FSC Disclosure Services
A Division of First Southwest Company

(See "Continuing Disclosure of Information" herein)

OFFICIAL STATEMENT

Dated August 16, 2007

Ratings:
Moody's: "Aaa"
S&P: "AAA"
MBIA Insured
See ("Bond Insurance" and "Other Information – Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES **HAVE NOT** BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$23,630,000
CITY OF CORINTH, TEXAS
(Denton County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007

Dated Date: August 15, 2007 **Due: February 15, as shown on page 2**

PAYMENT TERMS . . . Interest on the $23,630,000 City of Corinth, Texas Combination Tax and Revenue Certificates of Obligation, Series 2007 (the "Certificates") will accrue from August, 15, 2007 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2008, 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. **No physical delivery of the Certificates will be made to the beneficial 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 Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . These Certificates constitute direct obligations of the City of Corinth, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City'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 any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system (the "System"), as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "The Certificates - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) constructing and improving streets and roads, (ii) constructing, installing improvements to the City's waterworks and sanitary sewer system, (iii) computer and technology equipment and upgrades for the City's information technology and communication systems, (iv) acquiring and installing security and fire suppression systems for City buildings, (v) legal, fiscal and engineering fees in connection with such projects and (vi) pay costs associated with the issuance of the Certificates.

INSURANCE . . . The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by MBIA Insurance Corporation ("MBIA"). See "Bond Insurance" herein.

mbia
WISDOM IN ACTION℠

CUSIP PREFIX: 21885A

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

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 McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriter by Locke Liddell & Sapp PLLC (or its successor), Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on September 18, 2007.

SOUTHWEST SECURITIES **ESTRADA HINOJOSA & COMPANY, INC.**

CUSIP Prefix: 21885A [(1)]

MATURITY SCHEDULE

Amount	Maturity (Feb. 15)	Rate	Price or Yield	CUSIP Suffix[(1)]	Amount	Maturity (Feb. 15)	Rate	Price or Yield	CUSIP Suffix[(1)]
$ 895,000	2008	4.500%	3.710%	HW(6)	$ 1,025,000	2016	5.000%	4.230%	JE(4)
935,000	2009	4.500%	3.750%	HX(4)	1,075,000	2017	5.000%	4.320%	JF(1)
980,000	2010	4.500%	3.800%	HY(2)	1,135,000	2018	4.375%	4.470%	JG(9)
760,000	2011	4.500%	3.840%	HZ(9)	1,180,000	2019	4.500%	4.580%	JH(7)
795,000	2012	4.500%	3.900%	JA(2)	1,235,000	2020	4.500%	4.650%	JJ(3)
990,000	2013	5.000%	3.980%	JB(0)	1,295,000	2021	4.625%	4.710%	JK(0)
1,035,000	2014	5.000%	4.060%	JC(8)	1,360,000	2022	5.250%	4.570%	JL(8)
970,000	2015	5.000%	4.120%	JD(6)	1,430,000	2023	5.250%	4.590%	JM(6)

$6,535,000 5.25% Term Certificate due February 15, 2027, priced to yield 4.66%, CUSIP suffix: JR(5)

(Accrued Interest from August 15, 2007 to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . The Certificate maturing on February 15, 2027 (the "Term Certificate") is subject to mandatory sinking fund redemption in the amounts and at a price of par plus accrued interest to the redemption date on February 15 in the following years:

Certificate Maturing February 15, 2027	
Year	Amount
2024	$ 1,510,000
2025	1,590,000
2026	1,670,000
2027*	1,765,000

* Maturity.

The particular Term Certificate to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Certificate required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of said Term Certificate of the respective 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 Certificate plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement (see "The Certificates – Mandatory Sinking Fund Redemption").

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

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

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

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY ONLY SYSTEM OR THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING MBIA INSURANCE CORPORATION ("MBIA") OR TIS POLICY AS DESCRIBED UNDER "BOND INSURANCE" HEREIN. AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND MBIA RESPECTIVELY.

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

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

TABLE OF CONTENTS

The cover page hereof, this page, 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 Certificates 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 CITY .... The City of Corinth is a political subdivision and home-rule municipal corporation of the State of Texas, located in Denton County, Texas. The City covers approximately 7.8 square miles (see "Introduction – Description of the City").

THE CERTIFICATES .... The $23,630,000 Combination Tax and Revenue Certificates of Obligation, Series 2007 are issued as serial certificates maturing on February 15 in each year in each of the years 2008 through 2023 and as a term certificate maturing February 15, 2027 in the principal amounts set forth on page 2 hereof (see "The Certificates – Description of the Certificates").

PAYMENT OF INTEREST .... Interest on the Certificates accrues from August 15, 2007 and is payable February 15, 2008, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Certificates - Description of the Certificates" and "The Certificates - Optional Redemption").

AUTHORITY FOR ISSUANCE.......... The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an Ordinance passed by the City Council of the City (see "The Certificates – Authority for Issuance").

SECURITY FOR THE CERTIFICATES .... The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the Ordinance authorizing the Certificates. In addition, the Certificates are payable from a pledge of surplus net revenues of the City's Waterworks and Sewer System (see "The Certificates - Security and Source of Payment").

QUALIFIED TAX-EXEMPT OBLIGATIONS.............................. The City **has not** designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

REDEMPTION .... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2018, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (see "The Certificates - Optional Redemption"). In addition, the Certificates maturing on February 15, 2027, are subject to mandatory sinking fund redemption (see "The Certificates – Mandatory Sinking Fund Redemption").

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

USE OF PROCEEDS .... Proceeds from the sale of the Certificates will be used for (i) constructing and improving streets and roads, (ii) constructing improvements to the City's waterworks and sanitary sewer system, (iii) computer and technology equipment and upgrades for the City's information technology and communication systems, (iv) acquiring and installing security and fire suppression systems for City buildings, (v) legal, fiscal and engineering fees in connection with such projects and (vi) pay cost associated with the issuance of the Certificates.

RATINGS .... The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc. ("S&P") by virtue of an insurance policy to be issued by MBIA Insurance Corporation upon delivery of the Certificates to the Underwriters. The outstanding tax supported debt of the City is rated "A1" by Moody's and "A+" by S&P. The City also has other issues outstanding that are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies (see "Other Information- Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Certificates 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 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 beneficial 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 Certificates - Book-Entry-Only System").

