable Bonds constitute direct obligations of the Town, payable from a direct and continuing ad valorem tax levied annually, within the limits prescribed by law, on all taxable property located within the Town (see "The Obligations - Security and Source of Payment").

**SECURITY FOR THE
CERTIFICATES**

The Certificates constitute direct obligations of the Town, payable from a combination of (i) a direct and continuing ad valorem tax levied annually, within the limits prescribed by law, on all taxable property within the Town, and (ii) a limited pledge (not to exceed \$1,000) of the surplus net revenues of the Town's Waterworks and Sewer System (see "The Obligations - Security and Source of Payment").

OPTIONAL REDEMPTION The Town reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations – Optional Redemption"). The AMT Bonds maturing on February 15 in each of the years 2023, 2028 and 2033 (the "AMT Term Bonds") and the Taxable Bonds maturing on February 15 in each of the years 2023 and 2033 (the "Taxable Term Bonds") are also subject to mandatory sinking fund redemption prior to maturity (see "Obligations – Mandatory Redemption").

**TAX EXEMPTION -
THE TAX-EXEMPT BONDS**

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

**TAX EXEMPTION –
THE AMT BONDS**

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, **except** as explained under "Tax Matters – The AMT Bonds" in this Official Statement, **and will be an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals, corporations, trusts and estates.** For further information, see "Tax Matters – The AMT Bonds" and "Tax Accounting Treatment of Discount Bonds" in this Official Statement.

**TAX EXEMPTION –
THE TAXABLE BONDS**

The Taxable Bonds are not obligations described in Section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS - The Taxable Bonds" herein.

USE OF PROCEEDS

Proceeds from the sale of the Tax-Exempt 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, 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; (ii) acquire and improve of land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (iii) pay the costs of issuing the Tax-Exempt Bonds.

Proceeds from the sale of the AMT 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.

Proceeds from the sale of the Taxable 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.

Proceeds from the sale of 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.

RATINGS

The Obligations and the 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").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations 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 Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "The Obligations - Book-Entry-Only System").

PAYMENT RECORD 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 ⁽³⁾	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections to Tax Levy
2009	13,400 ⁽¹⁾	\$ 3,724,826,923	\$ 277,972	\$ 54,671,900	\$ 4,080	1.47%	92.40%
2010	13,056 ⁽²⁾	3,311,049,800	253,604	50,837,380	3,894	1.54%	96.60%
2011	13,060 ⁽¹⁾	3,058,773,717	234,209	47,518,770	3,638	1.55%	97.00%
2012	13,680 ⁽¹⁾	3,028,042,568	221,348	73,739,314	5,390	2.44%	99.00%
2013	13,700 ⁽¹⁾	3,134,894,878	228,824	77,428,154 ⁽⁴⁾	5,652	2.47%	98.30% ⁽⁵⁾

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

(2) Source: U.S. Census Bureau.

(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 ordinances authorizing such bonds and general obligation debt for which repayment is provided from revenues of the waterworks and sewer system, the drainage revenue fund, and the airport fund ("self-supporting debt"). It is the Town's current policy to provide these debt payments from the respective revenue sources to the extent such revenues are available; however, this policy is subject to change in the future, although the Town has no current plans to change this policy. The Town is obligated to levy ad valorem taxes to make such payments in the event and to the extent that such payments are not made from other revenue sources. See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 10 – Computation of Self-Supporting Debt" herein for additional details on the Town's self-supporting debt.

(4) Projected, includes the Tax-Exempt Bonds, AMT Bonds and Taxable Bonds.

(5) Collections for part year only, through May 1, 2013.

For additional information regarding the Town, please contact:

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Eric Cannon		Nick Bulaich
Town of Addison	or	First Southwest Company
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	2 Years	May, 2015	Business Person/Attorney
Blake W. Clemens Mayor Pro Tempore	4 Years	May, 2015	Corporate Real Estate
Bruce Arfsten Deputy Mayor Pro Tempore	2 Years	May, 2015	Residential Real Estate
Chris DeFrancisco Councilmember	2 Years	May, 2015	Commerical Banking
Margie Gunther Councilmember	1 Year	May, 2014	Executive Director of Education Retired
Janelle Moore Councilmember	1 Year	May, 2014	Consultant and Business Development
Neil Resnik Councilmember	3 Years	May, 2014	Financial Services/Life Insurance

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Ronald Whitehead	City Manager	31 Years
Lea Dunn	Deputy City Manager	18 Years
Chris Terry	Assistant City Manager	20 Years
Eric Cannon, CPA, CGFO	Chief Financial Officer	1 Year

CONSULTANTS AND ADVISORS

Certified Public Accountants	Weaver and Tidwell LLP Dallas, Texas
Bond Counsel	Bracewell & Giuliani LLP Dallas, Texas
Financial Advisor	First Southwest Company Fort Worth, Texas

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OFFICIAL STATEMENT

RELATING TO

\$4,665,000
TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS,
TAX-EXEMPT SERIES 2013

\$1,875,000
TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS,
SERIES 2013A (AMT)

\$1,250,000
TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS,
TAXABLE SERIES 2013B

\$10,185,000
TOWN OF ADDISON, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2013

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$4,665,000 Town of Addison, Texas, General Obligation Bonds, Tax-Exempt Series 2013 (the "Tax-Exempt Bonds"), \$1,875,000 Town of Addison, Texas, General Obligation Bonds, Series 2013A (AMT) (the "AMT Bonds"), \$1,250,000 Town of Addison, Texas, General Obligation Bonds, Taxable Series 2013B (the "Taxable Bonds") and \$10,185,000 Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2013 (the "Certificates") (collectively, the "Obligations"). The Obligations are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Tax-Exempt Bond Ordinance", "AMT Bond Ordinance", "Taxable Bond Ordinance" and the "Certificate Ordinance", and collectively the "Ordinances") adopted by the Town Council of the Town, but are being offered and sold pursuant to a common Official Statement, and while the Tax-Exempt Bonds, AMT Bonds, Taxable Bonds and Certificates share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders and the covenants and agreements made with respect thereto. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinances adopted on the date of sale of the Obligations, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Obligations 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, First Southwest Company, Dallas, 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 1993. 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 2013 population is 13,700. The Town covers approximately 4.4 square miles and is located within the Dallas, Texas, Standard Metropolitan Statistical Area (SMSA).

PLAN OF FINANCING

PURPOSE . . .

The Tax-Exempt Bonds . . . Proceeds from the sale of the Tax-Exempt 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, 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; (ii) acquire and improve of land and interests 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 AMT Bonds . . . Proceeds from the sale of the AMT 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 Taxable Bonds . . . Proceeds from the sale of the Taxable 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 Certificates . . . Proceeds from the sale of 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.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Obligations will be applied approximately as follows:

Sources:	The Tax-Exempt Bonds	The AMT Bonds	The Taxable Bonds	The Certificates
Principal Amount	\$ 4,665,000.00	\$ 1,875,000.00	\$ 1,250,000.00	\$ 10,185,000.00
Accrued Interest	19,598.66	7,308.32	5,480.90	39,115.66
Original Issue Premium	289,294.45	3,198.80	-	461,259.85
Total Sources of Funds	<u>\$ 4,973,893.11</u>	<u>\$ 1,885,507.12</u>	<u>\$ 1,255,480.90</u>	<u>\$ 10,685,375.51</u>
 Uses:				
Deposit to Construction Fund	\$ 4,875,000.00	\$ 1,838,442.55	\$ 1,218,287.50	\$ 10,500,000.00
Deposit to Debt Service Fund	19,598.66	7,308.32	5,480.90	39,115.66
Costs of Issuance ⁽¹⁾	79,294.45	39,756.25	31,712.50	146,259.85
Total Uses of Funds	<u>\$ 4,973,893.11</u>	<u>\$ 1,885,507.12</u>	<u>\$ 1,255,480.90</u>	<u>\$ 10,685,375.51</u>

(1) Includes Underwriters' Discount.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated July 15, 2013 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on the cover page, page 3, page 5 and page 7 hereof. Interest on the Obligations will accrue from the Dated Date, 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 February 15, 2014, until maturity or prior redemption. The definitive Obligations 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 Obligations will be made to the owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "The Obligations - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Tax-Exempt Bonds, AMT Bonds and Taxable Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, Section 5.11 of the Town's Home Rule Charter, the Election, and the Tax-Exempt Bond Ordinance, AMT Bond Ordinance and Taxable Bond Ordinance. The Tax-Exempt Bonds, AMT Bonds and Taxable Bonds constitute the first installment of bonds approved by the voters of the Town at the May 12, 2012 bond election. See "Table 11 – Authorized But Unissued General Obligation Bonds."

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT . . .

The Tax-Exempt Bonds, AMT Bonds and Taxable Bonds . . . The Tax-Exempt Bonds, AMT Bonds and Taxable Bonds constitute direct obligations of the Town and the principal thereof and interest thereon are payable from an annual ad valorem tax levied annually by the Town, within the limits prescribed by law, upon all taxable property in the Town, as provided in the Tax-Exempt Bond Ordinance, AMT Bond Ordinance and Taxable Bond Ordinance.

The Certificates . . . The Certificates constitute direct obligations of the Town and the principal thereof and interest thereon are payable from an annual ad valorem tax levied annually by the Town, within the limits prescribed by law, upon all taxable property in the Town, and are additionally secured by and payable from a limited pledge (not to exceed \$1,000) of the surplus net revenues of the Town's Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Town's revenue obligations (now or hereafter outstanding) that are payable from all or part of said revenues, all as provided in the Certificate Ordinance.

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 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 the Obligations having stated maturities on and after February 15, 2024 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Obligations of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (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.

MANDATORY REDEMPTION . . . The AMT Bonds maturing on February 15, 2023, February 15, 2028 and February 15, 2033 (the "AMT Term Bonds") and the Taxable Bonds maturing on February 15, 2023 and February 15, 2033 (the "Taxable Term Bonds", and collectively with the AMT Term Bonds, the "Term Obligations"), are subject to mandatory redemption in part at a price of par, plus accrued interest to the dates of redemption, on the date and in the principal amounts as follows:

AMT Term Bonds					
February 15, 2023		February 15, 2028		February 15, 2033	
Redemption Date	Principal Amount	Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2019	\$ 75,000	February 15, 2024	\$ 90,000	February 15, 2029	\$ 115,000
February 15, 2020	75,000	February 15, 2025	95,000	February 15, 2030	120,000
February 15, 2021	80,000	February 15, 2026	100,000	February 15, 2031	125,000
February 15, 2022	85,000	February 15, 2027	105,000	February 15, 2032	130,000
February 15, 2023*	90,000	February 15, 2028*	110,000	February 15, 2033*	140,000

Taxable Term Bonds			
February 15, 2023		February 15, 2033	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2014	\$ 35,000	February 15, 2024	\$ 60,000
February 15, 2015	45,000	February 15, 2025	65,000
February 15, 2016	45,000	February 15, 2026	65,000
February 15, 2017	45,000	February 15, 2027	70,000
February 15, 2018	50,000	February 15, 2028	75,000
February 15, 2019	50,000	February 15, 2029	75,000
February 15, 2020	50,000	February 15, 2030	80,000
February 15, 2021	55,000	February 15, 2031	85,000
February 15, 2022	55,000	February 15, 2032	90,000
February 15, 2023*	60,000	February 15, 2033*	95,000

* Maturity.

The Paying Agent/Registrar shall select by lot, or other customary method, the numbers of the Term Obligations to be redeemed. Any Term Obligations not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of the Term Obligations of a maturity to be redeemed on each mandatory redemption date may be reduced, at the option of the City by the principal amount of the Term Obligations of such maturity which, at least 45 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Obligations plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Obligations, the Town shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING WHETHER ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE.

In the Ordinances, the Town reserves the right in the case of an optional redemption to give notice of its election or direction to redeem Obligations 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) the Town retains the right to rescind such notice at any time 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 where redemption has been rescinded shall remain Outstanding, and the rescission 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.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Obligations are to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and accredited by DTC while the Obligations 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 and the Underwriters believe the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The Town and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, 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 Obligations), 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 Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participant to whose account such Obligations are credited, which may or may not be the Beneficial Owners. The 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations 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 issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Obligations 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 the Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Obligations will be made to 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 payable dates 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 in 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, the Paying Agent/Registrar or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the Town, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The Town may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Obligations 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 Obligations 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 Obligations, 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 Ordinances 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 is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the Town, printed Certificates will be issued to the holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "The Obligations - 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 Ordinances, 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 Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the Town agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

PAYMENT . . . Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. is the registered owner of the Bonds, all payments on the Bonds will be made as described in "The Obligations - Book-Entry-Only System". If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the registered owners and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar 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. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 Obligations 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 as the Obligations surrendered for exchange or transfer. See "The Obligations – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the Town nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations 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 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 ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an Obligation 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.

AMENDMENTS . . . The Town, may, without the consent of or notice to any Owners, from time to time and at any time, amend the Tax-Exempt Bond Ordinance, AMT Bond Ordinance, Taxable Bond Ordinance or the Certificate Ordinance, as applicable, in any manner not detrimental to the interests of the Owners, to cure any ambiguity, inconsistency, or formal defect or omission therein and to provide additional security for the payment of the Tax-Exempt Bonds, AMT Bonds, Taxable Bonds or Certificates, as applicable. In addition, the Town may, with the written consent from the owners holding a majority in aggregate principal amount of the Tax-Exempt Bonds, AMT Bonds Taxable Bonds or Certificates, as applicable, then Outstanding (excluding Tax-Exempt Bonds, AMT Bonds, Taxable Bonds or Certificates acquired by or held for the account of the Town) affected thereby, amend, add to, or rescind any of the provisions of the Tax-Exempt Bond Ordinance, AMT Bond Ordinance, Taxable Bond Ordinance or Certificate Ordinance, as applicable; provided that, without the written consent of all Owners of Tax-Exempt Bonds, AMT Bonds, Taxable Bonds or Certificates, as applicable, then Outstanding, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the Tax-Exempt Bonds, AMT Bonds, Taxable Bonds or

Certificates, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Tax-Exempt Bonds, AMT Bonds, Taxable Bonds or Certificates, (2) give any preference to any Tax-Exempt Bonds, Taxable Bond or Certificate over any other Tax-Exempt Bond, AMT Bonds, Taxable Bond or Certificate, or (3) reduce the aggregate principal amount of Tax-Exempt Bonds, AMT Bonds, Taxable Bond or Certificate required to be held for consent to any such amendment, addition, or rescission.

DEFEASANCE . . . The Ordinances provide that the Town may discharge its obligations to the registered owners of any or all of the Obligations, as applicable, to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on such Obligations to maturity or redemption or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Obligations; provided that such deposits may be invested and reinvested only in (a) direct non-callable 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Town adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Town adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Obligations, as applicable, 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 form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Obligations, as the case may be. If any of such Obligations are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Obligations at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinances, as applicable.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Obligations have been made as described above, all rights of the Town to initiate proceedings to call such Obligations for redemption or take any other action amending the terms of such Obligations are extinguished; provided, however, that the right to call such Obligations 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 such Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of such Obligations 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 Obligations. Because the Ordinances do 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.

OBLIGATIONHOLDERS' REMEDIES . . . The Ordinances establish as "events of default" (i) the failure to make payment of principal of or interest on any of the Obligations when due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the Town, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of sixty days after notice of such default is given by any Owner to the Town. Under State law there is no right to the acceleration of maturity of the Obligations upon the failure of the Town to observe any covenant under the Ordinances. Although a registered owner of Obligations could presumably obtain a judgment against the Town if a default occurred in the payment of principal of or interest on any such Obligations, 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 to seek to enforce the covenants of the Town through an action for specific performance or mandamus. 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. Town 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. Because it is not clear that the Texas Legislature has effectively waived the Town's immunity from suit for money damages, an Obligationholder may not be able to bring such a suit against the Town for breach of the Obligations or the Ordinances. 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." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The Town is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments

that relate to their borrowing powers are contracts covered by the Act. 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 is not using Chapter 1371 as statutory authority for the Obligations and has not waived sovereign immunity in the manner provided by Chapter 1371. As noted above, the Ordinances provide that Obligationholders may exercise the remedy of mandamus to enforce the obligations of the Town under the Ordinances. 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).

The Ordinances do not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the Town to perform in accordance with the terms of the Ordinances, 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 provides for the recognition of a security interest represented by a specifically pledged source of revenues, and also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders 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 Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

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 Title I of the Texas Tax Code, as amended (the "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. The market value of a residence homestead shall be determined solely on the basis of the property's value as a residence homestead, regardless of whether the residential use of the property by the owner 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 property's market value in the most recent tax year that the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax 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 Appraisal Review Board.

Reference is made to 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 Article VIII, Section 1-b, 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.

In the case of residence homestead exemptions granted under Article VIII, Section 1-b, 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. Homeowners who turn 65 during a tax year qualify immediately for the over-65 homestead exemption.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse (for so long as the surviving spouse remains unmarried) or children (under 18 years of age) 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. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes 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, the tax rate limitation may not be repealed or rescinded. The Town can make no representations or predictions concerning the impact such tax limitation would have on the Town's tax rate, financial condition or ability to make debt service payments.

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. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-1, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

Under Section 11.25 of the Property Tax Code, the governing body of a taxing may exempt from taxation part or all of the assessed value of a structure or archeological site and the land necessary for access to and use of the structure or archeological site, if the structure or archeological site is: (1) designated as a Recorded Texas Historic Landmark under Chapter 442, Texas Government Code, or a state archeological landmark under Chapter 191, Texas Natural Resources Code, by the Texas Historical Commission; or (2) designated as a historically or archeologically significant site in need of tax relief to encourage its preservation pursuant to an ordinance or other law adopted by the governing body of the unit.

Under Section 11.253 of the Property 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 of the State; (ii) is detained at a location in the State in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes 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. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action prior to December 31, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

A municipality may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the municipality created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation. The Town's tax increment for any TIF is not available for general Town use but is restricted to paying for improvements in the reinvestment zone.

The Town also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner 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 is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the 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 obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the Town. The Town may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of September 30 or 60 days following the receipt by the Town of the Certified Appraisal Roll, the Town Council is required to adopt a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. Under the Property Tax Code, the Town must annually calculate and publicize its "effective tax rate" and "rollback tax rate." The Town 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 Town Council has otherwise complied with the legal requirements for the adoption of such 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.