PAYMENT RECORD .... The City has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population[(1)]	Taxable Assessed Valuation[(2)]	Per Capita Taxable Assessed Valuation	Net General Obligation (G.O.) Tax Debt	Per Capita G. O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2003	16,919	$ 1,033,646,090	$ 61,094	$ 19,515,000	$ 1,153	1.89%	99.89%
2004	17,592	1,135,186,242	64,529	18,415,000	1,047	1.62%	99.89%
2005	17,800	1,184,225,509	66,530	17,850,000	1,003	1.51%	99.15%
2006	18,500	1,215,046,284	65,678	16,260,000	879	1.34%	99.06%
2007	19,100	1,287,406,176	67,403	39,890,000 [(3)]	2,088	3.10%	100.89% [(4)]

(1) Source: City Officials
(2) As reported by the Denton Central Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Projected, includes the Certificates and self-supporting debt.
(4) Collections through June 30, 2007.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2006	2005	2004	2003	2002
Beginning Balance	$ 4,076,460 [(1)]	$ 2,967,017 [(1)]	$ 1,580,277 [(1)]	$ 3,254,610	$ 4,554,602
Total Revenue	9,928,417	8,493,774	10,355,034	8,525,792	7,521,250
Total Expenditures	8,536,797	7,375,309	9,028,530	9,595,403	8,481,630
Net Transfers	194,270	(12,420)	-	787,500	(339,612)
Net Funds Available	1,585,890	1,106,045	1,326,504	(282,111)	(1,299,992)
Ending Balance	$ 5,662,350	$ 4,073,062	$ 2,906,781	$ 2,972,499	$ 3,254,610

(1) Restated.

For additional information regarding the City, please contact:

Kathy DuBose		W. Boyd London, Jr.
Finance Director		Marti Liljekvist
City of Corinth	Or	First Southwest Company
3300 Corinth Parkway		325 N. St. Paul St., Suite 800
Corinth, Texas 76208		Dallas, Texas 75201
(940) 498-3240		(214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Vic Burgess Mayor	4 years	May 2009	Owner Burgess & Associates Real Estate
Shannon Bryan Councilmember	2 years	May 2009	Director of Business Development Roy Bryan, CPA
Joe Harrison Councilmember	1 year	May 2008	Retired
Jim Mayfield Councilmember	2 months	May 2009	Mechanical Engineer Peterbilt
Paul Ruggiere Councilmember	1 year	May 2008	Research Analyst University of North Texas
Ronnie Glasscock Councilmember	1 year	May 2008	Retired

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City
Clovia English	City Manager	8 months
Kim Pence	City Secretary	7.5 years
Don Locke	Director of Public Works	8 months
Kathy DuBose	Finance Director	1.5 years

CONSULTANTS AND ADVISORS

Auditors .... Rutledge Crain & Company
Certified Public Accounts
Arlington, Texas

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor .... First Southwest Company
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

$23,630,000
CITY OF CORINTH, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2007

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $23,630,000 City of Corinth, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2007 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted on the date of sale of the Certificates which authorized the issuance of the Certificates, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1960, and adopted its Home Rule Charter on May 6, 1999. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), streets, water and sanitary sewer utilities, parks and recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 11,325, while the estimated 2007 population is 19,100. The City covers approximately 7.8 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated August 15, 2007. The Bonds mature on February 15 in each of the years and in the amounts shown on page two hereof. Interest on the Certificates will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2008, until maturity or prior redemption. The definitive Certificates 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 Certificates will be made to the beneficial 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 Certificates - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . 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), as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, and are additionally secured by and payable from surplus net revenues of the City's waterworks and sewer system (the "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 City's revenue obligations (now or hereafter outstanding) that are payable from all or part of said revenues, all as provided in the Ordinance.

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

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 15, 2018 in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2017 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (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 SINKING FUND REDEMPTION . . . The Certificate maturing on February 15, 2027 (the "Term Certificate") is subject to mandatory sinking fund redemption in the amounts and at a price of par plus accrued interest to the redemption date on February 15 in the following years:

Certificate Maturing February 15, 2027	
Year	Amount
2024	$ 1,510,000
2025	1,590,000
2026	1,670,000
2027*	1,765,000

* Maturity.

The particular Term Certificate to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Certificate required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of said Term Certificate of the respective 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 Certificate plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of each 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 ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE. If a Certificate (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and, if monies for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

BOOK-ENTRY-ONLY SYSTEM *. . . This section describes how ownership of the Certificates are to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), 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.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue 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. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Corporation 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to Corporation or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to 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 Certificates 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 Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Corporation 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 Corporation, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Certificates - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Certificates is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates, as the case may be, are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates, as applicable by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Certificates 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 (hereinafter defined), 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 Certificates will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates 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 be closed, 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. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Certificates 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. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates 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 Certificates issued in an exchange or transfer of Certificates 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 Certificates 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 Certificates 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 Certificates surrendered for exchange or transfer. See “The Certificates - Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, 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 a Certificate.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. 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 registered owner of an Certificate to be paid on the Special Payment Date that appears 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 TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Certificates, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Certificates; (ii) reducing the rate of interest borne by any of the outstanding Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

CERTIFICATEHOLDERS’ REMEDIES . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, owners of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Certificates will be The Depository Trust Company. See "Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of Certificates.

USE OF CERTIFICATE PROCEEDS . . . Proceeds from the sale of the Certificates are expected to be expended as follows:

Sources of Funds	
Par Amount of Certificates	$ 23,630,000.00
Reoffering Premium	$ 763,234.80
Accrued Interest from 8/15/07 to 9/18/07	106,238.23
Total Sources	$ 24,499,473.03
Uses of Funds	
Original Issue Discount (OID)	$ 45,590.35
Total Underwrites' Discount	148,962.02
Costs of Issuance [(1)]	176,700.00
Deposit to Debt Service Fund	106,238.23
Deposit to Project Construction Fund	24,021,982.43
Total Uses	$ 24,499,473.03

(1) Includes insurance premium.

BOND INSURANCE

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA" or the "Insurer") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "Bond Insurance". Additionally, MBIA makes no representation regarding the Certificates or the advisability of investing in the Certificates.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Certificates as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Certificates. MBIA's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Certificates/Securities upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Certificates resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Certificates.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Certificate the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Certificates or presentment of such other proof of ownership of the Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Certificates as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Certificates in any legal proceeding related to payment of insured amounts on the Certificates, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Certificates, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA INSURANCE CORPORATION

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

REGULATION

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

FINANCIAL STRENGTH RATINGS OF MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates. MBIA does not guaranty the market price of the Certificates nor does it guaranty that the ratings on the Certificates will not be revised or withdrawn.

MBIA FINANCIAL INFORMATION

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Certificates offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

TAX INFORMATION

AD VALOREM TAX LAW. . . The appraisal of property within the City is the responsibility of the Denton Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Title I of the Texas Tax Code (referred to herein as 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 market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three 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 City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Property Tax Code, as amended, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant either or both of the following: (1) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under provision (2) is $5,000.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

Effective January 1, 2004, 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 and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) 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.

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 Section 1-d and 1-d-1.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

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.

The City may create tax increment financing districts ("TIF") within the City with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units may agree with the City to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the "incremental value" of property in the TIF are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City also may enter into tax abatement agreements to encourage economic development. Under such an agreement, a property owner agrees to construct certain improvements on its property. The City 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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. Under current law, the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures for the next year, and (2) a rate to fund debt service for the next year.

Under the Property Tax Code, the City Council is prohibited from adopting a tax that exceeds the lower of the rollback tax rate or 103 per cent of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. Each year the City must calculate and publicize certain information concerning its proposed tax rate, including its "rollback tax rate." The rollback tax rate is the rate that will produce last year's maintenance and operation levy multiplied by 1.08 plus a rate that will produce the current year's debt service, with such rates adjusted to take into account new exemptions and property additions to the tax roll. If the adopted rate exceeds the rollback tax rate, the qualified voters of the City may petition the City Council to call an election to determine whether to reduce the tax rate adopted for the City to the rollback tax 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 City 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, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City does grant an exemption to the market value of the residence homestead of persons 65 years of age or older of $20,000; the disabled under the age of 65 are granted an exemption of $20,000;

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

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

The City does not tax nonbusiness personal property; and Denton County collects taxes for the City.

The City does not permit split payments of taxes, and discounts are not allowed.

The City does not tax freeport property.

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

The City has not adopted a tax abatement policy.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2006/2007 Market Valuation Established by Denton County Appraisal District		$ 1,322,041,237
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	$ 2,478,527	
Over 65	5,000,000	
Disabled Persons	590,000	
Disabled Veterans Exemptions	934,500	
House Bill 366	4,262	
Pollution Control	48,695	
Prorated Exempt Property	9,705	
Freeport	7,878,000	
Agricular Land Use Reductions	17,691,372	$ 34,635,061
2006/2007 Taxable Assessed Valuation		$ 1,287,406,176
General Obligation Debt Payable from Ad Valorem Taxes (as of 1/31/07)	$ 16,260,000	
The Certificates	23,630,000	$ 39,890,000
Self-supporting Debt	$ 18,729,099	
Total General Obligation Debt Payable from Ad Valorem Taxes		$ 21,160,901
General Obligation Interest and Sinking Fund (estimated as of 6/15/07)	.	$ 1,604,211
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.64%

2007 Estimated Population - 19,100
Per Capita Taxable Assessed Valuation - $67,403
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $1,108

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Vaue for Fiscal Year Ended September 30,					
	2007		2006		2005	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 1,064,821,861	80.54%	$ 989,716,061	79.63%	$ 951,290,022	78.94%
Real, Residential, Multi-Family	-	0.00%	-	0.00%	-	0.00%
Real, Vacant Lots/Tracts	28,615,513	2.16%	27,340,760	2.20%	33,039,426	2.74%
Real, Acreage (Land Only)	32,903,079	2.49%	34,103,771	2.74%	34,543,652	2.87%
Real, Farm and Ranch Improvements	7,173,113	0.54%	7,140,742	0.57%	6,585,003	0.55%
Real, Commercial and Industrial	98,888,302	7.48%	82,357,514	6.63%	80,135,513	6.65%
Real and Tangible Personal, Utilities	24,517,083	1.85%	25,236,876	2.03%	24,928,669	2.07%
Tangible Personal, Business	43,218,593	3.27%	48,357,570	3.89%	47,258,316	3.92%
Tangilble Personal, Other	6,643	0.00%	6,880	0.00%	13,117	0.00%
Real Inventory	4,669,738	0.35%	12,726,706	1.02%	11,942,844	0.99%
Special Inventory	17,227,312	1.30%	15,838,399	1.27%	15,294,004	1.27%
Total Appraised Value Before Exemptions	$ 1,322,041,237		$ 1,242,825,279	100.00%	$ 1,205,030,566	100.00%
Less: Total Exemptions/Reductions	34,635,061		27,778,995		20,805,057	
Taxable Assessed Value	$ 1,287,406,176 (1)		$ 1,215,046,284		$ 1,184,225,509	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2004		2003	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 885,632,467	76.60%	$ 799,402,164	74.46%
Real, Residential, Multi-Family	14,379,526	1.24%	15,102,080	1.43%
Real, Vacant Lots/Tracts	35,193,120	3.04%	26,629,197	2.49%
Real, Acreage (Land Only)	31,922,596	2.76%	29,723,720	2.78%
Real, Farm and Ranch Improvements	6,339,722	0.55%	5,976,614	0.55%
Real, Commercial and Industrial	75,636,285	6.54%	70,133,574	6.27%
Real and Tangible Personal, Utilities	22,936,153	1.98%	22,303,010	2.11%
Tangible Personal, Business	52,713,159	4.56%	59,622,323	5.54%
Tangible Personal, Other	12,897	0.00%	70,736,111	0.00%
Real Inventory	16,898,352	1.46%	32,695,174	3.10%
Special Inventory	14,564,082	1.26%	13,270,123.00	1.26%
Total Appraised Value Before Exemptions	$ 1,156,228,359	100.00%	$ 1,054,626,576	100.00%
Less: Total Exemptions/Reductions	21,042,117		21,127,642	
Taxable Assessed Value	$ 1,135,186,242		$ 1,033,646,090	

(1) Includes $27,410,171 under ARB Review.