If the Town Council does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the Town for the preceding tax year.

"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 September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 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 February 1 of each year and the final installment due on August 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, the penalty remains at 12%, and 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, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

Taxes levied by the Town are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the Town, having the power to tax the property. The Town's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the Town may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the Town must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the Town to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. Federal bankruptcy law provides that an automatic stay of actions 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.

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

TABLE 1 - VALUATION, EXEMPTIONS, AND GENERAL OBLIGATION DEBT

2012/13 Market Valuation Established by Dallas Central Appraisal District ⁽¹⁾		\$ 3,535,250,590
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 99,583,592	
Disabled Veterans Exemptions	249,000	
Agricultural Land Use Reductions	664,652	
Over 65	26,999,704	
Disabled Person	810,000	
Government/Airport Exemptions	271,528,950	
Parcels Under \$500	34,280	
Capped Value Loss	476,145	
Pollution Control	<u>9,389</u>	<u>400,355,712</u>
2012/13 Taxable Assessed Valuation		<u>\$ 3,134,894,878</u>
Town Funded Debt Payable from Ad Valorem Taxes (as of 5-1-13)		
General Obligation Bonds	\$ 33,245,000	
Certificates of Obligation	49,790,000	
The Tax-Exempt Bonds	4,665,000	
The AMT Bonds	1,875,000	
The Taxable Bonds	1,250,000	
The Certificates	<u>10,185,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 101,010,000
Less Self-Supporting Debt: ⁽²⁾		
Hotel Fund General Obligation Debt	\$ 3,305,000	
Airport Fund General Obligation Debt	5,305,000 ⁽³⁾	
Drainage Fund General Obligation Debt	7,275,000 ⁽³⁾	
Water and Sewer System General Obligation Debt	<u>7,696,846</u>	
Net Funded Debt Payable from Ad Valorem Taxes		<u>\$ 77,428,154</u>
Interest and Sinking Fund as of 5-1-13		\$ 2,434,929
Ratio Total Funded Debt to Taxable Assessed Valuation		3.22%
Ratio Net Funded Debt to Taxable Assessed Valuation		2.47%
2013 Estimated Population - 13,700		
Per Capita Taxable Assessed Valuation - \$228,824		
Per Capita Total Funded Debt \$7,373		
Per Capita Net Funded Debt - \$5,652		

(1) As reported on the Town's 2012 Certified Tax Roll.

(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the waterworks and sewer system, airport revenue fund, drainage revenue fund, and hotel special revenue fund, as applicable. 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 revenue sources. 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 such revenue sources, such debt will be paid from ad valorem taxes.

(3) Includes a portion of the Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 593,764,970	16.80%	\$ 587,685,260	17.03%	\$ 593,174,490	17.07%
Real, Residential Multi-Family	410,654,340	11.62%	387,558,770	11.23%	327,367,980	9.42%
Real, Vacant Lots/Tracts	125,917,640	3.56%	139,255,040	4.04%	157,077,060	4.52%
Real, Farm and Ranch Improvements	664,900	0.02%	-	0.00%	-	0.00%
Real, Commercial and Industrial	1,821,453,070	51.52%	1,747,060,700	50.63%	1,792,641,490	51.60%
Minerals, Oil and Gas	200	0.00%	-	0.00%	-	0.00%
Real, Railroad	-	0.00%	1,983,810	0.06%	1,755,230	0.05%
Real and Tangible Personal, Utilities	23,084,830	0.65%	19,569,570	0.57%	20,103,170	0.58%
Tangible Personal, Aircraft	89,085,700	2.52%	116,861,760	3.39%	146,420,100	4.21%
Tangible Personal, Commercial.	405,724,570	11.48%	384,851,390	11.15%	374,004,410	10.76%
Tangible Personal, Industrial	57,454,160	1.63%	59,201,990	1.72%	54,784,770	1.58%
Tangible Personal, Other	7,446,210	0.21%	6,832,220	0.20%	7,119,040	0.20%
Total Appraised Value Before Exemptions	\$ 3,535,250,590	100.00%	\$ 3,450,860,510	100.00%	\$ 3,474,447,740	100.00%
Less: Total Exemptions/Reductions	(400,355,712)		(422,817,942)		(415,674,023)	
Taxable Assessed Value	<u>\$ 3,134,894,878</u>		<u>\$ 3,028,042,568</u>		<u>\$ 3,058,773,717</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2010		2009	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 600,829,690	16.11%	\$ 599,285,880	14.70%
Real, Residential Multi-Family	348,397,310	9.34%	365,189,030	8.96%
Real, Vacant Lots/Tracts	164,892,620	4.42%	143,950,450	3.53%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial and Industrial	1,978,850,900	53.07%	2,205,639,260	54.12%
Minerals, Oil and Gas	-	0.00%	-	0.00%
Real, Railroad	1,626,950	0.04%	1,335,690	0.03%
Real and Tangible Personal, Utilities	21,034,860	0.56%	21,878,440	0.54%
Tangible Personal, Aircraft	142,963,430	3.83%	213,069,020	5.23%
Tangible Personal, Commercial	421,250,640	11.30%	468,845,900	11.50%
Tangible Personal, Industrial	42,247,360	1.13%	47,317,570	1.16%
Tangible Personal, Other	6,477,340	0.17%	9,047,360	0.22%
Total Appraised Value Before Exemptions	\$ 3,728,571,100	100.00%	\$ 4,075,558,600	100.00%
Less: Total Exemptions/Reductions	(417,521,300)		(350,731,677)	
Taxable Assessed Value	<u>\$ 3,311,049,800</u>		<u>\$ 3,724,826,923</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 GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Funded Tax Debt Outstanding ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Net Funded Debt Per Capita
2009	13,400 ⁽¹⁾	\$ 3,724,826,923	\$ 277,972	\$ 54,671,900	1.47%	\$ 4,080
2010	13,056 ⁽²⁾	3,311,049,800	253,604	50,837,380	1.54%	3,894
2011	13,060 ⁽¹⁾	3,058,773,717	234,209	47,518,770	1.55%	3,638
2012	13,680 ⁽¹⁾	3,028,042,568	221,348	73,739,314	2.44%	5,390
2013	13,700 ⁽¹⁾	3,134,894,878	228,824	77,428,154 ⁽⁴⁾	2.47%	5,652

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

(2) Source: U.S. Census Bureau.

(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 ordinances authorizing such bonds and general obligation debt for which repayment is provided from the revenues of the waterworks and sewer system and the airport fund ("self-supporting debt"). The Town expects debt service on all or a portion of the Certificates to be payable from revenues from the Town's Drainage Utility System and Airport Fund. See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 10 – Computation of Self-Supporting Debt" herein.

(4) Projected. Includes the Tax-Exempt Bonds, AMT Bonds and Taxable Bonds.

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 ⁽¹⁾
		General Fund	Interest and Sinking Fund			
2009	\$ 0.4535	\$ 0.2828	\$ 0.1707	\$ 16,892,090	92.50%	92.40% ⁽¹⁾
2010	0.4960	0.3360	0.1600	16,422,810	96.60%	96.60%
2011	0.5300	0.3479	0.1821	16,211,500	96.70%	97.00%
2012	0.5800	0.3819	0.1981	17,562,650	98.40%	99.00%
2013	0.5800	0.3593	0.2207	18,227,706	98.20% ⁽²⁾	98.30% ⁽²⁾

(1) Total tax collections in Fiscal Year Ended 2008-09 are less than current tax collections as a result of a refund of prior year taxes due to reduced property values ordered by district court judgments.

(2) Collections for part year only, through May 1, 2013.

TABLE 5 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	Nature of Property	2012/13 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Post Addison Circle	Mixed Development	\$ 119,000,000	3.80%
SP US V5 Colonnade LP	Land, Office Buildings	113,094,040	3.61%
DCO Savoye LLC	Apartments	83,996,400	2.68%
Richmont Properties	Land, Office Buildings	57,000,000	1.82%
COP Spectrum Center LLC	Land, Office Buildings	49,796,250	1.59%
MHSS-Addison LP	Hospital	44,000,000	1.40%
Fairfield Addison Circle	Apartments	43,179,680	1.38%
VOP LP	Land, Office Buildings	41,550,000	1.33%
MBNA Texas Properties Inc.	Land, Office Buildings	40,911,340	1.31%
KBS Millennium I LLC	Office Buildings	40,355,000	1.29%
		<u>\$ 632,882,710</u>	<u>20.19%</u>

(1) As shown in the table above, the top ten taxpayers in the Town currently account for in excess of 19% of the Town's tax base. Adverse developments in economic conditions, could adversely impact the businesses of these taxpayers and the tax values in the Town, resulting in less local tax revenue. If any of these taxpayers were to default in the payment of their taxes, the ability of the Town to make timely payment of debt service on the Obligations will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "The Obligations— Obligationholders' Remedies" and "Tax Information" herein.

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 "Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2013 Net Principal and Interest Requirements for Debt	\$ 6,848,641
\$0.2218 Tax Rate at 98.50% Collection Produces	\$ 6,848,899
Average Annual Net Principal and Interest Requirements for Debt, 2013 - 2037	\$ 4,637,441
\$0.1502 Tax Rate at 98.50% Collection Produces	\$ 4,637,983
Maximum Net Principal and Interest Requirements for Debt, 2015	\$ 7,432,961
\$0.2408 Tax Rate at 98.50% Collection Produces	\$ 7,435,594

(1) Includes the Obligations. Excludes self-supporting debt (see "Table 1 - Valuation, Exemptions and General Obligation Debt" and "Table 10 - Computation of Self-Supporting Debt").

TABLE 7 - ESTIMATED CONSOLIDATED 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	2012/13 Taxable Assessed Value	2012/13 Tax Rate	Total G.O. Debt	Estimated % Applicable	Overlapping G.O. Debt As of 5-1-13	Authorized But Unissued Debt as of 5/1/2013
Town of Addison	\$ 3,134,894,878	\$ 0.58000	\$ 77,428,154 ⁽¹⁾	100.00%	\$ 77,428,154	\$ 38,000,000 ⁽²⁾
Carrollton/Farmers Branch Independent School District	13,889,472,257	1.35680	331,985,000	4.34%	14,408,149	-
Dallas County	157,908,256,062	0.24310	116,135,000	1.94%	2,253,019	6,200,000
Dallas County Community College District	165,159,472,596	0.11940	374,265,000	1.94%	7,260,741	-
Dallas County Hospital District	157,850,172,270	0.27100	705,000,000	1.94%	13,677,000	42,000,000
Dallas Independent School District	76,461,684,502	1.29030	2,493,455,000	3.44%	<u>85,774,852</u>	-
Total Direct and Overlapping G.O. Debt					<u>\$ 200,801,915</u>	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					6.41%	
Per Capita Overlapping G.O. Debt					\$ 14,657.07	

(1) Net of self-supporting debt. Includes the Obligations. Excludes self-supporting debt.

(2) Reflects remaining authorization after the issuance of the Tax-Exempt Bonds, the AMT Bonds and the Taxable Bonds.

TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year	Outstanding Debt Service Requirements ⁽¹⁾		The Tax-Exempt Bonds ⁽²⁾		The AMT Bonds ⁽³⁾		The Taxable Bonds ⁽⁴⁾		The Certificates ⁽⁵⁾		Less: Airport Self-Supporting Debt Service Requirements ⁽⁶⁾⁽⁷⁾	Less: Hotel Self-Supporting Debt Service Requirements ⁽⁷⁾	Less: W&S Self-Supporting Debt Service Requirements ⁽⁷⁾	Less: Stormwater Drainage Self-Supporting Debt Service Requirements ⁽⁶⁾⁽⁷⁾	Total Net Tax Supported Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest						
2013	\$ 7,870,000	\$ 3,350,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 393,485	\$ 703,363	\$ 3,274,809	\$ -	\$ 6,848,641	
2014	5,410,000	3,127,723	140,000	216,985	60,000	80,836	35,000	60,417	330,000	432,560	610,228	711,650	597,097	544,018	7,430,528	
2015	5,590,000	2,948,754	160,000	196,386	70,000	73,271	45,000	54,219	370,000	392,033	611,351	710,800	599,484	545,066	7,432,961	
2016	5,680,000	2,765,904	165,000	191,511	70,000	71,871	45,000	52,531	380,000	384,533	611,401	711,300	601,352	544,716	7,337,581	
2017	5,870,000	2,579,179	170,000	186,486	70,000	70,471	45,000	50,844	385,000	376,883	610,901	711,200	600,057	544,266	7,337,438	30.75%
2018	4,810,000	2,394,401	175,000	180,436	70,000	68,984	50,000	49,063	390,000	369,133	609,624	710,500	600,607	543,716	6,092,569	
2019	4,280,000	2,229,746	180,000	173,336	75,000	66,649	50,000	47,188	405,000	359,158	611,844	-	603,231	546,566	6,104,436	
2020	3,440,000	2,088,881	190,000	165,936	75,000	63,556	50,000	45,313	415,000	346,858	617,354	-	605,240	542,791	5,115,158	
2021	3,165,000	1,969,900	195,000	157,261	80,000	60,359	55,000	43,344	430,000	332,033	219,766	-	606,412	542,266	5,119,452	
2022	3,215,000	1,850,500	205,000	147,261	85,000	56,956	55,000	41,281	450,000	314,433	219,666	-	608,817	544,766	5,047,181	51.50%
2023	3,350,000	1,714,369	220,000	136,636	90,000	53,346	60,000	39,125	470,000	293,683	218,691	-	610,246	544,991	5,053,231	
2024	3,505,000	1,557,194	230,000	125,386	90,000	49,578	60,000	36,500	490,000	269,683	216,816	-	609,383	542,866	5,044,275	
2025	3,670,000	1,395,981	240,000	113,636	95,000	45,646	65,000	33,375	515,000	244,558	214,691	-	609,811	544,866	5,048,827	
2026	3,835,000	1,235,906	255,000	101,261	100,000	41,503	65,000	30,125	545,000	218,058	217,191	-	610,361	545,866	5,053,434	
2027	4,010,000	1,062,244	265,000	88,261	105,000	37,146	70,000	26,750	575,000	190,058	219,191	-	609,714	545,866	5,054,687	72.47%
2028	3,715,000	887,894	280,000	74,636	110,000	32,578	75,000	23,125	600,000	160,683	215,816	-	609,265	544,866	4,588,968	
2029	3,415,000	728,406	295,000	61,589	115,000	27,480	75,000	19,375	630,000	132,768	217,876	-	500,381	544,891	4,236,469	
2030	3,575,000	570,859	305,000	49,213	120,000	21,840	80,000	15,500	655,000	106,261	215,348	-	500,358	545,914	4,237,054	
2031	3,730,000	414,950	320,000	36,084	125,000	15,960	85,000	11,375	685,000	78,114	217,365	-	499,528	545,749	4,238,841	
2032	3,865,000	265,072	330,000	22,189	130,000	9,840	90,000	7,000	715,000	48,185	218,814	-	497,769	544,371	4,221,331	94.33%
2033	2,590,000	133,694	345,000	7,547	140,000	3,360	95,000	2,375	750,000	16,406	219,703	-	498,224	546,703	2,818,752	
2034	550,000	68,506	-	-	-	-	-	-	-	-	-	-	-	-	618,506	
2035	570,000	49,950	-	-	-	-	-	-	-	-	-	-	-	-	619,950	
2036	585,000	30,459	-	-	-	-	-	-	-	-	-	-	-	-	615,459	
2037	610,000	10,294	-	-	-	-	-	-	-	-	-	-	-	-	620,294	100.00%
	<u>\$ 90,905,000</u>	<u>\$ 35,431,063</u>	<u>\$ 4,665,000</u>	<u>\$ 2,432,038</u>	<u>\$ 1,875,000</u>	<u>\$ 951,229</u>	<u>\$ 1,250,000</u>	<u>\$ 688,823</u>	<u>\$ 10,185,000</u>	<u>\$ 5,066,074</u>	<u>\$ 7,507,123</u>	<u>\$ 4,258,813</u>	<u>\$ 14,852,144</u>	<u>\$ 3,811,140</u>	<u>\$ 115,936,024</u>	

DEBT INFORMATION

- (1) Does not include lease/purchase obligations, includes self-supporting debt.
- (2) Average life of the issue - 11.587 years. Interest on the Tax-Exempt Bonds has been calculated at the rates stated on the cover page hereof.
- (3) Average life of the issue - 11.461 years. Interest on the AMT Bonds has been calculated at the rates stated on page 3 hereof.
- (4) Average life of the issue - 11.555 years. Interest on the Taxable Bonds has been calculated at the rates stated on page 5 hereof.
- (5) Average life of the issue - 11.469 years. Interest on the Certificates has been calculated at the rates state on page 7 hereof.
- (6) Includes a portion of the Certificates.
- (7) See "Table 1 - Valuation, Exemptions and General Obligation Debt" and "Table 10 - Computation of Self-Supporting Debt" for additional details on the Town's self-supporting debt.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

General Purpose Debt Service Requirements, Fiscal Year Ending 9/30/13			\$ 6,848,641
Budgeted Interest and Sinking Fund Balance, as of 9/30/12	\$ 1,642,130		
Budgeted Interest and Sinking Fund Tax Levy @ 98% Collection	6,869,820		
Other Revenues and Income	10,500	<u>8,522,450</u>	
Ending Fund Balance, 9/30/13			<u><u>\$ 1,673,809</u></u>

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Waterworks and Sewer System

Net Revenues Available from Waterworks and Sewer System, Fiscal Year 9-30-12	\$ 3,723,870	
Less: Revenue Bond Requirements, 2013 Fiscal Year	-	<u> </u>
Balance	\$ 3,723,870	
Less: System General Obligation Bond Requirements, 2013 Fiscal Year	3,274,809	<u> </u>
Balance	\$ 449,061	<u><u> </u></u>
Percentage of System General Obligation Bonds Self-Supporting		100.00%

Hotel Special Revenue Fund

Hotel Special Revenue Fund Balance, Fiscal Year 9-30-12	\$ 1,620,511	
Less: Hotel Revenue General Obligation Bond Requirements, 2013 Fiscal Year	703,363	<u> </u>
Balance	\$ 917,149	<u><u> </u></u>
Percentage of System General Obligation Bonds Self-Supporting		100.00%

Airport Enterprise Fund

Net Revenues Available from Airport Revenue, Fiscal Year 9-30-12	\$ 1,166,246	
Less: Airport Revenue General Obligation Bond Requirements, 2013 Fiscal Year	393,485	<u> </u>
Balance	\$ 772,761	<u><u> </u></u>
Percentage of System General Obligation Bonds Self-Supporting		100.00%

(1) The Town implemented a stormwater drainage fee to be effective in fiscal year ending September 30, 2013. The Town estimates drainage revenues in excess of \$1,000,000 per year.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Heretofore Issued</u>	<u>Amount Being Issued ⁽¹⁾</u>	<u>Unissued Balance</u>
Street Improvements	5/12/2012	\$ 29,500,000	\$ 3,500,000	\$ 1,000,000	\$ 25,000,000
Road Utilities	5/12/2012	10,000,000	-	-	10,000,000
Airport Improvements	5/12/2012	7,000,000	-	7,000,000	-
Parking Facilities	5/12/2012	3,000,000	-	-	3,000,000
		<u>\$ 49,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ 8,000,000</u>	<u>\$ 38,000,000</u>

(1) Includes original issue premium in the amount of \$210,000 allocated to voted authorization.