NOTE: Valuations shown are certified taxable assessed values reported by the Denton 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[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding	Ratio G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2003	16,919	$ 1,033,646,090	$ 61,094	$ 19,515,000	1.89%	$ 1,153
2004	17,592	1,135,186,242	64,529	18,415,000	1.62%	1,047
2005	17,800	1,184,225,509	66,530	17,850,000	1.51%	1,003
2006	18,500	1,215,046,284	65,678	16,260,000	1.34%	879
2007	19,100	1,287,406,176	67,403	39,890,000 [3]	3.10% [3]	2,088 [3]

(1) Source: City Officials.
(2) As reported by the Denton Central Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Projected. Includes self-supporting debt. Includes the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2003	$ 0.5260	$ 0.34039	$ 0.18561	$ 5,436,978	92.67%	99.89%
2004	0.5498	0.36762	0.18213	6,052,166	98.91%	99.89%
2005	0.5606	0.39328	0.16734	6,595,734	98.00%	99.15%
2006	0.5570	0.43239	0.12459	6,565,751	99.06%	99.06%
2007	0.5570	0.44739	0.10959	7,084,199	100.21% [1]	100.89% [1]

(1) Collections through June 30, 2007.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2006/2007 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
TXU Electric Delivery Co.	Electric Utility	$ 13,954,760	1.08%
Denton County Electric Coop	Electric Utility	11,094,119	0.86%
Upsilon Corp.	Electronics Manufacturer	8,118,741	0.63%
Boeing Defense & Space	Electronics Manufacturer	7,685,799	0.60%
Kensington Square LP	Real Estate	6,365,745	0.49%
Albertson's Inc.	Retail Grocery	5,842,867	0.45%
Utter Properties LLC	Real Estate	5,693,439	0.44%
Utter, Bill	Real Estate	4,909,784	0.38%
Hughes Supply Co.	Supplier	4,860,649	0.38%
CMC Land Inc	Real Estate	4,661,519	0.36%
		$ 73,187,422	5.68%

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

TABLE 6 - TAX ADEQUACY [1]

2007 Principal and Interest requirements…………………………………………	$ 1,365,973
$ 0.1117 Tax Rate at 95% collection produces…………………………………	$ 1,366,131
Average Annual Principal and Interest requirements, 2007-2027……………………	$ 1,394,443
$ 0.1141 Tax Rate at 95% collection produces…………………………………	$ 1,395,484
Maximum Principal and Interest requirements, 2008………………………………	$ 2,141,634
$ 0.1752 Tax Rate at 95% collection produces…………………………………	$ 2,142,759

(1) Includes the Certificates, less self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("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 City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, 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 City.

Jurisdiction	2006/07 Taxable Assessed Value	2006/07 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	Direct and Overlapping Funded Debt As Of 6/15/2007	Authorized But Unissued Debt
City of Corinth	$ 1,287,406,176	$0.55698	$ 39,890,000 [1]	100.00%	$ 39,890,000	$ -
Corinth MUD #1	72,934,248	0.31000	775,000	100.00%	775,000	1,550,000
Denton County	42,164,388,021	0.23192	283,252,571	2.91%	8,242,650	198,259,373
Denton ISD	7,756,316,893	1.76400	463,432,579	7.79%	36,101,398	40,004,713
Lake Dallas ISD	1,043,422,257	1.79000	103,117,006	49.16%	50,692,320	13,000,000
Total Direct and Overlapping Funded Debt					$ 135,701,368	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation				10.54%		
Per Capita Direct and Overlapping Funded Debt				$ 7,105		

(1) Includes the Certificates and self-supporting debt.

DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service [1] Principal	Interest	Total	The Certificates [2] Principal	Interest	Total	Less: Self-Supporting Debt [3]	Total Debt Service Requirements [3]	% of Principal Retired
2007	$ 965,000	$ 678,325	$ 1,643,325	$ -	$ -	$ -	$ 277,352	$ 1,365,973	
2008	1,050,000	623,094	1,673,094	895,000	1,138,825	2,033,825	1,565,285	2,141,634	
2009	1,090,000	574,286	1,664,286	935,000	1,097,650	2,032,650	1,592,036	2,104,900	
2010	1,125,000	525,303	1,650,303	980,000	1,054,563	2,034,563	1,598,785	2,086,080	
2011	1,170,000	476,393	1,646,393	760,000	1,015,413	1,775,413	1,482,658	1,939,147	22.49%
2012	1,230,000	427,020	1,657,020	795,000	980,425	1,775,425	1,483,209	1,949,235	
2013	1,275,000	375,108	1,650,108	990,000	937,788	1,927,788	1,483,527	2,094,368	
2014	1,310,000	321,030	1,631,030	1,035,000	887,163	1,922,163	1,477,878	2,075,314	
2015	1,370,000	265,455	1,635,455	970,000	837,038	1,807,038	1,550,149	1,892,343	
2016	1,420,000	208,554	1,628,554	1,025,000	787,163	1,812,163	1,553,781	1,886,936	51.12%
2017	1,445,000	149,654	1,594,654	1,075,000	734,663	1,809,663	1,567,358	1,836,959	
2018	1,510,000	87,852	1,597,852	1,135,000	682,959	1,817,959	1,571,926	1,843,885	
2019	845,000	37,953	882,953	1,180,000	631,581	1,811,581	1,422,141	1,272,393	
2020	315,000	13,074	328,074	1,235,000	577,244	1,812,244	1,327,123	813,195	
2021	140,000	3,143	143,143	1,295,000	519,509	1,814,509	1,286,325	671,327	76.62%
2022	-	-	-	1,360,000	453,863	1,813,863	1,260,656	553,206	
2023	-	-	-	1,430,000	380,625	1,810,625	1,259,731	550,894	
2024	-	-	-	1,510,000	303,450	1,813,450	1,261,050	552,400	
2025	-	-	-	1,590,000	222,075	1,812,075	1,259,481	552,594	
2026	-	-	-	1,670,000	136,500	1,806,500	1,255,025	551,475	95.58%
2027	-	-	-	1,765,000	46,331	1,811,331	1,262,288	549,044	100.00%
	$ 16,260,000	$ 4,766,243	$ 21,026,243	$ 23,630,000	$ 13,424,825	$ 37,054,825	$ 28,797,765	$ 29,283,302	

(1) "Outstanding Debt" includes capital lease and self-supporting debt.
(2) Average life of the Certificates: 11.310.
(3) Includes the Certificates.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/07		$ 1,365,973
Interest and Sinking Fund Balance, Fiscal Year Ending 9/30/06	$ 1,259,957	
2006/07 Budgeted Interest and Sinking Fund Tax Levy Collection	1,410,868	
Delinquent Taxes/Penalty/Interest	-	
Budgeted Interest Income	-	2,670,825
Estimated Balance, Fiscal Year Ending 9/30/07		$ 1,304,852

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
10/24/1970	$ 30,000	$ -	$ -	$ 30,000 (1)
11/3/1998	8,500,000	6,500,000	-	2,000,000
	$ 8,530,000	$ 6,500,000	$ -	$ 2,030,000 (1)

(1) Due to the age of the authorization, the City does not anticipate issuance of the debt.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City anticipates the issuance of additional general obligation debt in the spring of 2008 in the amount of $16.5 million.