ANTICIPATED ISSUANCE OF TAX SUPPORTED DEBT . . . The Town anticipates the issuance of approximately \$10 million of additional bonds in 2014.

TABLE 12- OTHER OBLIGATIONS

As of September 30, 2012, 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 over 833 administered by TMRS, an agent multiple-employer public employee retirement system. The service retirement eligibilities for the Town are: 5 years/age 60, 20 years/any age. A member is vested after 5 years.

The TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. Such report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

In reading this section, investors should be aware that (i) the information included in this Official Statement relating to the TMRS relies on information produced by the TMRS and its independent accountant and actuary, (ii) actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the TMRS and (iii) actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the TMRS.

Under the State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The Town contributes to the TMRS plan at an actuarially determined rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate 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.

The Town has always paid the full rate required by the TMRS in each year, and the Town has continued contributing at the full rate in calendar year 2013, which is 10.69% of covered payroll. The TMRS has determined that the Town's contribution rate for calendar year 2014 will decrease to 10.10%. To date, the Town has always contributed the total net pension obligation in each year, and therefore the Town's total accrued net pension obligation is \$0.

As of December 31, 2012, the Town's actuarial accrued liability was \$94,730,798. As of such date, the Town had actuarial value of assets of \$94,883,851, meaning the Town had fully funded its actuarial accrued as of such date.

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.

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to the TMRS plan described above, 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 (TMRS and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan (the "OPEB Plan"). The OPEB 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 OPEB 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 OPEB Plan at the total blended contribution rate for active and retiree participants. Since an irrevocable trust has not been established, the OPEB Plan is not accounted for as a trust fund. The OPEB 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 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 OPEB 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 OPEB Plan the total blended premium for active and retired participants, less the \$150 stipend provided by the Town. The Town contribution to the OPEB Plan consists of total premiums in excess of retiree contributions. Retirees receiving medical benefits during fiscal year 2012 contributed \$346 to \$1,465 per month depending on coverage levels selected. In fiscal year 2012, total retiree contributions were \$124,440. The Town contributions to the OPEB Plan for fiscal year 2012, which were also equal to premiums paid in excess of premiums collected from retirees, were \$26,428.

Annual OPEB Cost and Net OPEB Obligation . . . The Town's annual other postemployment benefit ("OPEB") cost (expense) for the OPEB 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 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 OPEB Plan, and the net OPEB obligation for fiscal year 2012:

Annual Required Contribution	\$ 181,735
Interest on OPEB Obligation	15,840
Adjustment to ARC	<u>(14,675)</u>
Annual OPEB Cost (Expense)	\$ 182,900
Contributions Made	<u>(148,348)</u>
Change in OPEB Obligation	\$ 34,552
Net OPEB Obligation (Asset) – Beginning of Year	<u>351,990</u>
Net OPEB Obligation (Asset) – End of Year	\$ 386,542

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation for the fiscal year ending September 30, 2012 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Costs	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 254,772	\$ 22,125	8.70%	\$ 464,469
2011	177,978	290,457 ⁽¹⁾	163.20%	351,990
2012	182,900	148,348	81.10%	386,542

(1) Employer contributions for the fiscal year ending September 30, 2011 includes historical implicit subsidies which were not reflected in prior years.

As of December 31, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,968,533, none of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was \$15,557,784, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.7%. Of the total actuarial accrued liability, \$1,436,129, or 73.0%, comprises the implied subsidy of health care for current retirees and active employees upon retirement. 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.

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 – GOVERNMENTAL ACTIVITIES

	Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Revenues:					
<u>Program Revenues</u>					
Charges for Services	\$ 6,188,713	\$ 7,671,920	\$ 5,820,732	\$ 5,237,294	\$ 5,804,238
Operating Grants and Contributions	164,749	223,792	230,290	2,044,979	561,992
Capital Grants and Contributions	568,285	3,429,804	1,348,141	-	-
<u>General Revenues</u>					
Property Taxes	17,400,696	15,772,858	15,900,631	15,711,056	14,310,671
Other Taxes	18,982,785	17,398,190	16,232,374	17,558,644	19,379,811
Other	868,902	921,242	2,814,471	1,709,377	2,013,254
Total Revenues	\$ 44,174,130	\$ 45,417,806	\$ 42,346,639	\$ 42,261,350	\$ 42,069,966
Expenses:					
General Government	\$ 6,485,716	\$ 6,709,095	\$ 6,876,385	\$ 6,527,735	\$ 6,405,494
Public Safety	15,130,157	14,914,759	14,550,333	14,743,542	13,994,387
Development Services	879,253	866,023	938,059	856,793	940,555
Street and Sanitation	5,028,071	4,913,524	5,277,938	4,998,440	5,269,124
Parks and Recreation	4,963,327	4,742,946	4,502,295	5,119,320	4,759,378
Visitor Services	6,852,198	6,431,136	6,027,442	6,687,392	6,928,724
Interest on Long-term Debt	1,898,595	2,261,571	2,423,732	2,420,908	2,127,985
Total Expenses	\$ 41,237,317	\$ 40,839,054	\$ 40,596,184	\$ 41,354,130	\$ 40,425,647
Increase (Decrease) in Net Assets	\$ 2,936,813	\$ 4,578,752	\$ 1,750,455	\$ 907,220	\$ 1,644,319
Net Assets - October 1	151,998,474	147,419,722	145,669,267	144,762,047	143,117,728
Net Assets - September 30	\$ 154,935,287	\$ 151,998,474	\$ 147,419,722	\$ 145,669,267	\$ 144,762,047

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

Revenues	Fiscal Year Ended September 30,				
	2012	2011	2010	2009	2008
Taxes	\$ 22,822,102	\$ 20,936,751	\$ 20,849,005	\$ 20,272,497	\$ 21,542,552
Franchise Fees	2,727,370	2,760,188	2,578,154	2,761,511	2,555,927
Licenses and Permits	953,709	1,210,058	833,178	429,681	798,006
Intergovernmental Revenues	-	-	-	101,300	-
Service Fees	1,443,787	1,414,120	1,491,528	1,400,529	1,420,244
Fines and Forfeitures	1,071,177	1,062,986	1,158,581	1,253,029	1,222,897
Interest Income	19,928	25,514	60,681	273,920	472,156
Rental and Other	267,435	266,926	291,491	230,754	310,270
Total Revenues	\$ 29,305,508	\$ 27,676,543	\$ 27,262,618	\$ 26,723,221	\$ 28,322,052
Expenditures					
General Government	\$ 6,082,779	\$ 6,353,784	\$ 6,323,891	\$ 6,357,501	\$ 6,412,823
Public Safety	14,372,574	14,553,921	13,477,643	14,290,988	14,101,619
Development Services	886,705	885,218	887,132	864,234	884,770
Streets	1,612,699	1,612,011	1,672,375	2,356,219	1,805,175
Parks and Recreation	4,269,381	4,061,666	3,698,831	4,055,278	4,105,900
Total Expenditures	\$ 27,224,138	\$ 27,466,600	\$ 26,059,872	\$ 27,924,220	\$ 27,310,287
Revenues Over (Under) Expenditures	\$ 2,081,370	\$ 209,943	\$ 1,202,746	\$ (1,200,999)	\$ 1,011,765
Other Sources (Uses), Net	(75,000)	(700,000)	(998,737)	157,811	-
Change in Fund Balance	\$ 2,006,370	\$ (490,057)	\$ 204,009	\$ (1,043,188)	\$ 1,011,765
Beginning Fund Balance	10,366,694	10,856,751	10,652,742	11,695,930	10,684,165
Ending Fund Balance	\$ 12,373,064	\$ 10,366,694	\$ 10,856,751	\$ 10,652,742	\$ 11,695,930

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 Obligations. 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
2009	\$ 9,584,496	56.74%	\$ 0.2573	\$ 715
2010	9,155,849	55.75%	0.2765	701
2011	9,632,640	59.42%	0.3149	738
2012	11,089,866	63.14%	0.3662	811
2013 ⁽¹⁾	7,220,181	39.61%	0.2303	527

(1) Collection for part year only, through May 1, 2013.

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, 2012.

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, 2012. 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 2012 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 letter 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for Town deposits; or (ii) where: (a) the funds are invested by the Town through a broker (selected from a list adopted by the Town) or a depository institution that has a main office or branch office in the State and that is selected by the Town; (b) the broker or depository institution selected by the Town arranges for the deposit of funds 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; (d) the depository institution, broker, clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3, or certain entities described in Section 2257.041(d) of the Texas Government Code selected by the Town acts as a custodian for the Town with respect to the certificates of deposit issued for the account of the Town; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The 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 may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Town retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Town must do so by order, ordinance, or resolution. 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.

Political subdivisions such as the Town are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the Town or a third party designated by the Town; (iii) a loan made under the program is

placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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 Public Funds Investment Act. All Town funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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 during 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 Town 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 Town Council; (4) require the registered principal of firms seeking to sell securities to 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 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 repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the entity'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 ⁽¹⁾

As of May 1, 2013, the Town's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Book Value</u>	<u>Market Value</u>
TexPool	6.15%	\$ 4,606,134	\$ 4,606,134
TexStar	29.40%	22,022,081	22,022,081
Agency Securites	33.45%	25,057,000	25,309,568
Certificates of Deposit	6.04%	4,527,271	4,527,271
Commercial Paper	24.96%	18,700,000	18,688,024
	<u>100.00%</u>	<u>\$ 74,912,486</u>	<u>\$ 75,153,078</u>

TexSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pool. TexSTAR currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

TAX MATTERS

THE TAX-EXEMPT BONDS AND THE CERTIFICATES

TAX EXEMPTION . . . In the opinion of Bracewell & Giuliani LLP, Bond Counsel, under existing law (i) interest on the Tax-Exempt Bonds and Certificates is excludable from gross income for federal income tax purposes and (ii) the Tax-Exempt Bonds and Certificates are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Tax-Exempt Bonds and Certificates 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.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Bonds and Certificates, 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 Tax-Exempt Bonds and Certificates 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. 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 Tax-Exempt Bonds and Certificates could become includable in gross income from the date of delivery of the Tax-Exempt Bonds and Certificates, 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 Tax-Exempt Bonds and Certificates, 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 Tax-Exempt Bonds and Certificates.

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 is 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 Tax-Exempt Bonds or Certificates. 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 Tax-Exempt Bonds or Certificates could adversely affect the value and liquidity of the Tax-Exempt Bonds and Certificates regardless of the ultimate outcome of the audit.

THE AMT BONDS

TAX EXEMPTION . . . In the opinion of Bracewell & Giuliani LLP, Bond Counsel, under existing law (i) interest on the AMT Bonds is excludable from gross income for federal income tax purposes except for any period an AMT Bond is held by a person who, within the meaning of section 147(a) of the Code, is a "substantial user" or a "related person" to a "substantial user" of the facilities financed or refinanced with the proceeds of the AMT Bonds, and (ii) the AMT Bonds are "private activity bonds" under the Code and, as such, interest on the AMT Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the AMT Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond financed project, limitations on the use of bond 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 bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with 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 AMT Bonds for federal income tax purposes and, in addition, will rely on representations by the Town, the Town's Financial Advisors and the Underwriters with respect to matters solely within the knowledge of the Town, the Town's Financial Advisors and the Underwriters, respectively, which Bond Counsel has not independently verified. If the Town fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the AMT Bonds could become includable in gross income from the date of original delivery of each issue of the AMT Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26% of so much of such taxable excess as does not exceed \$175,000 plus 28% of so much of such taxable excess as exceeds \$175,000. 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 an individual or corporation will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds" issued after August 7, 1986. Accordingly, Bond Counsel's opinion will state that interest on the AMT Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations.

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, acquisition, ownership or disposition of, the AMT Bonds.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date hereof. 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 opinion is not a guarantee of result and is not binding on the Services; rather, such opinion represents Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that they 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 AMT 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 any issue of the AMT Bonds could adversely affect the value and liquidity of such issue of the AMT Bonds regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences . . . Prospective purchasers of the Tax-Exempt Bonds, Certificates and the AMT Bonds (collectively, the "Obligations") 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 assistant card, 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 Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Obligations 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 Obligations, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium . . . The issue price of all or a portion of the Obligations may exceed the stated redemption price payable at maturity of such Obligations. Such Obligations (the "Premium Obligations") are considered for federal income tax purposes to have "premium" equal to the amount of such excess. The basis of a Premium Obligation 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 Obligation 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 Obligation 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 Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined using the yield to maturity on the Premium Obligation based on the initial offering price of such Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Obligations 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 Obligations 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 Obligation 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 Obligations.

Tax Accounting Treatment of Original Issue Discount Obligations . . . The issue price of all or a portion of the Obligations may be less than the stated redemption price payable at maturity of such Obligations (the "Original Issue Discount Obligations"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public offering of the Tax-Exempt Bonds and Certificates. 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 Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation 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 Tax-Exempt Bonds, Certificates and AMT 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.

Under existing law, the original issue discount on each Original Issue Discount Obligation 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 Tax-Exempt Bonds and Certificates 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 Obligation 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 Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Obligations 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 Obligations 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 Obligations 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 Obligations.

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

The foregoing discussion assumes that (i) the Underwriters have purchased the Obligations for contemporaneous sale to the public and (ii) all of the Original Issue Discount Obligations 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 Obligations will be offered and sold in accordance with such assumptions.

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 Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Obligations. Prospective purchasers of the Obligations should consult with their own tax advisors with respect to any proposed, pending or future legislation.

TAX MATTERS - THE TAXABLE BONDS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS [OFFICIAL STATEMENT] IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF THE TAXABLE BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS OF THE TAXABLE BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

GENERAL

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Taxable Bonds by a U.S. holder (as defined below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure you that the Internal Revenue Service, or IRS, will not challenge one or more of the tax consequences described in this discussion, and we have not obtained, nor do we intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Taxable Bonds.

This discussion is limited to U.S. holders who purchase the Taxable Bonds in this offering for a price equal to the issue price of the Taxable Bonds (i.e., the first price at which a substantial amount of the Taxable Bonds is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Taxable Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. holders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Taxable Bonds as part of a hedge, straddle, conversion or other "synthetic security" or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and
- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Taxable Bonds, the tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership acquiring the Taxable Bonds should consult his/her own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the Taxable Bonds.

INVESTORS CONSIDERING THE PURCHASE OF THE TAXABLE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Premium Redemption: In certain circumstances (see "Description of the Taxable Bonds – Optional Redemption") the City may be obligated to pay amounts on the Taxable Bonds that are in excess of stated interest or principal on the Taxable Bonds. The City does not intend to treat the possibility of paying such additional amounts as causing the Taxable Bonds to be treated as "contingent payment debt instruments." However, additional income will be recognized if any such additional payment is made. It is possible that the IRS may take a different position, in which case a bondholder might be required to accrue interest income at a higher rate than the stated interest rate and to treat as ordinary interest income any gain realized on the taxable disposition of the Taxable Bond. The remainder of this discussion assumes that the Taxable Bonds will not be treated as contingent payment debt instruments. Investors should consult their own tax advisors regarding the possible application of the contingent payment debt instrument rules to the Taxable Bonds.

TAX CONSEQUENCES TO U.S. HOLDERS

As used herein "U.S. holder" means a beneficial owner of the Taxable Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

INTEREST ON THE TAXABLE BONDS [AND ORIGINAL ISSUE DISCOUNT]

Interest on the Taxable Bonds generally will be taxable to a bondholder as ordinary income at the time it is received or accrued in accordance with the bondholder's regular method of accounting for U.S. federal income tax purposes. In addition, all or a portion of the Taxable Bonds may be issued with original issue discount ("OID") for U.S. federal income tax purposes. The amount of OID is generally equal to the excess of the principal amount of the notes over the issue price of the notes. The issue price of a Taxable Bond will be equal to the first price at which a substantial amount of Taxable Bonds are sold for cash (excluding sales to underwriters or placement agents). Accordingly, a bond holder will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, a bondholder generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

DISPOSITION OF THE TAXABLE BONDS

A bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Bond. This gain or loss will equal the difference between the bondholder's adjusted tax basis in the Taxable Bond and the proceeds received (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent you have not previously included such amounts in income) by the bondholder. The proceeds the bondholder receives will include the amount of any cash and the fair market value of any other property received for the Taxable Bond. The adjusted tax basis in the Taxable Bond will generally equal the amount the bondholder paid for the Taxable Bond. The gain or loss will be long-term capital gain or loss if the bondholder held the Taxable Bond for more than one year at the time of the sale, redemption, exchange, retirement or other disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Information reporting will apply to payments of interest on, and the proceeds of the sale, redemption, exchange, retirement or other disposition of, the Taxable Bonds held by a bondholder, and backup withholding may apply to such payments unless that bondholder provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the bondholder's actual U.S. federal income tax liability and the bondholder timely provides the required information or appropriate claim form to the IRS.

NEW LEGISLATION RELATING TO NET INVESTMENT INCOME

For taxable years beginning after December 31, 2012, newly-enacted legislation is scheduled to impose a 3.8% tax on the "net investment income" of certain United States citizens and resident aliens and on the undistributed "net investment income" of certain estates and trusts. Among other items, "net investment income" generally would include interest and certain net gain from the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Bond, less certain deductions.

Prospective holders should consult their tax advisors with respect to the tax consequences of the new legislation described above.

TAX CONSEQUENCES TO NON-U.S. HOLDERS

As used herein, a "non-U.S. holder" means a beneficial owner of a Taxable Bond that is an individual, corporation, estate or trust that is not a U.S. holder.

INTEREST ON THE TAXABLE BONDS

Payments to a non-U.S. holder of interest on the Taxable Bonds generally will be exempt from withholding of U.S. federal tax under the "portfolio interest" exemption if the bondholder properly certifies as to the bondholder's foreign status as described below, and:

- the bondholder does not own, actually or constructively, 10% or more of the City's capital or profits interests;
- the bondholder is not a "controlled foreign corporation" for U.S. federal income tax purposes that is related to the City (actually or constructively);
- the bondholder is not a bank whose receipt of interest on the Taxable Bonds is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of the bondholder's trade or business; and
- interest on the Taxable Bonds is not effectively connected with the bondholder's conduct of a U.S. trade or business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described below generally apply only if non-U.S. holder appropriately certifies as to the bondholder's foreign status. A bondholder can generally meet this certification requirement by providing a properly executed IRS Form W-8BEN or appropriate substitute form to the withholding agent. If a non-U.S. holder holds the Taxable Bonds through a financial institution or other agent acting on the bondholder's behalf, the bondholder may be required to provide appropriate certifications to the agent. The agent will then generally be required to provide appropriate certifications to the withholding agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to foreign status of partners, trust owners or beneficiaries may have to be provided to the City or its paying agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

If a non-U.S. holder cannot satisfy the requirements described above, payments of interest made to the bondholder will be subject to U.S. federal withholding tax at a 30% rate, unless the bondholder provides the withholding agent with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of an applicable income tax treaty, or the payments of interest are effectively connected with the bondholder's conduct of a trade or business in the United States and the bondholder meets the certification requirements described below. (See "—Tax Consequences to Non-U.S. Holders—Income or Gain Effectively Connected With a U.S. Trade or Business").

DISPOSITION OF THE TAXABLE BONDS

A non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Bond unless:

- the gain is effectively connected with the conduct by the bondholder of a U.S. trade or business (and, if required by an applicable income tax treaty, is treated as attributable to a permanent establishment maintained by the bondholder in the United States); or
- the bondholder is a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

If a bondholder is a non-U.S. holder described in the first bullet point above, the bondholder generally will be subject to U.S. federal income tax in the same manner as a U.S. holder (See "—Tax Consequences to Non-U.S. Holders—Income or Gain Effectively Connected With a U.S. Trade or Business"). If a bondholder is a non-U.S. holder described in the second bullet point above, the bondholder generally will be subject to U.S. federal income tax at a flat rate of 30% on the gain derived from the sale or other disposition, which may be offset by U.S. source capital losses.

INCOME OR GAIN EFFECTIVELY CONNECTED WITH A U.S. TRADE OR BUSINESS

If any interest on the Taxable Bonds or gain from the sale, redemption, exchange, retirement or other taxable disposition of the Taxable Bonds is effectively connected with a U.S. trade or business conducted by a non-U.S. holder, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates in the same manner as a U.S. holder unless an applicable tax treaty provides otherwise. Effectively connected income will not be subject to U.S. withholding tax if a non-U.S. holder satisfies certain certification requirements by providing to the withholding agent a properly executed IRS Form W-8ECI or IRS Form W-8BEN (claiming exemption under an income tax treaty). For a non-U.S. holder that is a corporation, that portion of your earnings and profits that is effectively connected with your U.S. trade or business may also be subject to a "branch profits tax" at a 30% rate, although an applicable income tax treaty may provide for a lower rate.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Payments to you of interest on a Taxable Bond, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to the non-U.S. holder. Copies of the information returns reporting such interest may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of a treaty or agreement.

United States backup withholding generally will not apply to payments to a non-U.S. holder of interest on a Taxable Bond if the statement described in "Tax Consequences to Non-U.S. Holders—Interest on the Taxable Bonds" is duly provided or the bondholder otherwise establishes an exemption, provided that the City does not have actual knowledge or reason to know that the bondholder is a United States person.

Payment of the proceeds of a disposition of a Taxable Bond effected by the U.S. office of a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless a non-U.S. holder properly certifies under penalties of perjury as to the bondholder's foreign status and certain other conditions are met or the bondholder otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of the disposition of a Taxable Bond effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that a bondholder is a non-U.S. holder and certain other conditions are met, or the bondholder otherwise establishes an exemption, information reporting will apply to a payment of the proceeds of the disposition of a Taxable Bond effected outside the United States by such a broker if the broker is:

- a United States person;
- a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- a controlled foreign corporation for U.S. federal income tax purposes; or
- a foreign partnership that, at any time during its taxable year, has more than 50% of its income or capital interests owned by United States persons or is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a non-U.S. holder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed your actual U.S. federal income tax liability and you timely provide the required information or appropriate claim form to the Service.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR THE TAXABLE BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

CONTINUING DISCLOSURE OF INFORMATION

In each of the Ordinances the Town has made the following agreement for the benefit of the holders and beneficial owners of the respective series of Obligations. The Town is required to observe each agreement while it remains obligated to advance funds to pay such Obligations. Under each agreement, the Town will be obligated to provide certain updated financial information and operating data annually, and the 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.

ANNUAL REPORTS . . . The Town will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative 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 in Appendix B. The Town will update and provide this information within six months after the end of each fiscal year ending in or after 2013. The Town will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Town commissions an audit and it is completed by the required time.

If audited financial statements are not available by the required time, the Town will provide unaudited financial information of the type described in the preceding paragraph by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Town may be required to employ from time to time pursuant to State law or regulation.

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

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 Obligations 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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, 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. Neither the Obligations nor the Ordinances make any provision for debt service reserves, credit enhancements, or liquidity enhancement. 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.

LIMITATIONS AND AMENDMENTS . . . The Town has agreed to update information and to provide notices of 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 Obligations 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 Obligations may seek a writ of mandamus to compel the Town to comply with its agreement.

The Town may amend its continuing disclosure agreement for either or both of the Obligations 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, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds or Certificates, as the case may be, in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds or Certificates, as the case may be, consent to the amendment or (b) any person unaffiliated with the Town (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds or Certificates, as the case may be. The Town may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions 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 Obligations in the primary offering of the Obligations. If the Town so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

OTHER INFORMATION

RATINGS

The Obligations and the outstanding tax-supported debt of the Town are rated "Aa1" by Moody's and "AAA" by S&P, in each case without regard to credit enhancement. 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, by either rating company, may have an adverse effect on the market price of the Obligations.

LITIGATION

It is the opinion of the Town Attorney and Town Staff that there is no pending, or to their knowledge, threatened litigation or other proceeding against the Town that would have a material adverse financial impact upon the Town or its operations.

At the time of the initial delivery of the Obligations, the Town Attorney will notify the Underwriters if there has been any lawsuit or claim challenging the issuance of the obligation or that affects the payment, delivery or security of the Obligations for which the Town Attorney has been notified of.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of at least one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Town has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS

The Town will furnish a complete transcript of proceedings incident to the authorization and issuance of each series of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Tax-Exempt Bond, the Initial AMT Bonds, the Initial Taxable Bond and the Initial Certificate of each series and to the effect that the Obligations are valid and legally binding obligations of the Town, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Tax-Exempt Bonds, the AMT Bonds and the Certificates will be excludable from gross income for federal income tax purposes, subject to the matters described under "Tax Matters – the Tax-Exempt Bonds and the Certificates" and "Tax Matters – AMT Bonds" 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 Obligations" (except for the subcaptions "Book-Entry-Only System" and "Obligationholders' Remedies"), "Tax Matters - The Tax-Exempt Bonds and the Certificates," "Tax Matters - The AMT Bonds," "Tax Matters - The Taxable Bonds" and "Continuing Disclosure of Information" (except for 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 Obligations 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 Obligations 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 Obligations, such information conforms to the Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski LLP, Dallas, Texas, , a member of Norton Rose Fulbright, whose legal fees are contingent upon the sale and delivery of the Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Obligations 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 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. 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

First Southwest Company is employed as Financial Advisor to the Town in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Tax-Exempt Bonds from the Town, at an underwriting discount of \$30,514.30.

The Underwriters have agreed, subject to certain conditions, to purchase the AMT Bonds from the Town, at an underwriting discount of \$15,256.25.

The Underwriters have agreed, subject to certain conditions, to purchase the Taxable Bonds from the Town, at an underwriting discount of \$11,212.50.

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the Town, at an underwriting discount of \$63,852.70.

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

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

One of the Underwriters is BOSCO, Inc., which is not a bank, and the Obligations are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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.

MISCELLANEOUS

The Ordinances authorizing the issuance of the Obligations 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 Obligations by the Underwriters.

TODD MEIER
Mayor
Town of Addison, Texas

ATTEST:

CHRIS TERRY
Town Secretary

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 2013 population to be 13,700.

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:

<u>Company</u>	<u>Type of Business</u>	<u>Estimated Number of Employees</u>
Bank of America	Finance	3,400
Mary Kay Cosmetics Inc.	Cosmetics	1,070
National Default Exchange Management	Mortgage	566
Rexel	Industrial Electrical Supplies	550
American Mortgage Servicing	Mortgage	500
United Surgical Partners International	Medical	360
Concentra Operating Corporation	Medical	321
Hilton Worldwide, Incorporated	Hospitality	319
Glazer's Family of Companies	Spirits	280
Greenhill School	Education	256

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, Ordinances 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

<u>Fiscal Year</u>	<u>Number of Permits</u>	<u>Commercial</u>	<u>Residential</u>	<u>Total Value</u>
2008	1,024	\$ 70,073,523	\$ 53,544,246	\$ 123,617,769
2009	803	28,978,561	1,638,405	30,616,966
2010	1,125	82,918,102	57,494,260	140,412,362
2011	1,450	41,600,000	68,100,000	109,700,000
2012	1,120	41,338,498	48,656,566	89,995,064

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APPENDIX B

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

For the Year Ended September 30, 2012

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, 2012, 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

Honorable Mayor and
Members of the Town Council
of the Town of Addison
Addison, Texas

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Town of Addison, Texas (the Town) as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's administration. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

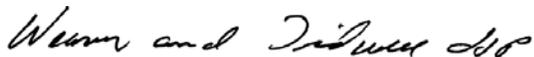
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2012, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Hotel Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2013, 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* and should be considered in assessing the results of our audit.

Accounting Principles generally accepted in the United States of America require that the information identified in the accompanying table of contents as *management's discussion and analysis, Texas Municipal Retirement System Analysis of Funding Progress, and the Retiree Health Plan Analysis of Funding Progress* 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Addison's financial statements as a whole. The introductory, combining and individual fund financial statements and schedules and statistical section, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Town. The combining and individual nonmajor 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.



WEAVER AND TIDWELL, L.L.P.

March 11, 2013
Dallas, Texas

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, 2012. 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.**

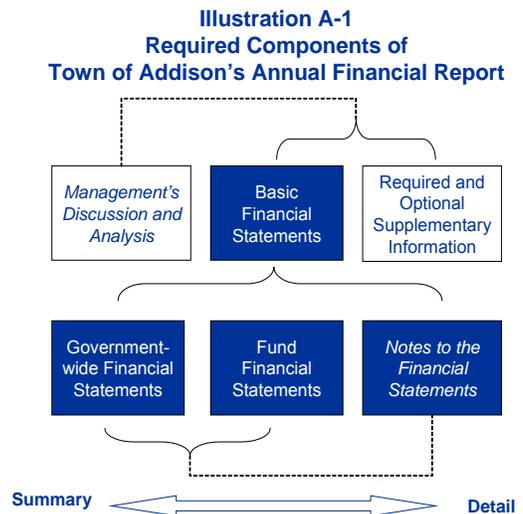
Financial Highlights

- The Town's assets exceeded its liabilities at the close of the 2012 fiscal year by \$218,895. This amount represents an increase over the previous year by \$5,948. The increase is attributed to governmental revenue from taxes and charges for services exceeding the cost of government activities and program revenues and capital grants exceeding expenses with the Town's business-type activities related to airport and utility operations.
- As of September 30, 2012, the Town's governmental funds reported combined ending fund balances of \$56,592, an increase of \$33,682. The majority of the increase is due the proceeds from bond issuance in the Capital Project fund.
- At the end of the 2012 fiscal year, fund balance for the General Fund was \$12,373, or 45 percent of total fund expenditures. Fund balance increased \$2,006 during the year.
- At year-end, the Town of Addison's outstanding debt totals \$90,905, an increase of \$24,435 from the previous year which is attributed to the issuance of new debt and 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 like 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 like businesses, such as the airport.



The financial statements also include *notes*, which elaborate on some of the information in the financial statements and that provide 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 long-term debt schedules and a 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.

Illustration A-2			
Major Features of Town of Addison's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Town government	Activities of the Town that are not proprietary, such as police, fire, and parks	Activities the Town operates similar to private businesses: airport, water/sewer utility
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of net assets * Statement of revenues, expenses, and changes in net assets * 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 19-20 of this document.

- The *statement of net assets* presents information on all of the Town’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets **may** indicate the improvement or deterioration of the Town’s financial position.
- The *statement of activities* presents information showing how the Town’s net assets changed during the concluded fiscal year. All changes in net assets 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 that is used to maintain control over resources that 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 fund balance sheet and the governmental fund 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 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all these funds, with the exception of the Economic Development Fund, Municipal Court Fund, Public Safety Fund, and various grant and capital project funds, 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 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 and utility system, both 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 31-56 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. This information is presented on pages 59-60.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented on pages 100-101 and 122-124. Individual proprietary comparative statements are presented on pages 116-130.

The Town has included schedules of Capital Assets starting on page 132 and Long-Term Debt starting on page 136.

Government-wide Financial Analysis

As of the close of the 2012 fiscal year, the Town's net assets (assets exceeding liabilities) totaled \$218,895 (see Table A-1). Of this amount \$179,111, or 81.9 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 assets has been restricted for retiring the Town's long-term general obligation debt (\$1,699), promotion of tourism and hotel industry (\$1,993) and other restrictions (\$176). The remaining amount of net assets is labeled as unrestricted and totals \$35,916. 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 two categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

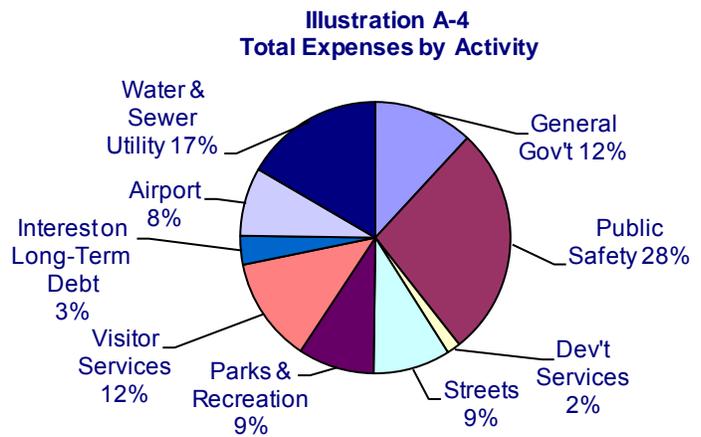
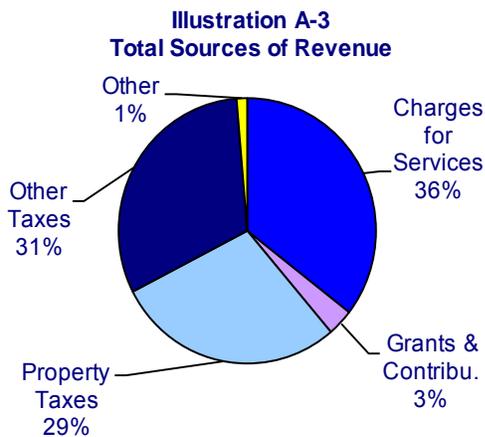
Table A-1
Town of Addison's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and Other Assets	\$ 71,794	\$ 37,881	\$ 16,382	\$ 17,346	\$ 88,176	\$ 55,227
Capital Assets	170,066	171,467	62,832	60,200	232,898	231,667
Total Assets	241,860	209,348	79,214	77,546	321,074	286,894
Liabilities:						
Long-Term Liabilities Outstanding	81,885	53,314	13,244	14,360	95,129	67,674
Other Liabilities	5,040	4,036	2,010	2,237	7,050	6,273
Total Liabilities	86,925	57,350	15,254	16,597	102,179	73,947
Net Assets:						
Invested in Capital Assets, Net of						
Related Debt	129,471	129,262	49,640	51,114	179,111	180,376
Restricted for Debt Service	1,699	1,007	-	-	1,699	1,007
Restricted for Promotion of						
Tourism and Hotel Industry	1,993	-	-	-	1,993	-
Restricted - other	176	-	-	-	176	-
Unrestricted	21,596	21,729	14,320	9,835	35,916	31,564
Total Net Assets	\$ 154,935	\$ 151,998	\$ 63,960	\$ 60,949	\$ 218,895	\$ 212,947

As reflected in Table A-2, the Town's net assets increased \$5,948, or 2.8 percent during the 2012 fiscal year. The increase is primarily due to increased general revenues, increased revenues from our utility operations, and grant funding at the Addison Airport.