TABLE 11 - OTHER OBLIGATIONS[(1)]

As of September 30, 2006, the City's other obligations are as follows;

Fiscal Year Ending September 30,	*Governmental Activities* Minimum Annual Payment	*Business-type Activities* Minimum Annual Payment
2007	$ 24,317	$ 24,317
2008	24,316	24,316
2009	24,317	24,317
2010	23,715	23,715
Total minimum payments	$ 96,665	$ 96,665
Imputed Interest	(9,020)	(9,020)
Principal	$ 87,645	$ 87,645

(1) $214,691 capital lease secured by equipment with a carrying value of $178,909; annual installments of $48,632 through March 15, 2010. the lease is paid one-half by the public works department of the general government and one-half by the storm water utility fund.

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense.

Plan Description – The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, one of 802 administered by TMRS, an agent multiple-employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is, theoretical amount that, 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 the City matching percent had always been in existence and if the employee's salary had always been the average of his or her 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.

Employees can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. An employee is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2005	12/31/2004	12/31/2003
Actuarial Value of Assets	$ 6,082,374	$ 5,200,450	$ 4,135,143
Actuarial Accrued Liability	7,555,214	6,448,306	5,215,888
Perecntage Funded	80.50%	80.65%	79.30%
Unfunded Actuarial Accrued Liability (UAAL)	1,472,840	1,247,856	1,080,745
Annual Covered Payroll	826,215	5,525,187	4,903,503
UAAL as a % of Covered Payroll	25.30%	22.58%	22.00%
Net Pension Obligation (NPO) at the Beginning of the Period	-	-	-
Annual Pension Cost	-	-	-
Annual Required Contribution (ARC)	588,206	501,120	441,389
Contributions Made	588,206	501,120	441,389
Increase in NPO	-	-	-
NPO at the End of the Period	-	-	-

OTHER POST EMPLOYMENT BENEFITS

The City does not currently provide any additional post employment benefits.

Subsequent Events

On May 4, 2007 the City received a letter from TMRS stating, in part, that the City would receive another letter later in the year containing additional information about the City's contribution rates to TMRS. Excerpts from that letter read as follows:

"Your city has adopted annually repeating Updated Service Credits (USC) with or without Annuity Increases. That provision adds liability to your plan, not only in the current year but in future years. Historically, TMRS has provided a statement of that liability in the rate letter for the current year only. Beginning in 2009, the rate letter will contain figures that project the liability for future years, so that cities can see how the repeating provision will affect the cost of the TMRS plan over time."

"The letter you receive later this year will contain some basic information showing the projected cost of your annually repeating USC and Annuity Increases and will discuss the new approaches to funding that will be available beginning in 2009. Understanding this portion of your city's plan cost will be important in determining the funding decisions you may wish to make in future years."

For more information concerning the City's post-employment benefits, see the financial statements of the City, and the notes thereto.

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,	
Revenues	2006	2005
Program Revenues:		
Charges for services	$ 1,908,527	$ 1,991,003
Operation grants and contributions	211,840	159,282
capital grants and contributions	688,101	5,786
General revenues:		
Property taxes	6,894,264	6,827,391
Sales taxes	1,441,016	1,114,945
Franchise taxes	1,289,688	733,510
Other taxes	-	4,169
Judgement proceeds	-	-
Interest on investments	427,975	114,676
Gain (loss) on sale of fixed assets	-	(100,430)
Miscellaneous	37,082	336,593
Total revenues	$ 12,898,493	$ 11,186,925
Expenditures		
Community Development	$ 596,687	$ 350,040
Culture-recreation	-	1,173,264
Interest on Long-term debt	578,365	749,545
Economic development	4,105,885	206,577
General government	1,319,299	1,792,164
Highways and streets	1,649,758	945,628
Intergovernmental expenditures	-	1,475,376
Public safety	4,135,877	2,378,172
Total expenses	$ 12,385,871	$ 9,070,766
Increase (Decrease) in net assets before transfers	$ 512,622	$ 2,116,159
Transfers	(22,500)	(486,669)
Increase (decrease in net assets)	$ 490,122	$ 1,629,490
Net assets-beginning	53,490,236	4,112,987
Net assets-ending	$ 53,980,358	$ 53,490,236 [1]

(1) Restated to include historic infrastructure valuation according to GASB Statement 34.

TABLE 12 -A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2006	2005	2004	2003	2002
Revenues:					
Property Taxes	$ 5,343,072	$ 4,762,241	$ 4,306,483	$ 3,689,016	$ 3,077,928
Franchise Taxes	1,289,688	733,510	832,345	645,301	637,470
Sales Taxes	999,133	952,897	824,038	855,211	592,638
Other Taxes	-	-	909,512	3,586	2,819
Fees and Permits	661,652	916,794	645,562	1,108,403	1,243,710
Fine and Forfeitures	657,395	614,242	206,161	401,998	348,166
Charges for Services	468,651	292,845	-	87,905	42,465
Interest	379,142		27,843	47,424	75,210
Investment Income	-	91,574	-	-	-
Park Donations	1,500		6,756	431	725
Grants		36,028	14,500	-	-
Fire Department Reimbursement	-	-	2,049,990	1,662,344	1,356,033
Transfers In	58,138	-	-	-	-
Miscellaneous	70,046	93,643	531,844	24,173	144,086
Total Revenues	$ 9,928,417	$ 8,493,774	$ 10,355,034	$ 8,525,792	$ 7,521,250
Expenditures:					
General Government	$ 2,669,803	$ 1,310,186	$ 1,291,154	$ 1,133,017	$ 953,483
Public Safety	2,427,549	2,277,921	5,412,949	4,835,841	2,721,359
Highways and Street	-	821,183	688,873	1,744,846	1,192,125
Municipal Court	-	-	-	-	253,655
Community Development	584,199	346,985	394,067	444,553	534,481
Health and Welfare	-	1,475,376	-	-	-
Economic Development	-	206,577	246,323	314,892	
Public Works	1,289,676	-	-	-	-
Fleet Maintenance	-	-	-		125,319
Parks and Recreation	-	937,081	952,130	948,754	1,070,709
Fire Department	1,565,570	-	-	-	1,341,618
Animal Control	-	-	-	-	48,812
Capital Outlay	-	-	43,032	173,499	240,069
Total Expenditures	$ 8,536,797	$ 7,375,309	$ 9,028,529	$ 9,595,403	$ 8,481,630
Excess (Deficiency) of Revenues Over Expenditures	$ 1,391,620	$ 1,118,465	$ 1,326,505	$ (1,069,611)	$ (960,380)
Other Sources (Uses)	194,270	(12,420)	-	787,500	-
Other Miscellaneous Adjustments	-	-	-	-	(339,612)
Beginning Fund Balance	$ 4,076,460 (1)	$ 2,967,017 (1)	$ 1,580,277 (1)	$ 3,254,610	$ 4,554,602
Ending Fund Balance	$ 5,662,350	$ 4,073,062	$ 2,906,782	$ 2,972,499	$ 3,254,610

(1) Restated.

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. 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 City monthly. Voters of the City approved the imposition of an additional sales and use tax of half of one percent (1/2 of 1%) for economic development, an additional one-fourth of one percent (1/4 of 1%) for crime control and an additional one-fourth of one percent (1/4 of 1%) for street maintenance. The sales tax for economic development is collected solely for the benefit of the City's Economic Development Corporation.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [(2)]
2003	$ 1,119,789	18.50%	$ 0.1083	$ 66.19
2004	1,205,839	18.28%	0.1062	68.54
2005	1,426,141	21.62%	0.1204	80.12
2006	1,739,519	26.49%	0.1432	94.03
2007	1,006,655 [(1)]	14.21%	0.0782	52.70

____
(1) Collection through June 30, 2007.
(2) Based on population estimates of the City.

The sales tax breakdown for the City is as follows:

Economic and Community Development (4B)	0.50%
Crime Control	0.25%
Street Maintenance	0.25%
City Sales & Use Tax	1.00%
State Sales & Use Tax	6.25%
	8.25%

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, sales tax, intergovernmental revenues, charges for services, and interest. Other revenue sources are not considered measurable and available, and are not treated as susceptible to accrual.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

General Fund Balance . . . The City policy is to maintain surplus and unencumbered funds equal to at least 20% of expenditures in the General Fund. This allows the City to avoid interim borrowing pending tax receipts.

Use of Bond Proceeds, Grants, etc . . . The City's policy is to use bond proceeds, grants, or other non-recurring revenues for capital expenditures or other one-time purposes only. Such revenues are never to be used to fund on going City operations.

Budgetary Procedures . . . The fiscal year of the City is the twelve-month period beginning October 1. The departments submit to the City Administrator a budget of estimated expenditures for the ensuring fiscal year by the first of July. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1. The City Council then holds a public hearing on the budget. The Council shall then make any changes in the budget as it deems advisable and shall adopt a budget prior to September 30.

The City prepares its annual budgets on a basis which substantially conforms to generally accepted accounting principles (GAAP basis).

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas that 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 City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with a stated maturity of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 as amended (the "PFIA").

Effective September 1, 2003, a political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest, (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and, (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Under Texas law, City 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 City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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; (7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service 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; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 13- CURRENT INVESTMENTS

As of June 30, 2007, the City's investable funds were invested in the following categories:

Description	Percent of Investments	Market Value
U.S. Federal Agency - Coupon	47.61%	$ 6,641,308
U.S. Federal Agency - Callable	28.12%	3,922,636
U.S. Federal Agency - Amortizing	6.37%	888,741
TexPool	6.93%	966,210
TexSTAR[(1)]	1.01%	141,136
Cash	9.96%	1,389,071
	100.00%	$ 13,949,102

(1) 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 "AAA" 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 redemption s of funds is allowed by the participants

TAX MATTERS

OPINION . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C -- Form of Bond Counsel's Opinion.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the Certificate documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Certificates to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel are conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Certificates or the projects financed with the Certificate proceeds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates. Bond Counsel's opinion is not binding on the Internal Revenue Service. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the owners of Certificates may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering 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 Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under existing law, the original issue discount on each Original Issue Discount Certificate 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 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 Certificate 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 (a) 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 (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Interest on the Certificates will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding $175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the owner at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the owner holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CONTINUING DISCLOSURE OF INFORMATION

In Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Certificates. The City is required to observe agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2007. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to any state information depository ("SID") that is designated and approved by the State of Texas and by the SEC staff.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The Municipal Advisory Council (“MAC”) has also received SEC approval to operate, and has begun to operate, a “central post office” repository for information filings made by municipal issuers, such as the City, which repository then transmits the filed information to the NRMSIRs and the appropriate SID. This central post office can bee accessed and utilized at http://www.disclosureuse.org/ (“DisclosureUSA”). The City may utilize the central post office operated by the MAC for the filing of information relating to the Certificates, unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of owners of the Certificates; (8) Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to each NRMSIR or.

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID . . . The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to owners of Certificates only if the owners comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

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

OTHER INFORMATION

RATINGS

The Bonds have been rated “Aaa” by Moody’s Investors Service, Inc. and “AAA” by Standard & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc. (“S&P”) by virtue of an insurance policy to be issued by MBIA Insurance Corporation upon delivery of the Certificates to the Underwriters. The outstanding tax supported debt of the City is rated “A1” by Moody’s and “A+” by S&P. The City also has other issues outstanding that are rated “Aaa” by Moody’s and “AAA” by S&P through insurance by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates 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 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates 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), as amended provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, as amended 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 Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Certificates be assigned a rating of "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 Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates 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 City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of each of the respective series of Certificates, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates, as applicable, are valid and legally binding obligations of the City, 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 Certificates, as applicable, will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "The Certificates" (exclusive of the subcaptions "Book-Entry-Only System," “Certificateholders’ Remedies” and “Use of Certificate Proceeds”), "Tax Matters" and "Continuing Disclosure of Information" (exclusive of the subcaption “Compliance with Prior Undertakings”) and the subcaptions "Other Information - Legal Opinions", “Other Information: Registration and Qualification of Certificates for Sale” and "Other Information - Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions are an accurate and fair descriptions of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Locke Liddell & Sapp PLLC (or its successor), Dallas, Texas Counsel to the Underwriters.