**Table A-2
Town of Addison's Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,189	\$ 7,672	\$ 15,384	\$ 15,267	\$ 21,573	\$ 22,939
Grants & Contributions	733	3,654	1,259	9,668	1,992	13,322
General Revenues:						
Property Taxes	17,401	15,773	-	-	17,401	15,773
Other Taxes	18,983	17,398	-	-	18,983	17,398
Other	868	921	(52)	(6)	816	915
Total Revenues	44,174	45,418	16,591	24,929	60,765	70,347
Expenses:						
General Government	6,486	6,709	-	-	\$ 6,486	\$ 6,709
Public Safety	15,130	14,915	-	-	15,130	14,915
Development Services	879	866	-	-	879	866
Streets	5,028	4,914	-	-	5,028	4,914
Parks & Recreation	4,963	4,743	-	-	4,963	4,743
Visitor Services	6,852	6,431	-	-	6,852	6,431
Interest on Long-Term Debt	1,899	2,262	-	-	1,899	2,262
Airport	-	-	4,505	4,387	4,505	4,387
Water & Sewer Utility	-	-	9,075	8,633	9,075	8,633
Total Expenses	41,237	40,840	13,580	13,020	54,817	53,860
Increase in Net Assets	2,937	4,578	3,011	11,909	5,948	16,487
Net Assets - 10/01/11	151,998	147,420	60,949	49,040	212,947	196,460
Net Assets - 09/30/12	\$ 154,935	\$ 151,998	\$ 63,960	\$ 60,949	\$ 218,895	\$ 212,947



Governmental Activities

Governmental activities increased the Town of Addison's net assets by \$2,937.

Business-Type Activities

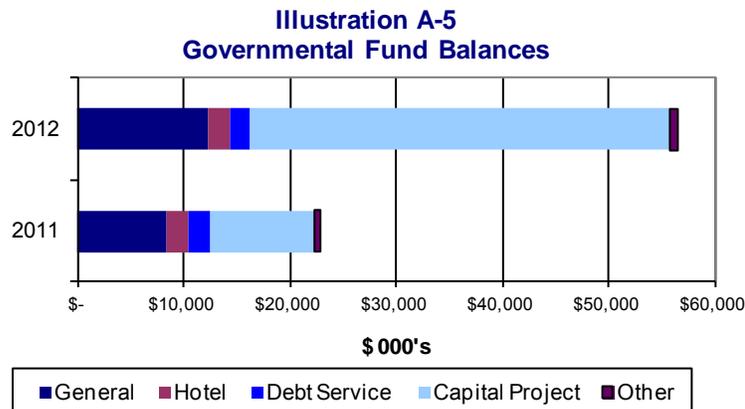
The Town's business-type activities experienced a \$3,011 increase in net assets with the Airport Fund recording an increase of \$1,017, while the Utility Fund posted a gain of \$1,994. Of the Airport Fund's increase, \$1,259 is attributed to capital grants for improvements at the Addison Airport.

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, 2012, the Town's governmental funds reported combined ending fund balances of \$56,592, an increase of \$33,682 compared to balances a year earlier. Illustration A-5 graphically presents the composition of the various fund balances. Of the ending balance, \$12,174 or 21.6 percent is *unassigned* and is available to the Town for future spending. Most of the remaining fund balance is *restricted* for future capital projects (\$39,654), debt service (\$1,841) or *assigned* (\$23). Components of the net increase of total fund balance are:

- In the General Fund, expenditures and transfers out totaled \$27,299 compared to revenues of \$29,305. Revenues increased \$1,628 from the previous year. Most of the increase was due to receiving an additional \$1,325 in non-property (sales) taxes and an additional \$560 in property taxes offset by a decline of \$256 in licenses and permits. Expenditures decreased \$243 from the 2011 fiscal year. This decrease is primarily due to decreases in the City Manager's Office and Police expenditures.
- In the Hotel Fund, expenditures and transfers out to other funds totaled \$6,841 compared to revenues of \$6,740. Fund revenues increased a \$714 from the previous year, primarily due to an increase in non-property taxes. Expenditures decreased \$1,484 from fiscal year 2011 due in large part to the completion of the Visitor Services offices and the Visit Addison facilities at Village on the Parkway.
- Capital project funds recorded a net increase in fund balance of \$29,788 primarily due to proceeds from bonds issued.



Proprietary funds - The Town of Addison's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net assets of the Airport Fund at the end of the fiscal year amounted to \$1,851 while the Utility Fund reported unrestricted net assets of \$12,469.

General Fund Budgetary Highlights

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

- Revenues were amended to recognize increase in sales tax revenue (\$1,390), building and construction permits (\$200), and decreased court fine revenue (\$75). All revenue amendments resulted in a net budget increase of \$1,688. Allocations to various departments were made that resulted in a net increase to appropriations of \$372.

The adjustments resulted in increasing budgeted revenue 6.2 percent and increasing expenditures by 1.4 percent. The projected deficit of expenditures and other uses exceeding revenues decreased from \$405 to a surplus of \$911. Fund balance actually increased \$2,006.

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, 2012, totals \$232,898 (net of accumulated depreciation). This amount represents a \$1,231 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 Streetscape, Town Signal Upgrades, Addison Park Trail, and the Elevated Water Storage Tank. 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)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 66,233	\$ 66,233	\$ 10,277	\$ 10,224	\$ 76,510	\$ 76,457
Buildings	11,086	11,644	1,406	1,468	12,492	13,112
Improvements other than Buildings	81,816	56,276	40,915	31,693	122,731	87,969
Machinery and Equipment	3,117	3,566	783	851	3,900	4,417
Construction in Progress	7,814	33,748	9,451	15,964	17,265	49,712
Total Capital Assets	\$ 170,066	\$ 171,467	\$ 62,832	\$ 60,200	\$ 232,898	\$ 231,667

Long-term debt – At the end of the 2012 fiscal year, the Town of Addison had total bonded debt outstanding of \$90,905 as detailed in Table A-4. The Town did issue new debt during 2012. The Town of Addison maintains an underlying bond rating of “AAA” from Standard & Poor’s and “Aa1” from Moody’s. Other than the 2008, 2011, and both 2012 issues, all of the Town’s outstanding debt is insured; however the insurers’ ratings have been downgraded in the past few years. Of the Town’s insurers as of September 30, 2012 MBIA carries a rating of “B” from Standard & Poor’s. Ambac’s rating was withdrawn by S&P on November 30, 2010. The insurer FSA changed its name to Assured Guaranty Municipal Corporation (AGM) and currently holds a rating of “AA-” by S&P. Because of the strength of the Town’s own 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, F of the Notes to Financial Statements.

Table A-4
Town of Addison's Outstanding Debt
General Obligation Bonds and Certificates of Obligation

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 36,725	\$ 19,575	\$ 2,685	\$ 5,275	\$ 39,410	\$ 24,850
Certificates of Obligation	40,919	32,444	10,576	9,176	51,495	41,620
Total Debt Outstanding	\$ 77,644	\$ 52,019	\$ 13,261	\$ 14,451	\$ 90,905	\$ 66,470

Economic Factors and Next Year's Budget and Rates

- The Texas Workforce Commission no longer maintains individual statistics for cities with a population of less than 25,000, and therefore information related to Addison employment is unavailable. However, the average unemployment rate for the adjacent cities of Carrollton and Farmers Branch as of December 2012 averaged 5.45 percent, somewhat lower than the 6.6 percent rate recorded a year earlier. This unemployment rate is less than that of the Dallas/Plano/Irving Metro Division, which recorded a 5.7 percent rate. The December 2012 rate for the State of Texas was 6 percent, lower than the 7.2 percent in December 2011.¹
- Sales tax collections for the Town were up 11.4 percent from the amount collected in 2011 after two consecutive years of increases in annual collections. This increase appears to indicate a improving local economy.
- Hotel occupancy tax collections increased 8.5 percent from the previous year this represents two consecutive years of increasing in annual collections, although collections are still down 16.4 percent from the 2008 fiscal year.
- In July 2012 Addison received its certified property tax roll from the Dallas Central Appraisal District. This certified roll is what Texas local governments use to levy taxes for the 2012-13 fiscal year. Certified taxable property values in Addison totaled \$3,134,895, which represented a 3.5 percent increase from the previous year, and was the first year of increase values following three consecutive years of decreased values.

These various factors were taken into consideration in development of the Town's 2012-13 annual budget. 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 aspects of the adopted 2012-13 budget include:

- The property tax rate was maintained at \$.5800 per \$100 appraised value. The increase rate and increase in property values will provide an additional \$975,630 for the Town's annual debt service. Of the 2013 budget tax rate, \$.3593 was levied for operation/maintenance (including \$.0225 for economic development funding) and \$.2207 for debt service. This compares to the 2012 distribution of \$.3819 and \$.1981 respectively. *(Note: The preceding tax rates are not reflected in \$000's of dollars).*
- The General Fund balance is projected to decline \$1,331,340 from the actual beginning fund balance of \$11,067 to \$9,736. The projected ending fund balance is 31.0 percent of operating expenditures.
- The Hotel Fund balance is projected to decline \$454 from the actual beginning fund balance to \$1,107. The projected ending fund balance is only 16.7 percent of operating expenditures, but the long-term financial plan for the fund restores fund balance to 25% of operating expenditures within the planning horizon.
- The budget includes maintaining the water and sewer rates.

Requests for Information

This financial report is designed to provide a general overview of the Town of Addison's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Department of Financial and Strategic Services
Town of Addison
P.O. Box 9010
Addison, TX 75001
Telephone: (972) 450-7050
Email: ecannon@addisontx.gov

¹ Source: Texas Workforce Commission (December 2011 and 2010 data)

Town of Addison, Texas
Basic Financial Statements

TOWN OF ADDISON
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Summarized 2011 Total
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Investments	\$ 64,784,553	\$ 6,600,991	\$ 71,385,544	\$ 36,561,611
Receivables, Net of Allowances for Uncollectibles	6,279,370	2,474,446	8,753,816	10,657,064
Prepaid Items	94,028	-	94,028	340,604
Inventories, at Cost	114,733	16	114,749	87,851
Deferred Charges	521,571	124,580	646,151	341,241
Investment in Joint Venture	-	7,181,945	7,181,945	7,238,882
Capital Assets, Net of Accumulated Depreciation				
Land	66,233,099	10,277,084	76,510,183	76,456,520
Buildings	11,086,721	1,405,966	12,492,687	13,111,800
Improvements other than Buildings	81,816,126	40,914,427	122,730,553	87,969,346
Machinery and Equipment	3,116,425	782,930	3,899,355	4,416,594
Construction in Progress	7,813,695	9,451,410	17,265,105	49,712,347
Total Assets	\$ 241,860,321	\$ 79,213,795	\$ 321,074,116	\$ 286,893,860
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable and Accrued Liabilities	\$ 3,669,126	\$ 1,095,759	\$ 4,764,885	\$ 4,709,778
Contracts and Retainage Payable	1,299,564	-	1,299,564	583,613
Intergovernmental Payable	45,289	-	45,289	55,557
Customer Deposits	26,001	914,294	940,295	923,765
Non-Current Liabilities:				
Due within One Year	5,703,299	3,199,317	8,902,616	8,436,316
Due in More Than One Year	76,181,755	10,044,975	86,226,730	59,237,852
Total Liabilities	86,925,034	15,254,345	102,179,379	73,946,881
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	129,471,095	49,639,925	179,111,020	180,375,868
Restricted				
Debt Service	1,698,555	-	1,698,555	1,007,330
Promotion of Tourism and Hotel Industry	1,993,040	-	1,993,040	27,603
Court Technology	77,179	-	77,179	83,827
Building Security	66,716	-	66,716	72,462
Other purposes	32,449	-	32,449	17,897
Unrestricted	21,596,253	14,319,525	35,915,778	31,361,992
Total Net Assets	\$ 154,935,287	\$ 63,959,450	\$ 218,894,737	\$ 212,946,979

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, 2012

Functions/Programs	Program Revenues			Net (Expense)/Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business - Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 6,485,716	\$ 208,734	\$ -	\$ -	\$ (6,276,982)	\$ -	\$ (6,276,982)
Public Safety	15,130,157	2,101,058	164,749	-	(12,864,350)	-	(12,864,350)
Development Services	879,253	956,089	-	-	76,836	-	76,836
Streets	5,028,071	378,982	-	568,285	(4,080,804)	-	(4,080,804)
Parks and Recreation	4,963,327	114,164	-	-	(4,849,163)	-	(4,849,163)
Visitor Services	6,852,198	2,429,686	-	-	(4,422,512)	-	(4,422,512)
Interest on Long-Term Debt	1,898,595	-	-	-	(1,898,595)	-	(1,898,595)
Total Governmental Activities	41,237,317	6,188,713	164,749	568,285	(34,315,570)	-	(34,315,570)
Business-Type Activities:							
Airport	4,505,476	4,255,547	-	1,258,798	-	1,008,869	1,008,869
Utilities	9,075,186	11,128,700	-	-	-	2,053,514	2,053,514
Total Business-Type Activities	13,580,662	15,384,247	-	1,258,798	-	3,062,383	3,062,383
Total Primary Government	\$ 54,817,979	\$ 21,572,960	\$ 164,749	\$ 1,827,083	\$ (34,315,570)	\$ 3,062,383	\$ (31,253,187)
GENERAL REVENUES:							
Taxes:							
Property Taxes, Levied for General Purposes							
Sales Taxes							
Franchise Taxes							
Hotel/Motel Taxes							
Interest on Investments							
Miscellaneous							
Total General Revenues							
Change in Net Assets							
NET ASSETS, Beginning of Year							
NET ASSETS, End of Year							

See accompanying notes to basic financial statements.

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

**Governmental Funds
Balance Sheet
September 30, 2012**

	General	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Investments	\$ 11,645,648	\$ 2,387,037	\$ 1,214,300	\$ 761,502	\$ 41,095,010	\$ 1,014,714	\$ 58,118,211
Receivables:							
Ad Valorem Taxes, Including Interest and Penalties	254,297	-	107,797	-	-	-	362,094
Non-Property Taxes	2,206,497	339,728	-	-	-	-	2,546,225
Franchise Fees	493,279	-	-	-	-	-	493,279
Service Fees	1,209,758	-	-	-	-	-	1,209,758
Ambulance	222,651	-	-	-	-	-	222,651
Interest	2,397	456	230	145	7,805	194	11,227
Other	-	245,192	-	-	-	1,187,678	1,432,870
Interfund	1,191,561	36,974	-	-	-	-	1,191,561
Prepaid Items	57,054	-	-	-	-	-	57,054
Inventories, at Cost	114,733	-	-	-	-	-	114,733
Total Assets	\$ 17,397,875	\$ 3,009,387	\$ 1,322,327	\$ 761,647	\$ 41,102,815	\$ 2,202,586	\$ 65,796,637
LIABILITIES AND FUND BALANCE:							
Liabilities:							
Accounts Payable and Accrued Liabilities	\$ 1,859,850	\$ 945,546	\$ -	\$ -	\$ 163,359	\$ 301,806	\$ 3,270,561
Contracts and Retainage Payable	-	-	-	-	1,299,564	-	1,299,564
Interfund Payable	-	-	-	-	-	1,191,561	1,191,561
Accrued Interest	-	-	122,333	-	-	-	122,333
Intergovernmental Payable	23,069	9,277	12,943	-	-	-	45,289
Customer Deposits	1,451	24,550	-	-	-	-	26,001
Deferred Revenue	3,140,441	-	107,797	-	-	859	3,249,097
Total Liabilities	5,024,811	979,373	243,073	-	1,462,923	1,494,226	9,204,406
Fund Balances:							
Nonspendable	-	-	-	-	-	-	-
Inventories	114,733	-	-	-	-	-	114,733
Prepaid Items	57,054	36,974	-	-	-	-	94,028
Restricted	-	-	-	-	-	-	-
Debt service	-	-	1,079,254	761,647	-	-	1,840,901
Promotion of Tourism and Hotel Industry	-	1,993,040	-	-	-	-	1,993,040
Capital Projects	-	-	-	-	39,639,892	14,732	39,654,624
Court Technology	-	-	-	-	-	77,179	77,179
Building Security	-	-	-	-	-	66,716	66,716
Other purposes	-	-	-	-	-	36,793	36,793
Committed	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	516,823	516,823
Assigned	-	-	-	-	-	-	-
Other purposes	23,061	-	-	-	-	-	23,061
Unassigned	12,178,216	-	-	-	-	(3,883)	12,174,333
Total Fund Balance	12,373,064	2,030,014	1,079,254	761,647	39,639,892	708,560	56,582,231
Total Liabilities and Fund Balance	\$ 17,397,875	\$ 3,009,387	\$ 1,322,327	\$ 761,647	\$ 41,102,815	\$ 2,202,586	\$ 65,796,637

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 ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$ 56,592,231
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 assets. The effect of this consolidation is to increase net assets.	9,343,803
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 \$256,679,242, net of accumulated depreciation of \$89,315,460, exclusive of the capital assets of internal service funds with a net carrying value of \$2,702,284, included above increased net assets in the government-wide financial statements.	167,363,782
Debt issue costs have been reflected net of amortization in the government-wide financial statements.	521,571
Bonds payable, contractual obligations, and related premium and deferred refunding amounts have not been included in the fund financial statements.	(80,685,283)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(813,229)
Net OPEB obligation is not reflected in the fund financial statements.	(386,542)
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 assets.	(250,143)
Revenue from property taxes, sales taxes, franchise fees, court bonds, ambulance billing, and intergovernmental grants is deferred 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.	<u>3,249,097</u>
Net Assets of Governmental Activities	<u><u>\$ 154,935,287</u></u>

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, 2012

	General	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental
REVENUES:							
Ad Valorem Taxes	\$ 10,933,472	\$ -	\$ 5,984,930	\$ -	\$ -	\$ 553,240	\$ 17,471,642
Non-Property Taxes	11,888,630	4,295,149	-	-	-	-	16,183,779
Franchise Fees	2,727,370	-	-	-	-	-	2,727,370
Licenses and Permits	953,709	-	-	-	-	-	953,709
Intergovernmental	-	-	-	-	-	2,676,792	2,676,792
Service Fees	1,443,787	1,660,805	-	-	-	-	3,104,592
Fines and Forfeitures	1,071,177	-	-	-	-	137,596	1,208,773
Earnings on Investments	19,928	3,883	7,383	2,517	38,115	4,146	75,972
Rental Charges	162,738	768,881	-	-	-	-	931,619
Recycling Proceeds	26,414	-	-	-	-	-	26,414
Other	78,283	11,394	-	-	392,206	1,126	483,009
Total Revenues	29,305,508	6,740,112	5,992,313	2,517	430,321	3,372,900	45,843,671
EXPENDITURES:							
Current:							
General Government	6,082,779	-	-	-	-	52,412	6,135,191
Public Safety	14,372,574	-	-	-	-	703,183	15,075,757
Development Services	886,705	-	-	-	-	-	886,705
Streets	1,612,699	-	-	-	-	-	1,612,699
Parks and Recreation	4,269,381	-	-	-	-	-	4,269,381
Visitor Services	-	6,171,479	-	-	-	-	6,171,479
Municipal Court	-	-	-	-	-	54,370	54,370
Economic Development	-	-	-	-	-	469,679	469,679
Debt Service:							
Principal Retirement	-	-	4,118,040	620,000	-	-	4,738,040
Interest and Fiscal Charges	-	-	1,810,497	108,143	-	-	1,918,640
Bond issuance costs	-	-	141,666	-	-	-	141,666
Capital Projects:							
Administration:							
Supplies	-	-	-	-	17,635	-	17,635
Maintenance and Materials	-	-	-	-	-	-	-
Design and Engineering:							
Engineering and Contractual Services	-	-	-	-	796,958	-	796,958
Construction and Equipment	-	-	-	-	3,038,501	-	3,038,501
Total Expenditures	27,224,138	6,171,479	6,070,203	728,143	3,853,094	1,279,644	45,326,701
Excess/(Deficiency) of Revenues over Expenditures	2,081,370	568,633	(77,890)	(725,626)	(3,422,773)	2,093,256	516,970
OTHER FINANCING SOURCES/(USES):							
Transfers In	-	-	513,263	670,000	75,000	-	1,258,263
Transfers Out	(75,000)	(670,000)	-	-	(2,329,679)	-	(3,074,679)
Proceeds from bond issuance	-	-	14,495,177	-	31,819,823	-	46,315,000
Premium on issuance	-	-	488,197	-	3,645,759	-	4,133,956
Payment to refunded bond escrow agents	-	-	(14,834,842)	-	-	-	(14,834,842)
Discount on issuance of bonds	-	-	(632,482)	-	-	-	(632,482)
Total Other Financing Sources/(Uses)	(75,000)	(670,000)	29,313	670,000	33,210,903	-	33,165,216
Net Change in Fund Balance	2,006,370	(101,367)	(48,577)	(55,626)	29,788,130	2,093,256	33,682,186
Fund Balances at Beginning of Year	10,366,694	2,131,381	1,127,831	817,273	9,851,762	(1,384,896)	22,910,045
Fund Balances at End of Year	\$ 12,373,064	\$ 2,030,014	\$ 1,079,254	\$ 761,647	\$ 39,639,892	\$ 708,360	\$ 56,592,231

See accompanying notes to basic financial statements.

Town of Addison, Texas
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, 2012

Total Net Change in Fund Balances - Governmental Funds \$ 33,682,186

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 assets. 272,773

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 contributions in the government-wide financial statements. The effect of removing the capital outlays and recording the developer contributions is to increase net assets. 4,546,664

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 assets. (5,598,919)

The repayment of the principal of long term debt consumes the current financial resources of governmental funds, but has no effect on net assets. The amortization of bond issuance costs, 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, expenses, and changes in fund balance. This amount represents the increase(decrease) in net assets of the following:

Bond proceeds	(46,315,000)	
Bond repayments	4,738,040	
Debt issuance costs	141,666	
Bond premiums	(4,133,956)	
Bond discounts	632,482	
Payments to refunding escrow agents	14,834,842	
Transfer of debt to proprietary fund	1,816,416	
Amortization	(13,248)	(28,298,758)

The change in compensated absences liability is not shown in the fund financial statements. The net effect of the current year's increase in liability is to increase net assets. 91,447

The change in the net OPEB obligation is not shown in the fund financial statements. The effect of recording the decrease in liability is to decrease net assets. (34,551)

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 assets. 20,045

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. (1,744,074)

Change in Net Assets of Governmental Activities \$ 2,936,813

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, 2012

	Budget		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Ad Valorem Taxes	\$ 10,812,470	\$ 10,907,470	\$ 10,933,472	\$ 26,002
Non-Property Taxes	10,305,340	11,695,340	11,888,630	193,290
Franchise Fees	2,597,000	2,647,000	2,727,370	80,370
Licenses and Permits	728,490	928,490	953,709	25,219
Service Fees	1,408,460	1,408,460	1,443,787	35,327
Fines and Forfeitures	1,143,500	1,068,500	1,071,177	2,677
Earnings on Investments	30,000	30,000	19,928	(10,072)
Rental Charges	153,000	153,000	162,738	9,738
Recycling Proceeds	21,000	24,000	26,414	2,414
Other	26,730	51,730	78,283	26,553
<i>Total Revenues</i>	<u>27,225,990</u>	<u>28,913,990</u>	<u>29,305,508</u>	<u>391,518</u>
EXPENDITURES:				
General Government	6,142,710	6,314,840	6,082,779	232,061
Public Safety	14,481,160	14,566,100	14,372,574	193,526
Development Services	902,300	902,300	886,705	15,595
Streets	1,648,510	1,688,510	1,612,699	75,811
Parks and Recreation	4,456,200	4,531,200	4,269,381	261,819
<i>Total Expenditures</i>	<u>27,630,880</u>	<u>28,002,950</u>	<u>27,224,138</u>	<u>778,812</u>
Excess/(Deficiency) of Revenues over Expenditures	(404,890)	911,040	2,081,370	1,170,330
OTHER FINANCING SOURCES/(USES):				
Transfers Out	-	-	(75,000)	(75,000)
Net Change in Fund Balance	(404,890)	911,040	2,006,370	1,095,330
Fund Balances at Beginning of Year	<u>10,366,694</u>	<u>10,366,694</u>	<u>10,366,694</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 9,961,804</u>	<u>\$ 11,277,734</u>	<u>\$ 12,373,064</u>	<u>\$ 1,095,330</u>

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, 2012

	Budget		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Hotel/Motel Occupancy Taxes	\$ 4,100,000	\$ 4,200,000	\$ 4,295,149	\$ 95,149
Proceeds from Special Events	1,727,000	1,727,000	1,660,805	(66,195)
Conference Centre Rental	488,850	513,850	509,458	(4,392)
Theatre Centre Rental	78,000	78,000	77,663	(337)
Visitor Centre Rental	193,000	175,000	181,760	6,760
Earnings on Investments	15,000	15,000	3,883	(11,117)
Other	700	700	11,394	10,694
<i>Total Revenues</i>	<u>6,602,550</u>	<u>6,709,550</u>	<u>6,740,112</u>	<u>30,562</u>
EXPENDITURES:				
Visitor Services	1,053,700	1,053,700	866,853	186,847
Visit Addison	610,740	610,740	564,117	46,623
Conference Centre	1,080,980	1,080,980	1,001,378	79,602
Marketing	763,910	788,910	723,433	65,477
Special Events	2,461,960	2,478,850	2,510,948	(32,098)
Performing Arts	562,240	537,240	504,750	32,490
<i>Total Expenditures</i>	<u>6,533,530</u>	<u>6,550,420</u>	<u>6,171,479</u>	<u>378,941</u>
Excess/(Deficiency) of Revenues over Expenditures	69,020	159,130	568,633	409,503
OTHER FINANCING SOURCES/(USES):				
Transfers Out	(670,000)	(670,000)	(670,000)	-
Net Change in Fund Balance	(600,980)	(510,870)	(101,367)	409,503
Fund Balances at Beginning of Year	2,131,381	2,131,381	2,131,381	-
Fund Balances at End of Year	<u>\$ 1,530,401</u>	<u>\$ 1,620,511</u>	<u>\$ 2,030,014</u>	<u>\$ 409,503</u>

See accompanying notes to basic financial statements.

Town of Addison, Texas
Basic Financial Statements

Proprietary Funds
Statement of Net Assets
September 30, 2012

	Business Type Activities - Enterprise Funds			Governmental Activities
	Airport	Utility	Total	Internal Service
ASSETS:				
Current Assets:				
Cash and Investments	\$ 1,992,331	\$ 4,608,660	\$ 6,600,991	\$ 6,666,342
Interest Receivable	381	880	1,261	1,266
Accounts Receivable	381,124	2,092,061	2,473,185	-
Inventory	16	-	16	-
Total Current Assets	2,373,852	6,701,601	9,075,453	6,667,608
Non-Current Assets:				
Deferred Charges	20,922	103,658	124,580	-
Capital Assets:				
Land	8,965,020	1,312,064	10,277,084	-
Buildings	1,386,047	1,728,905	3,114,952	-
Improvements other than Buildings	34,620,779	42,105,841	76,726,620	-
Machinery and Equipment	1,316,225	2,135,490	3,451,715	12,080,352
Accumulated Depreciation	(17,523,236)	(22,666,728)	(40,189,964)	(9,378,068)
Total Capital Assets, Net of Accumulated Depreciation	28,764,835	24,615,572	53,380,407	2,702,284
Construction in Progress	1,617,799	7,833,611	9,451,410	-
Net Property, Plant, and Equipment	30,382,634	32,449,183	62,831,817	2,702,284
Investment in Joint Venture	-	7,181,945	7,181,945	-
Total Assets	\$ 32,777,408	\$ 46,436,387	\$ 79,213,795	\$ 9,369,892
LIABILITIES:				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 368,311	\$ 710,124	\$ 1,078,435	\$ 26,089
Accrued Interest Payable	13,661	56,063	69,724	-
Current Maturities of Bonds Payable	290,000	2,856,917	3,146,917	-
Customer Deposits	162,216	752,078	914,294	-
Total Current Liabilities	834,188	4,375,182	5,209,370	26,089
Long-Term Debt, Net of Current Portion:				
General Obligation Bonds and Certificates of Obligation Payable	2,395,000	7,649,975	10,044,975	-
Total Liabilities	3,229,188	12,025,157	15,254,345	26,089
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	27,697,634	21,942,291	49,639,925	2,702,284
Unrestricted	1,850,586	12,468,939	14,319,525	6,641,519
Total Net Assets	\$ 29,548,220	\$ 34,411,230	\$ 63,959,450	\$ 9,343,803

See accompanying notes to basic financial statements.

Town of Addison, Texas
Basic Financial Statements

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended September 30, 2012

	Business Type Activities - Enterprise Funds			Governmental Activities
	Airport	Utility	Total	Internal Service
OPERATING REVENUES:				
Water	\$ -	\$ 6,272,622	\$ 6,272,622	\$ -
Sewer	-	4,761,033	4,761,033	-
Penalties	-	65,056	65,056	-
Water and Sewer Taps and Other Fees	-	15,490	15,490	-
Fuel Flowage Fees	717,667	-	717,667	-
Customs Agent Fees	54,362	-	54,362	-
Rental Charges	3,551,536	-	3,551,536	-
Other Income/(Expense)	(68,018)	14,499	(53,519)	-
Department Contributions	-	-	-	1,161,000
<i>Total Operating Revenues</i>	<u>4,255,547</u>	<u>11,128,700</u>	<u>15,384,247</u>	<u>1,161,000</u>
OPERATING EXPENSES:				
Salaries and Fringe Benefits	362,802	1,252,883	1,615,685	-
Supplies	37,926	111,913	149,839	-
Maintenance and Materials	1,995,507	426,121	2,421,628	-
Contractual Services	701,404	691,416	1,392,820	22,525
Water Purchases	-	2,859,454	2,859,454	-
Wastewater Purchases	-	2,063,043	2,063,043	-
<i>Total Operating Expenses (Excluding Depreciation)</i>	<u>3,097,639</u>	<u>7,404,830</u>	<u>10,502,469</u>	<u>22,525</u>
Depreciation	1,291,802	1,091,340	2,383,142	940,236
<i>Total Operating Expenses</i>	<u>4,389,441</u>	<u>8,496,170</u>	<u>12,885,611</u>	<u>962,761</u>
OPERATING INCOME/LOSS	<u>(133,894)</u>	<u>2,632,530</u>	<u>2,498,636</u>	<u>198,239</u>
NON-OPERATING REVENUES/(EXPENSES):				
Investment Income	8,338	(60,181)	(51,843)	23,094
Sale of Assets	-	405	405	51,440
Gain/(Loss) of the Joint Venture	-	(56,938)	(56,938)	-
Interest Expense	(113,710)	(454,356)	(568,066)	-
Amortization Expense	(2,325)	(44,532)	(46,857)	-
Fiscal Fees	-	(23,190)	(23,190)	-
<i>Total Non-Operating Revenues/(Expenses)</i>	<u>(107,697)</u>	<u>(638,792)</u>	<u>(746,489)</u>	<u>74,534</u>
NET INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(241,591)</u>	<u>1,993,738</u>	<u>1,752,147</u>	<u>272,773</u>
Capital Contributions	1,258,798	-	1,258,798	-
CHANGE IN NET ASSETS	<u>1,017,207</u>	<u>1,993,738</u>	<u>3,010,945</u>	<u>272,773</u>
Net Assets at Beginning of Year	<u>28,531,013</u>	<u>32,417,492</u>	<u>60,948,505</u>	<u>9,071,030</u>
Net Assets at End of Year	<u>\$ 29,548,220</u>	<u>\$ 34,411,230</u>	<u>\$ 63,959,450</u>	<u>\$ 9,343,803</u>

See accompanying notes to basic financial statements.

Town of Addison, Texas
Basic Financial Statements

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

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Airport	Utility	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash Received from Customers	\$ 4,333,858	\$ 11,270,820	\$ 15,604,678	\$ 1,161,000
Payments to Suppliers	(2,499,772)	(6,408,724)	(8,908,496)	3,564
Payments to Employees for Services	(362,802)	(1,252,883)	(1,615,685)	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>1,471,284</u>	<u>3,609,213</u>	<u>5,080,497</u>	<u>1,164,564</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and Construction of Capital Assets	(1,235,867)	(2,520,889)	(3,756,756)	(591,353)
Principal Paid on Certificates of Obligation and General Obligation Bonds	(275,000)	(2,731,960)	(3,006,960)	-
Interest Paid on Certificates of Obligation and General Obligation Bonds	(115,084)	(456,298)	(571,382)	-
Proceeds from Sale of Capital Assets	-	1,816,416	1,816,416	134,249
Fiscal Fees Related to Outstanding Debt	-	405	405	-
<i>Net Cash Provided/(Used) by Capital and Related Financing Activities</i>	<u>(1,625,951)</u>	<u>(3,892,326)</u>	<u>(5,518,277)</u>	<u>(457,104)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on Cash and Investments	13,476	(71,770)	(58,294)	36,887
<i>Net Cash Provided/(Used) by Investing Activities</i>	<u>13,476</u>	<u>(71,770)</u>	<u>(58,294)</u>	<u>36,887</u>
<i>Net Increase/(Decrease) in Cash and Cash Investments</i>	(141,191)	(354,883)	(496,074)	744,347
Cash and Cash Investments, October 1	2,133,522	4,963,543	7,097,065	5,921,995
Cash and Cash Investments, September 30	<u>\$ 1,992,331</u>	<u>\$ 4,608,660</u>	<u>\$ 6,600,991</u>	<u>\$ 6,666,342</u>
Reconciliation of Income/(Loss) from Operations to Net Cash Provided/(Used) by Operating Activities:				
Operating Income/(Loss)	\$ (133,894)	\$ 2,632,530	\$ 2,498,636	\$ 198,239
Adjustments to Reconcile Income/(Loss) from Operations to Net Cash Provided/(Used) by Operating Activities:				
Depreciation	1,291,802	1,091,340	2,383,142	940,236
Change in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivables	7,093	132,349	139,442	-
(Increase)/Decrease in Inventories	-	-	-	-
(Increase)/Decrease in Prepaid Items	166,277	63,998	230,275	-
Increase/(Decrease) in Accounts Payable	136,806	(320,774)	(183,968)	26,089
Increase/(Decrease) in Customer Deposits	3,200	9,770	12,970	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>\$ 1,471,284</u>	<u>\$ 3,609,213</u>	<u>\$ 5,080,497</u>	<u>\$ 1,164,564</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Contributions	\$ 1,258,798	\$ -	\$ 1,258,798	\$ -
Gain/(Loss) of Joint Venture	-	(56,938)	(56,938)	-
<i>Net Non-Cash Items from Capital and Related Financing Activities</i>	<u>\$ 1,258,798</u>	<u>\$ (56,938)</u>	<u>\$ 1,201,860</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

Addison!

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 amended by an election on January 16, 1993. 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. 39 "*Determining Whether Certain Organizations Are Component Units*." The Town's financial statements include the accounts of all Town operations. As required by generally accepted accounting principles (GAAP), these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. The Town (the primary government) is financially accountable if it appoints a voting majority of organization's governing board, and (1) it has the ability to impose its will on the organization, or (2) there is potential for the organization to provide a financial benefit or impose a financial burden on the Town. The Town is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statement to be misleading or incomplete.

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.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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. 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, 2012

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.

American Recovery and Reinvestment Act (ARRA) Grant Fund – The American Recovery and Reinvestment Act (ARRA) Grant Fund accounts for receipts and expenditures of ARRA grant monies. The Act requires the separation of ARRA funds from other grant monies.

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.

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 governmental 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 governmental 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, 2012

Private-sector standards of accounting and financial reporting issued after November 30, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

D. Assets, Liabilities, and Net Assets 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 value.

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, 2012 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 and postage.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 decreased \$39,048 for a total liability of \$865,629.

6) Grants and Contributions

Included in capital grants and contributions in the government-wide financial statements is \$1,827,083 of grants; \$1,258,798 for improvements at the Addison Airport and \$568,285 for other various projects. Operating grants included \$164,749 of funding for public safety initiatives.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

7) 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. The Town Council has delegated the responsibility to assign funds to the CFO or his designee. Assignments may occur subsequent to fiscal year end.

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

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

8) Comparative Data/Reclassification

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

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

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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. Open encumbrances are reported as assignments of fund balance.

- 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.