The legal opinions to be delivered concurrently with the delivery of the Certificates 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 that 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 out of the transaction.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. First Southwest Company, in its capacity as Financial Advisor, 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City 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 City 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 Certificates from the City at an underwriting discount of $148,962.02. The Underwriters will be obligated to purchase all of the respective Certificates if any of the respective Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Underwriters.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates 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.

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriters.

/s/ VIC BURGESS
Mayor
City of Corinth , Texas

ATTEST:

/s/ KIM PENCE
City Secretary
City of Corinth, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND HISTORY . . . The City of Corinth, Texas (the "City") is a north central Texas city located in north Denton County on Interstate Highway 35, approximately 8 miles south of Denton, Texas and approximately 30 miles north of Dallas, Texas. The City is primarily a residential community. The City is a home rule municipality operating under Article XI, Section 5 of the Texas Constitution. The City was incorporated in 1960 and operates as a Council/Manager form of government.

The City is approximately 7.8 square miles in area and has 86.5 full time employees. The City has 7,180 single-family residences and contains approximately 90 miles of streets.

CITY SERVICES . . . The City provides the basic governmental services to the citizens such as police protection, fire protection, water and sewer and parks and recreation programs.

EDUCATION . . . The City is served by the Denton Independent School District and the Lake Dallas Independent School District. Secondary education is provided by North Central Texas College, located in Corinth, University of North Texas and Texas Woman's University, approximately 10 miles away in Denton; in nearby Dallas (approximately 30 miles) is a choice of University of Texas at Dallas, University of Dallas, Southern Methodist University, Paul Quinn College, the Dallas County College District and in Fort Worth (approximately 45 miles) is the Tarrant County Junior College District, Texas Wesleyan University and Texas Christian University.

TRANSPORTATION . . . Interstate Highway 35 divides the City on a north/south axis and is the State's major north-south freeway, south to Austin and San Antonio and north into Oklahoma.

RECREATION . . . The primary recreational facilities available to the residents of the City is the 182 acre park system that includes a 118 acre Community Park with two football fields, five baseball fields, four soccer fields, three softball fields, a covered pavilion, a basketball court, walking and jogging trails, and a 19 acre nature area with fishing pond and boardwalk. The parks system also includes 11 neighborhood parks with playscapes and swing sets and 7 miles of walking and jogging trails that make up the remainder of the park system. In addition, the City has the Crownover Recreation Center where classes, leagues, and activities are held.

UTILITIES. . . Gas is provided by Lone Star Gas Company. Electric power is furnished by Oncor.

BUILDING PERMITS

Year Ended	Commercial		Residential		
9/30	Number	Value	Number	Value	Grand Total
2003	13	$ 8,427,904	332	$ 68,752,906	$ 77,180,810
2004	21	12,877,615	243	48,568,653	61,446,268
2005	19	4,370,373	198	43,033,360	47,403,733
2006	9	25,311,565	114	31,353,341	56,664,906
2007 (1)	2	810,003	51	13,266,963	14,076,966

(1) As of May, 2007.

MAJOR BUSINESSES

Major Businesses	Type of Business	Number of Employees
Labinal	Defense	600
CoServ	Utility	220
North Central Texas College	Education	150
Albertsons	Grocery	130
Bill Utter Ford	Auto Dealership	125
Huffines Jeep-Eagle Mazda	Auto Dealership	60
McClains RV Superstore	RV Sales	55
State Farm Regional Claims center	Insurance	47
Metroplex Cabinets	Cabinet Store	40
TXU Electric Delivery	Electric Provider	28

EMPLOYMENT

Employment statistics for Denton County are as follows:

Denton County	Average Annual 2007[1]	2006	2005	2004	2003
Civilian Labor Force	328,792	326,387	309,312	296,034	292,338
Total Employed	316,274	312,566	296,138	282,939	277,699
Total Unemployed	12,518	13,821	13,174	13,095	14,639
Unemployment Rate	3.8%	4.2%	4.3%	4.4%	5.0%

(1) As of May, 2007

Source: Texas Employment Commission, Austin, Texas.

APPENDIX B

EXCERPTS FROM THE

CITY OF CORINTH, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2006

The information contained in this Appendix consists of excerpts from the City of Corinth, Texas Annual Financial Report for the Year Ended September 30, 2006, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
2401 Garden Park Court, Suite B
Arlington, Texas 76013

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Corinth, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Corinth, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Corinth, Texas management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Corinth, Texas, as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 11 through 22 and 59 through 60, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corinth, Texas basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rutledge Crain & Company, PC

December 22, 2006

Metro (817) 265-9989 | Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants | Fax (817) 861-9623

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Management's Discussion and Analysis

As management of the City of Corinth, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which is included in this report.

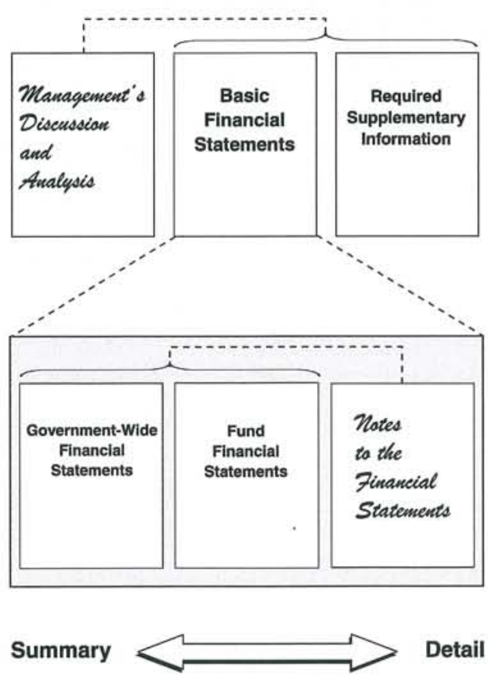
Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $70,406,764 (*net assets*). Of this amount, $8,459,131 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased $490,122 in comparison with the prior year restated. (Note I.F.) The increase in net assets reflects the degree to which revenues exceeded expenditures for fiscal year 2006, net of changes to beginning net assets. (See note I.F)
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $9,387,445, an increase of $1,298,910 in comparison with the prior year. Of the combined ending balances, $8,039,177 or 85.6 percent is available for spending within the City's guidelines *(unreserved fund balance).*
- The City's unreserved fund balance for the general fund was $5,574,039, or 54.7 percent of total budgeted general fund expenditures for fiscal year 2006-07.
- The City's long term liabilities of $16,557,667 decreased $1,802,652 or 9.8 percent during fiscal year 2006 (Prior year restated, see note I.F.). The decrease reflects the retirement of debt, including the Series 2001 and 2004 Limited Tax Notes and the Series 1994 Combination Tax and Revenue Certificates of Obligation.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Corinth's basic financial statements. The City of Corinth basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.
This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the City:

Required Components of the City's Annual Financial Report



- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses.*
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others to whom the resources in question belong.