Budget Data – The budget amounts presented in the statements reflect original and amended budget amounts. During the fiscal year, several budget amendments were approved by the City Council. The most notable amendments are described in the remainder of this section. In the General Fund, Sales Tax revenue was increased \$1,390,000 due to higher than expected sales in the Town, resulting in higher collection of sales tax revenue. Building and construction permit revenue was increased \$200,000 due to higher than expected building and construction projects. The General Services budget was increased \$100,000 for improvements to the Service Center. Hotel Fund occupancy revenue was increased \$100,000 for additional hotel occupancy tax. The Reimbursement Grant Fund grant funding was increased \$1,324,000 for capital projects. The ARRA Grant fund recognized an additional \$512,320 in grant funding expenses. The GO Debt Service Fund principal payments budget was increased \$172,850 to recognize the additional payments due. The Street Capital Project and 2006 Capital Project funds expenditures were decreased \$520,000 and \$180,000, respectively, due to delay in planned projects. The 2002 Capital Project and 2004 Capital project funds were increased \$849,880 and \$275,970, respectively for additional expenses related to the Belt Line Streetscape. The 2008 Capital Project fund expenditures were increased \$1,650,640 to recognize additional project expenses. The Utility Enterprise fund revenue was increased \$100,000 to reflect additional revenue received and increased \$457,890 in expenses for the Elevated Storage Tank. The Capital Replacement Internal Service fund was increased \$170,000 for the purchase of the self-contained breathing apparatus.

Excess of Expenditures over Appropriations – For the year ended September 30, 2012, expenditures in the General Fund's Combined Services department exceeded appropriations by \$86,310 due to higher than anticipated legal services. Police expenditures exceeded appropriations by \$66,794 due to the inability to share Animal Control services as anticipated. In the Hotel Fund, Special Event expenditures exceeded appropriations by \$32,098 due to heavier than anticipated attendance. Available fund balance was sufficient to provide for the excess expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the amounts will be expended the subsequent fiscal year.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The Town has five bank accounts: the Operating Account, Controlled Disbursement Account, Payroll Account, ACH/Wire Account, and Benefits 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 investment 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.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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, 2012. Included in Cash and Investments is \$7,129 of petty cash. At year-end, the carrying amount of the Town's deposits was a debit balance of \$271,371 primarily consisting of outstanding checks. The respective bank balance totaled \$2,349,962. The general ledger account balance is negative due to the cash management policy of the Town. Under this policy, idle cash is invested until checks are presented to the Town's bank. The balance, therefore, is reflective of the timing differences of when checks were issued and presented to the bank. The full bank balance was covered by Federal Deposit Insurance. In addition, collateral with a market value of \$5,861,344 was 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 investment pool.

External Investment Pools

The Town's pool investments as of September 30, 2012 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.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

Investments

As of September 30, 2012, the Town held the following investments:

	Fair Value	Average Maturity (Days)
Agency Securities	\$ 11,024,200	366
Commercial Paper	8,995,378	34
Certificate of Deposit	6,574,498	108
<i>Total Investment in Securities</i>	<u>26,594,076</u>	
TexStar	3,853,093	
TexPool	40,665,359	
<i>Total Investment in Pools</i>	<u>44,518,452</u>	1
<i>Total Investments</i>	<u>\$ 71,112,528</u>	122

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, 2012 was \$71,107,044, of which \$55,509,744 had maturities of less than one year at time of purchase.

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)

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 meet 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.

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 15.5%, Commercial Paper (30%) of which the Town's portfolio is currently at 12.7%, Certificates of Deposit (30%) of which the Town's portfolio is currently at 9.3%, and Local Government Investment Pools (40%) of which the Town's portfolio is currently at 62.5%. The Town received a large deposit in September that was invested in the Local Government Investment Pool which put the Town over the limit for Local Government Investment Pool investments. The funds were reinvested in October to reallocate the investments.

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, 2011, upon which the fiscal year 2012 levy is based, was \$3,028,042,568.

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, 2012 was \$.5800 per \$100, of which \$.3819 was allocated for general government and \$.1981 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, 2012 were 98.4% 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

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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 revenues and recognized as they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply. An allowance for uncollectible taxes, including principal and interest, is provided based on an analysis of historical trends. The allowance for uncollectible taxes at September 30, 2012 was \$104,781.

C. Receivables

As of September 30, 2012, 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:

	<u>General</u>	<u>Hotel</u>	<u>Debt Service</u>	<u>Hotel Debt Service</u>	<u>Capital Projects</u>	<u>Non-Major Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
Taxes:								
Ad Valorem	\$ 322,110	\$ -	\$ 144,764	\$ -	\$ -	\$ -	\$ -	\$ 466,874
Non-Property	2,206,497	339,728	-	-	-	-	-	2,546,225
Franchise Fees	493,279	-	-	-	-	-	-	493,279
Service Fees	1,409,701	-	-	-	-	-	-	1,409,701
Ambulance	286,503	-	-	-	-	-	-	286,503
Interest	2,397	456	230	145	7,805	194	1,266	12,493
Interfund	1,191,561	-	-	-	-	-	-	1,191,561
Other	-	245,192	-	-	-	1,187,678	-	1,432,870
Gross Receivables	\$ 5,912,048	\$ 585,376	\$ 144,994	\$ 145	\$ 7,805	\$ 1,187,872	\$ 1,266	\$ 7,839,506
Less: Allowance for Uncollectibles	331,608	-	36,967	-	-	-	-	368,575
Net Receivables	\$ 5,580,440	\$ 585,376	\$ 108,027	\$ 145	\$ 7,805	\$ 1,187,872	\$ 1,266	\$ 7,470,931

The allowance for uncollectible accounts represents reserves for ambulance (\$63,852), court warrants (\$199,942), and property taxes (\$104,781).

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D. Capital Assets

Capital Asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, not Depreciable:					
Land	\$ 66,233,099	\$ -	\$ -	\$ -	\$ 66,233,099
Construction in Progress	33,748,347	3,928,576	-	(29,863,228)	7,813,695
<i>Total Capital Assets, not Depreciable</i>	<u>99,981,446</u>	<u>3,928,576</u>	<u>-</u>	<u>(29,863,228)</u>	<u>74,046,794</u>
Capital Assets, Depreciable:					
Buildings	21,409,464	-	-	-	21,409,464
Improvements other than Buildings	128,253,389	537,182	-	29,863,228	158,653,799
Machinery and Equipment	14,083,759	672,260	(106,481)	-	14,649,538
<i>Total Capital Assets, Depreciable</i>	<u>163,746,612</u>	<u>1,209,442</u>	<u>(106,481)</u>	<u>29,863,228</u>	<u>194,712,801</u>
Less Accumulated Depreciation for:					
Buildings	(9,765,929)	(556,814)	-	-	(10,322,743)
Improvements other than Buildings	(71,977,248)	(4,860,425)	-	-	(76,837,673)
Machinery and Equipment	(10,517,680)	(1,121,914)	106,481	-	(11,533,113)
<i>Total Accumulated Depreciation</i>	<u>(92,260,857)</u>	<u>(6,539,153)</u>	<u>106,481</u>	<u>-</u>	<u>(98,693,529)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>71,485,755</u>	<u>(5,329,711)</u>	<u>-</u>	<u>29,863,228</u>	<u>96,019,272</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 171,467,201</u>	<u>\$ (1,401,135)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,066,066</u>
Business-type Activities:					
Capital Assets, not Depreciable:					
Land	\$ 10,223,421	\$ 53,663	\$ -	\$ -	\$ 10,277,084
Construction in Progress	15,964,000	3,597,464	-	(10,110,054)	9,451,410
<i>Total Capital Assets, not Depreciable</i>	<u>26,187,421</u>	<u>3,651,127</u>	<u>-</u>	<u>(10,110,054)</u>	<u>19,728,494</u>
Capital Assets, Depreciable:					
Buildings	3,114,952	-	-	-	3,114,952
Improvements other than Buildings	65,354,462	1,262,104	-	10,110,054	76,726,620
Machinery and Equipment	3,349,392	102,323	-	-	3,451,715
<i>Total Capital Assets, Depreciable</i>	<u>71,818,806</u>	<u>1,364,427</u>	<u>-</u>	<u>10,110,054</u>	<u>83,293,287</u>
Less Accumulated Depreciation for:					
Buildings	(1,646,687)	(62,299)	-	-	(1,708,986)
Improvements other than Buildings	(33,661,257)	(2,150,937)	-	-	(35,812,194)
Machinery and Equipment	(2,498,877)	(169,907)	-	-	(2,668,784)
<i>Total Accumulated Depreciation</i>	<u>(37,806,821)</u>	<u>(2,383,143)</u>	<u>-</u>	<u>-</u>	<u>(40,189,964)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>34,011,985</u>	<u>(1,018,716)</u>	<u>-</u>	<u>10,110,054</u>	<u>43,103,323</u>
<i>Business-type Activities Capital Assets, net</i>	<u>\$ 60,199,406</u>	<u>\$ 2,632,411</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,831,817</u>

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

	Governmental Activities	Business-type Activities
General Government	\$ 344,557	\$ -
Public Safety	727,095	-
Development Services	23,076	-
Streets	3,961,039	-
Parks and Recreation	778,142	-
Visitor Services	705,244	-
Airport Fund	-	1,291,802
Utility Fund	-	1,091,340
	<u>\$ 6,539,153</u>	<u>\$ 2,383,142</u>

The following tabulation presents the estimated significant commitment under unfinished capital construction contracts that are fully funded as of September 30, 2012:

Project	Estimated Commitments	Less Expenditures to Date	Total Unfinished Commitments
Governmental Activities			
UDR Infrastructure – Phase 1	\$ 27,500,000	\$ 26,807,291	\$ 692,709
Spring Valley Intersection Improvements	<u>4,500,000</u>	<u>4,332,076</u>	<u>167,924</u>
	<u>32,000,000</u>	<u>31,139,367</u>	<u>860,633</u>
Business-type Activities			
Elevated Water Storage Tank	<u>6,500,000</u>	<u>6,122,448</u>	<u>377,552</u>
	<u>\$ 38,500,000</u>	<u>\$ 37,261,815</u>	<u>\$ 1,238,185</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. 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 \$7,181,945, net of \$2,685,000 of related debt, is included in Unrestricted Net Assets. 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.

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F. Long-Term Debt

The long-term debt of the Town consisted of the following as of September 30, 2012:

	Governmental Activities	Business-type Activities
General Obligation Refunding and Improvement Bonds Series of 2002		
<p>A series of 5,075 bonds at \$5,000 each dated September 15, 2002. The bonds were issued to fund various public improvements, refund the Town's outstanding Combination Tax and Revenue Certificates of Obligation, Series 1993; and Waterworks and Sewer Revenue Refunding Bonds, Series 1993; and costs of issuance associated with the sale of the bonds. The bonds mature serially through 2017 with interest rates ranging from 2.0% to 5.0%. The bonds are callable at par plus accrued interest on or after August 15, 2012 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; FGIC Insured</p>		
	1,085,000	2,685,000
Combination Tax and Revenue Certificates of Obligation Series of 2003		
<p>A series of 1,600 bonds at \$5,000 each dated June 1, 2003. The bonds were issued for the purpose of additions and improvements to the Addison Conference Center facilities and to pay costs associated with the issuance of the bonds. The bonds mature serially through 2018 with interest rates ranging from 3.0% to 3.75%. The bonds are callable at par plus accrued interest on or after February 15, 2014 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from a combination of Ad Valorem taxes and hotel occupancy taxes. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; AMBAC Insured</p>		
	595,000	
General Obligation Bonds Series of 2004		
<p>A series of 2,139 bonds at \$5,000 each dated August 15, 2004. The bonds were issued for the purpose of constructing an extension of Arapaho Road from Addison Road to Surveyor Road including construction of a bridge over Midway Road with related pedestrian walkways, for resurfacing Belt Line Road and for engineering and design of improvements to the Belt Line Road/Dallas Parkway intersection, and to pay costs associated with the issuance of the bonds. The bonds mature serially through 2018 with interest rates ranging from 3.5% to 4.5%. The bonds are callable at par plus accrued interest on or after February 15, 2015 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; FSA Insured</p>		
	1,495,000	
Combination Tax and Revenue Certificates of Obligation Series of 2004		
<p>A series of 880 bonds at \$5,000 each dated November 15, 2004. The bonds were issued for the purpose of constructing improvements to and expanding the Addison Airport including improvements to runways, taxiways, lighting, drainage systems and facilities, the construction, design and engineering of a fuel farm, and to pay costs associated with the issuance of the certificates. The bonds mature serially through 2020 with interest rates ranging from 3.5% to 4.25%. The bonds are callable at par plus accrued interest on or after February 15, 2015 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; MBIA Insured</p>		
		2,685,000

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	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Obligation Refunding and Improvement Bonds Series 2005		
A series of 1,571 bonds at \$5,000 each dated November 1, 2005. The bonds were issued to fund various public improvement projects up to \$1,500,000 to include engineering and other professional services, refund the Town's outstanding General Obligation Bonds, Series 1995; Combination Tax and Revenue Certificates of Obligation, Series 1997; \$4,335,000 of General Obligation Bonds, Series 2000; and costs of issuance associated with the sale of the bonds. The bonds mature serially through 2021 with interest rates ranging from 3.5% to 4.0%. The bonds are callable at par plus accrued interest on or after February 15, 2013 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; AMBAC Insured	2,860,000	
Combination Tax and Revenue Certificates of Obligation Series of 2008		
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. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	25,489,314	7,890,686
General Obligation Refunding Bonds Series of 2011		
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. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	8,695,000	
General Obligation Refunding and Improvement Bonds Series of 2012		
A series of 4,518 bonds at \$5,000 each dated August 15, 2012. The bonds were issued to (i) public improvements (ii) improvements to Belt Line Road (iii) acquisition of high speed communications and related wireless network infrastructure (iv) public park improvements and (v) refund a portion of the Town's outstanding General Obligation Bonds, Series 2004 and General Obligation Refunding and Improvement Bonds Series 2005 and costs of issuance associated with the sale of the bonds. The bonds mature serially through 2032 with interest rates ranging from 2.0% 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. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"	22,590,000	

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	<u>Governmental Activities</u>	<u>Business- type Activities</u>
Combination Tax and Revenue Certificates of Obligation Series of 2012		
A series of 2,967 bonds at \$5,000 each dated August 15, 2012. The bonds were issued to (i) acquiring and installing radio and telecommunications equipment for Town public safety operations (ii) designing, acquiring, improving, constructing and renovating water, wastewater and street infrastructure improvements and (iii) to pay costs associated with the issuance of the bonds. The bonds mature serially through 2032 with interest rates ranging from 1.5% to 4%. 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. Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
	14,835,000	
Total Long-Term Debt Outstanding	<u>\$ 77,644,314</u>	<u>\$ 13,260,686</u>

Changes in Long-Term Liabilities

A summary of long-term liability activity for the year ended September 30, 2012 was as follows (in thousands of dollars):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 19,575	\$ 31,480	\$ (14,330)	\$ 36,725	\$ 3,480
Premium on General Obligation Refunding Bonds	59	4,134	(88)	4,105	269
Discount on General Obligation Refunding Bonds	-	(405)	-	(405)	(21)
Deferred Loss on Refunding Amount on G.O. Bonds	(44)	(700)	62	(682)	(62)
Certificates of Obligation	32,443	14,835	(6,359)	40,919	1,221
Premium on Certificates of Obligation	24	-	(2)	22	2
Compensated Absences	905	866	(957)	814	814
Net OPEB Obligation	352	183	(148)	387	-
Long-Term Liabilities – Governmental Activities	<u>\$ 53,314</u>	<u>\$ 50,393</u>	<u>\$ (21,822)</u>	<u>\$ 81,885</u>	<u>\$ 5,703</u>
Business-type Activities:					
General Obligation Bonds	\$ 5,275	\$ -	\$ (2,590)	\$ 2,685	\$ 2,685
<i>(Payable from utility system revenues)</i>					
Discount on General Obligation Refunding Bonds	(35)	-	7	(28)	(7)
Deferred Loss on Refunding Amount on G.O. Bonds	(61)	-	15	(46)	(15)
Combination Tax and Revenue Certificates of Obligation	2,960	-	(275)	2,685	290
<i>(Payable from levy of Ad Valorem tax)</i>					
Combination Tax and Revenue Certificates of Obligation	6,216	1,816	(141)	7,891	193
<i>(Payable from utility system revenues)</i>					
Premium on Combination Tax and Revenue C.O.	5	-	-	5	1
Compensated Absences	-	73	(21)	52	52
Long-Term Liabilities – Business-type Activities	<u>\$ 14,360</u>	<u>\$ 1,889</u>	<u>\$ (3,005)</u>	<u>\$ 13,244</u>	<u>\$ 3,199</u>

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The Series 2008, Combination Tax and Revenue Certificates of Obligation, were originally reported as governmental activities. During the fiscal year ended September 30, 2012, the Town allocated \$1,816,416 of the proceeds and the related debt to the Utility Fund. The Town recorded the transfer of the cash out of the Capital Projects as an operating transfer. Cash transferred of \$1,816,416 was recorded in the Utility Fund. Additionally, an entry to record the transfer of the debt was recorded for governmental activities on the government wide statements to reflect the transfer of the debt to business type activities.

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 \$1,062,580 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.

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 as September 30, 2012.

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.

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

	Governmental Activities		Business-type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds:				
2013	\$ 3,480,000	\$ 1,296,972	\$ 2,685,000	\$ 48,666
2014	3,815,000	1,185,575	-	-
2015	3,935,000	1,067,706	-	-
2016-2020	12,220,000	3,818,731	-	-
2021-2025	4,670,000	2,465,431	-	-
2026-2030	5,870,000	1,181,906	-	-
2031-2032	2,735,000	85,172	-	-
	<u>\$ 36,725,000</u>	<u>\$ 11,101,493</u>	<u>\$ 2,685,000</u>	<u>\$ 48,666</u>
Certificates of Obligation:				
2013	\$ 1,221,161	\$ 1,553,871	\$ 483,839	\$ 450,789
2014	1,036,153	1,512,213	558,847	429,935
2015	1,068,152	1,474,026	586,848	407,021
2016-2020	8,519,828	6,597,447	3,340,172	1,641,933
2021-2025	10,270,602	4,942,241	1,964,398	1,080,271
2026-2030	10,434,299	2,719,027	2,245,701	639,492
2031-2035	7,174,119	747,360	1,395,881	44,525
2036-2037	1,195,000	40,753	-	-
	<u>\$ 40,919,314</u>	<u>\$ 19,586,938</u>	<u>\$ 10,575,686</u>	<u>\$ 4,693,966</u>

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G. 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, 2012.

2013	2014	2015	2016	Thereafter	Total
\$ 260,000	\$ 260,000	\$260,000	\$260,000	\$190,000	\$ 1,230,000

H. Interfund Receivables, Payables, and Transfers

A summary of interfund receivables and payables at September 30, 2012 is as follows:

Interfund Payables:	Interfund Receivables: General Fund	
Reimbursement Grant Fund	\$ 633,647	Loan for grant expenditures, reimbursement expected in subsequent year
ARRA Grant Fund	557,914	Loan for grant expenditures, reimbursement expected in subsequent year
Total	<u>\$ 1,191,561</u>	

Transfers between funds during the year ended September 30, 2012 were comprised of the following:

Fund	Transfers In	Transfers Out	Purpose of Transfer
Parks Capital Projects Fund	\$ 75,000	\$ -	Reimbursement of Project Expenses
General Fund	-	75,000	Reimbursement of Project Expenses
2004 Capital Project Fund	-	14	Close fund
GO Debt Service Fund	14	-	Close fund
2008 Capital Project Fund	-	1,816,416	Transfer of Debt
Hotel Fund	-	670,000	For payment of debt service
Hotel Debt Service Fund	670,000	-	For payment of debt service
<i>Total Transfers</i>	<u>\$ 745,014</u>	<u>\$ 2,561,430</u>	

The transfers above do not balance by the amount of debt that was transferred from governmental activities to business type activities. The transfer of \$1,816,416 was recorded for the governmental activities at the government-wide statement level.

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 2012, 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 three years.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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.

The Town offers health benefits through one of two plans operated by Blue Cross Blue Shield. Employees may choose either an HMO (health maintenance organization) plan or a PPO (preferred provider organization) plan. 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. The Blue Cross and Delta Dental plans are fully insured contracts. Monthly premiums paid to Blue Cross and Delta Dental are based upon fixed employee and dependent rates that are established each year.

B. Employee's Retirement System

1) Pension Plan

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 833 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2011 valuations are contained in the 2011 TMRS 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.tMrs.org/publications.php>

Benefits depend upon the sum of the employee's contributions to the plan, with interest, 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 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 percent of the employee's accumulated contributions. Beginning in 1994, the Town adopted on an annually repeating basis another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions 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 the employer-financed monetary credits with 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

NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

Funding Policy

Under the state law governing TMRS, the actuary annually determines the Town contribution rate on a calendar year basis. The rate for calendar year 2011 is 15.10%, and the rate for 2012 is 10.83%. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over-funded) actuarial liability (asset) over the remainder of the plan's amortization period. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2012 valuation is effective for rates beginning January 2014).

Annual Pension Cost and Net Pension Obligation

The Town's annual pension cost of \$1,934,462 was equal to the required contribution. As reflected in the schedule, the Town satisfied its requirements for all three years; therefore there is no net pension obligation. The analysis of funding progress, included as required supplementary information following the notes to the financial statements, presents multiyear trend information about the actuarial value of plan assets in relation to the actuarial accrued liability for benefits.

	Fiscal Year Ending September 30		
	2010	2011	2012
Annual Pension Cost	\$ 2,238,741	\$ 2,328,673	\$ 1,934,462
Contributions Made	2,238,741	2,328,673	1,934,462
Net Pension Obligation (NPO) at End of Year	\$ -	\$ -	\$ -
Contributions as a % of Annual Pension Cost	100%	100%	100%

Funding Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 98.6% funded. The actuarial accrued liability for benefits was \$90,615,578, and the actuarial value of assets was \$89,359,781, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,255,797. The covered payroll (annual payroll of active employees covered by the plan as of the valuation date) was \$15,787,262, and the ratio of the UAAL to the covered payroll was 8%.

Changes in Actuarial and Amortization Methods

Since its inception, TMRS used the traditional Unit Credit actuarial funding method. This method accounted for the liability accrued as of the valuation date but did not project the potential future liability of provisions adopted by a city. The Town, as well as the majority of cities participating in TMRS, had adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. These provisions are considered to be "committed" benefits (or likely to be guaranteed); as such, at its December 8, 2007 meeting, the TMRS Board adopted the Projected Unit Credit (PUC) actuarial funding method, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. For the

NOTES TO FINANCIAL STATEMENTS
 September 30, 2012

December 31, 2007 valuation and subsequent annual valuations, the TMRS Board determined that the PUC method would be used.

In addition to the change in funding methods, the Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period may be increased up to 30 years unless a city requests that the period remain at 25 years. For cities with repeating features, these changes will likely result in higher required contributions and lower funded ratios. To assist in this transition to higher rates, the Board also approved an optional eight-year phase-in period, which would allow cities the opportunity to increase their contributions gradually to their full, or required contribution, rate.

At its December 30, 2008 meeting, the City Council decided to withdraw the automatic repeating annuity increases to retirees, electing to approve these benefits on an ad hoc, or annual, basis in order to reduce the required contribution rate and improve funded status. The City Council approved annuity increases for calendar year 2010 on December 8, 2009, calendar year 2011 on November 23, 2010 and calendar year 2012 on November 22, 2011.

	2009	2010	2011
Actuarial Assumptions:			
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	28 Yrs - Closed	20.5 Yrs - Closed	14.6 Yrs - Closed
Asset Valuation Method	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Investment Rate of Return	7.5%	7.0%	7.0%
Inflation	3%	3%	3%
Projected Salary Increases	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

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.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

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 2012 contribute \$346 to \$1,465 per month depending on coverage levels selected. In fiscal year 2012, total retiree contributions were \$124,440. The Town contributions to the plan for fiscal year 2012, which are also equal to premiums paid in excess of premiums collected from retirees, were \$26,428.

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 2012.

Annual Required Contribution	\$ 181,735
Interest on OPEB Obligation	15,840
Adjustment to ARC	<u>(14,675)</u>
Annual OPEB Cost (Expense)	182,900
Contributions Made	<u>(148,348)</u>
Change in OPEB Obligation	34,552
Net OPEB Obligation (Asset) – Beginning of Year	<u>351,990</u>
Net OPEB Obligation (Asset) – End of Year	<u>\$ 386,542</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, 2012 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Costs	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 254,772	\$ 22,125	8.7%	\$ 464,469
2011	177,978	290,457*	163.2%	351,990
2012	182,900	148,348	81.1%	386,542

* Employer contributions for the fiscal year ending September 30, 2011 includes historical implicit subsidies which were not reflected in prior years.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,968,533, none of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was \$15,557,784, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.7%. Of the total actuarial accrued liability, \$1,436,129, or 73.0%, 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 \$372.87. The estimate for a male employee or retiree who is 60 years old is \$1,125.39. 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.

In the December 31, 2010 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 9%, 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, 2010 was 30 years.

C. Contingencies

As of September 30, 2012, litigation is pending with respect to matters arising in the normal course of the Town's operations. The Town's management is of the opinion that the settlement of the other pending litigation will not have a material adverse effect on the Town's financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

D. Keller Springs Tollway

In 1999, the North Texas Tollway 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.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

E. Statement of Working Capital

Statements of Working Capital for proprietary funds for the year ended September 30, 2012 are below. Working capital, which is equal to current assets less current liabilities, is similar to fund balance and is useful for assessing the near-term financing situation of proprietary funds.

SUMMARY OF CHANGES IN WORKING CAPITAL FOR PROPRIETARY FUNDS

	<u>2012</u>	<u>2011</u>
<u>AIRPORT FUND</u>		
Net Income (Excluding Depreciation)	\$ 2,309,009	\$ 10,851,786
Net Additions to Capital Assets	(2,494,663)	(10,690,520)
Net Retirement of Long-Term Debt	(275,000)	(265,000)
Net Increase/(Decrease) of Restricted Assets	(15,000)	(10,000)
Net Increase/(Decrease) in Other	2,324	2,325
Working Capital at the Beginning of the Year	<u>2,012,994</u>	<u>2,124,403</u>
Working Capital at the End of the Year	<u>\$ 1,539,664</u>	<u>\$ 2,012,994</u>
<u>UTILITY FUND</u>		
Net Income (Excluding Depreciation)	\$ 3,085,078	\$ 3,206,501
Net Additions to Capital Assets	(2,520,891)	(3,709,338)
Net Retirement of Long-Term Debt	(915,544)	(2,478,842)
Net Increase/(Decrease) of Restricted Assets	(146,879)	(220,570)
Net Increase/(Decrease) in Other	90,535	85,147
Working Capital at the Beginning of the Year	<u>2,734,120</u>	<u>5,851,222</u>
Working Capital at the End of the Year	<u>\$ 2,326,419</u>	<u>\$ 2,734,120</u>
<u>CAPITAL REPLACEMENT FUND</u>		
Net Income (Excluding Depreciation)	\$ 643,576	\$ 606,676
Net Additions to Capital Assets	(366,266)	(254,948)
Working Capital at the Beginning of the Year	<u>3,559,289</u>	<u>3,207,561</u>
Working Capital at the End of the Year	<u>\$ 3,836,599</u>	<u>\$ 3,559,289</u>
<u>INFORMATION TECHNOLOGY REPLACEMENT FUND</u>		
Net Income (Excluding Depreciation)	\$ 569,432	\$ 638,998
Net Additions to Capital Assets	(225,086)	(258,404)
Working Capital at the Beginning of the Year	<u>2,460,574</u>	<u>2,079,980</u>
Working Capital at the End of the Year	<u>\$ 2,804,920</u>	<u>\$ 2,460,574</u>

NOTES TO FINANCIAL STATEMENTS
September 30, 2012

F. New Accounting Pronouncements

The GASB issued Statement No. 64, Accounting and Financial Reporting-for Derivative Instruments, which will be effective for periods beginning after June 15, 2011. The Statement clarifies the existing requirements for the termination of hedge accounting. This statement applies to all state and local governments and amends Statement 53, paragraphs 22d and 82. The Town has no derivative instruments. In the future, if there is a situation that applies to this Statement, the Town will account for it appropriately.

The GASB issued Statement No. 63, Accounting and Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which will be effective for periods beginning after December 15, 2011. The Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The Town will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which will be effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The Town will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, which will be effective for periods beginning after December 15, 2012. The Statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows or inflows of resources, and recognizes these items as outflows or inflows of resources. This statement applies to all state and local governmental entities. The Town will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 67, Financial Reporting for Pension Plans, which will be effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting of state and local governmental pension plans with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement applies to all state and governmental entities and amends Statements 25 and 50. The Town will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which will be 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 Town will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

Required Supplementary Information

Addison!®

Town of Addison, Texas
Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
Texas Municipal Retirement System
Analysis of Funding Progress (Unaudited)
September 30, 2012

	(1)	(2)	(3) = (1)/(2)	(4) = (2) - (1)	(5)	(6) = (4)/(5)			
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll	Annual Required Contributions	Actual Contributions
2007	12/31/06	45,023,526	55,786,598	80.71%	10,763,072	13,753,045	78.26%	1,884,965	1,884,965
2008	12/31/07	44,895,953	57,197,193	78.49%	12,301,240	14,455,362	85.10%	1,974,491	1,974,491 *
2008	12/31/07	44,895,953	67,325,269	66.69%	22,429,316	14,455,362	155.16%	1,974,491	1,974,491 *
2009	12/31/08	48,391,009	59,542,189	81.27%	11,151,180	16,237,145	68.68%	2,123,822	2,123,822
2010	12/31/09	53,138,426	65,266,945	81.42%	12,128,519	16,810,483	72.15%	2,240,980	2,240,980
2011	12/31/10	83,398,352	86,525,773	96.39%	3,127,421	16,680,756	18.75%	2,238,741	2,238,741
2012	12/31/11	89,359,781	90,615,578	98.61%	1,255,797	15,787,262	7.95%	1,934,462	1,934,462

Six-year historical trend information is designed to provide information about the fund's progress made in accumulating sufficient assets to pay benefits when due for plan years 2007-2012. This information can be referred to in separately issued financial reports of the pension fund.

* For fiscal year 2008, the Town has presented two lines of information. Please see the Notes section of the CAFR for a brief explanation of the actuarial changes adopted by TMRS in calculating the Actuarial Accrued Liability (AAL). These changes became effective with the reporting period ending December 31, 2007. The first 2008 line presents the Actuarial Accrued Liability (AAL) using the old TMRS actuarial assumptions. The second 2008 line presents the Actuarial Accrued Liability (AAL) using the new TMRS actuarial assumptions.

Town of Addison, Texas
Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
 Retiree Health Plan
 Analysis of Funding Progress (Unaudited)
 September 30, 2012

		(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%

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

APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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[Form of Bond Opinion]

[Date]

\$4,665,000

TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS
TAX EXEMPT SERIES 2013

WE HAVE represented the Town of Addison, Texas (the “Town”), as its Bond Counsel in connection with an issue of bonds (the “Bonds”) described as follows:

TOWN OF ADDISON, TEXAS, GENERAL OBLIGATION, TAX-EXEMPT SERIES 2013, dated July 15, 2013, issued in the principal amount of \$4,665,000.

The Bonds mature and bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Town authorizing their issuance (the “Ordinance”).

WE HAVE represented the Town as its Bond Counsel for the sole 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 Town or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Town’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 Town and customary certificates of officers, agents and representatives of the Town and other public officials and other certified showings relating to the authorization and issuance of the Bonds. We have further examined such applicable provisions of the Internal Revenue Code of

1986, as amended (the “Code”), court decisions, Treasury Regulations, and published 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:

(1) 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 Town;

(2) A continuing ad valorem tax upon all taxable property within the Town 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 Town, including the Bonds, does not exceed any constitutional, statutory or other limitations; and

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 as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will 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 liability.

In providing such opinions, we have relied on representations of the Town, the Town’s financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the Town, the Town’s financial advisor and the underwriters, respectively, which we have not independently verified. In addition, we 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. If such

representations are determined to be inaccurate or incomplete or the Town 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 receipt or accrual of interest on, or acquisition, ownership 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 tax 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).

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 Town as the taxpayer. We observe that the Town 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.

#4328878.1

[Form of Bond Opinion]

[Date]

\$1,875,000

TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS
SERIES 2013A (AMT)

WE HAVE represented the Town of Addison, Texas (the “Town”), as its Bond Counsel in connection with an issue of bonds (the “Bonds”) described as follows:

TOWN OF ADDISON, TEXAS, GENERAL OBLIGATION, SERIES 2013A (AMT), dated July 15, 2013, issued in the principal amount of \$1,875,000.

The Bonds mature and bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Town authorizing their issuance (the “Ordinance”).

WE HAVE represented the Town as its Bond Counsel for the sole 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 Town or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Town’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 Town and customary certificates of officers, agents and representatives of the Town and other public officials and other certified showings relating to the authorization and issuance of the Bonds. We have further examined such applicable provisions of the Internal Revenue Code of

1986, as amended (the “Code”), court decisions, Treasury Regulations, and published 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:

(1) 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 Town; and

(2) A continuing ad valorem tax upon all taxable property within the Town 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 Town, including the Bonds, does not exceed any constitutional, statutory or other limitations.

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:

(3) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, except for any period a Bond is held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” or a “related person” to such a “substantial user” of the facilities financed with proceeds of the Bonds; and

(4) The Bonds are “private activity bonds” under the Code, and interest on the Bonds is an item of tax preference that is includable in alternative minimum income for purposes of determining the alternative minimum income tax imposed on individuals and corporations.

In expressing the aforementioned opinions, we are relying on representations to be made by the Town, the Town’s financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the Town, the Town’s financial advisor and the underwriters, respectively, which we have not independently verified. In addition, we have assumed continuing compliance with the covenants in the Ordinance relating to those sections of

the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event such representations are determined to be inaccurate or incomplete or the Town fail 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 other federal, state or local tax consequences of acquiring, carrying, owning or disposing 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 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).

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the 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 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. We observe that the Town has covenanted 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.

#4328890.1

#4137712.2
#4328890.1

[Form of Bond Opinion]

[Date]

\$1,250,000

TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS
TAXABLE SERIES 2013B

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 follows:

TOWN OF ADDISON, TEXAS, GENERAL OBLIGATION, TAXABLE SERIES 2013B, dated July 15, 2013, issued in the principal amount of \$1,250,000.

The Bonds mature and bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Town authorizing their issuance (the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the sole 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 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 examined executed Bond No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance adopted by the Issuer with respect to the issuance of the Bonds.

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, Texas, 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

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.

We observe that interest on the Bonds is generally includable in gross income for federal income tax purposes under existing law. We 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. Prospective purchasers should consult their tax advisors with respect to such matters.

[In providing such opinions, we have assumed with your permission the truth and accuracy as to factual matters of all statements and certifications made to us by the Issuer and the underwriters of the Bonds. We have relied on representations of the Issuer, the Issuer's financial advisor, and the underwriters of the Bonds with respect to matters solely within the knowledge of the Issuer, the Issuer's financial advisor, and the underwriters of the Bonds, respectively, which we have not independently verified.]

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.

[Form of Bond Opinion]

[Date]

\$10,185,000

TOWN OF ADDISON, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2013

WE HAVE represented the Town of Addison, Texas (the “Town”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

TOWN OF ADDISON, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2013, dated July 15, 2013, issued in the principal amount of \$10,185,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Town authorizing their issuance (the “Ordinance”).

WE HAVE represented the Town as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates 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 Town or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Town’s Official Statement prepared for use in connection with the sale of the Certificates 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 Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Town, customary certificates of officers, agents and representatives of the Town and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have further examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, United States

Department of Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Town; and

(2) A continuing ad valorem tax upon all taxable property within the Town necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Town, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge of the surplus revenues of the Town's Waterworks and Sewer System as provided in the Ordinance.

THE RIGHTS OF THE OWNERS of the Certificates 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 Certificates is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Certificates are not "private activity bonds" within the meaning of the Code, and as such, interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates 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 liabilities.

In providing such opinions, we have relied on representations of the Town, the Town's financial advisor and the underwriters of the Certificates with respect to matters solely within the knowledge of the Town, the Town's financial advisor and the underwriters, 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 Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Town fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates 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 receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Certificates 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 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 Certificates).

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 Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Town as the taxpayer. We observe that the Town 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 Certificates as includable in gross income for federal income tax purposes.

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