Figure 1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide financial statements. The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

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

Figure 1, Major Feature of the City's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**Government-wide**	**Governmental**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses or self insurance funds	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balance	• Statement of net assets • Statement of revenues, expenditures & changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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	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	All assets and liabilities, both financial and capital, short-term and long-term; may contain captial assets
Type of inflow/outflow information	All revenue and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received 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 revenue and expenses during year, regardless of when cash is received or paid	All revenue and expenses during year, regardless of when cash is received or paid

The *statement of activities* presents information showing how the government's net assets changed during the most recent 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.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).* The governmental activities of the City include public safety, fire services, community services, planning and community development, public works, city administration, finance and administrative services and debt service. The business-type activities are the water and wastewater utility and the storm water utility funds.

The government-wide financial statements include not only the City itself (known as the *primary government),* but also a legally separate Economic Development Corporation as a component unit for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found starting on page 25 of this report.

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 City of Corinth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus *on near-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 near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 City of Corinth maintains eight 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 the general fund, debt service fund and capital projects fund, which are considered to be major funds. Data from the non-major governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Corinth adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 28 of this report.

Proprietary funds. The City of Corinth 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 City of Corinth uses enterprise funds to account for its water and wastewater operations and for its storm water utility fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Corinth used an internal service fund to account for its previously self-funded employee and enrolled dependents health benefits program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater utility fund, the storm water utility fund and the internal service fund. The water and wastewater utility fund is considered to be a major fund of the City.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 39 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $70,406,764 at the close of the most recent fiscal year.

By far the largest portion of the City of Corinth's net assets (83.7 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Corinth uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Corinth's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net assets (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($8,459,131) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year the City of Corinth is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year as restated. (Note I.F.)

There was a decrease in restricted net assets reported in the City of Corinth's business-type activities which resulted from the removal of restrictions on certain assets associated with revenue bonds that were retired during the current fiscal year.

TABLE I
City of Corinth Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 10,373,984	$ 9,615,021	$ 3,756,375	$ 3,233,527	$ 14,130,359	$ 12,848,548
Capital assets	57,961,990	59,999,370	16,616,175	15,640,355	74,578,165	75,639,725
Total assets	68,335,974	69,614,391	20,372,550	18,873,882	88,708,524	88,488,273
Long-term liabilities outstanding	13,683,966	13,602,850	2,873,701	2,842,404	16,557,667	16,445,254
Other liabilities	671,650	2,521,305	1,072,443	1,447,383	1,744,093	3,968,688
Total liabilities	14,355,616	16,124,155	3,946,144	4,289,787	18,301,760	20,413,942
Net assets:						
Invested in capital assets, net of related debt	45,102,746	46,286,313	13,801,367	12,462,107	58,904,113	58,748,420
Restricted	2,951,097	977,578	-	1,364,100	2,951,097	2,341,678
Unrestricted	5,926,515	6,226,345	2,625,039	799,118	8,551,554	7,025,463
Total net assets	$ 53,980,358	$ 53,490,236	$ 16,426,406	$ 14,625,325	$ 70,406,764	$ 68,115,561

* 2005 as restated, Note I.F.

Governmental activities. As stated above, governmental activities increased net assets by $490,122. A detailed examination of all the elements effecting net assets can be found in Table II.

TABLE II
City of Corinth Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	$ 1,908,527	$ 1,770,454	$ 8,989,499	$ 7,495,975	$ 10,898,026	$ 9,266,429
Operating grants and contributions	211,840	159,282	-	-	211,840	159,282
Capital grants and contributions	688,101	5,786	1,265,180	1,208,704	1,953,281	1,214,490
General revenues						
Property taxes	6,894,264	6,841,794	-	-	6,894,264	6,841,794
Sales taxes	1,441,016	1,114,945	-	-	1,441,016	1,114,945
Franchise taxes	1,289,688	742,121	-	-	1,289,688	742,121
Other taxes	-	4,169	-	-	-	4,169
Investment interest	427,974	114,676	19,983	120,741	447,957	235,417
Miscellaneous	37,083	236,163	95,712	19,606	132,795	255,769
Total Revenues	$ 12,898,493	$ 10,989,390	$ 10,370,374	$ 8,845,026	$ 23,268,867	$ 19,834,416
Expenses:						
Public safety	2,570,307	2,157,623	-	-	2,570,307	2,157,623
Lake Cities Fire Department	1,565,570	1,475,376	-	-	1,565,570	1,475,376
Community services	1,649,758	-	-	-	1,649,758	-
Culture - recreation	-	1,173,264	-	-	-	1,173,264
Public works	4,105,885	-	-	-	4,105,885	-
Highways and streets	-	3,415,957	-	-	-	3,415,957
Planning and community development	596,687	-	-	-	596,687	-
Community development	-	350,040	-	-	-	350,040
Economic development	-	206,577	-	-	-	206,577
General government	-	1,811,599			-	1,811,599
City administration	594,134	-	-	-	594,134	-
Finance and administrative services	725,165	-	-	-	725,165	-
Interest on long-term debt	578,365	769,953	-	-	578,365	769,953
Water and wastewater	-	-	8,384,025	7,775,047	8,384,025	7,775,047
Drainage	-	-	207,768	295,597	207,768	295,597
Total Expenses	$ 12,385,871	$ 11,360,389	$ 8,591,793	$ 8,070,644	$ 20,977,664	$ 19,431,033
Increase (decrease) in net assets before transfers and contributions	512,622	(370,999)	1,778,581	774,382	2,291,203	403,383
Net transfers	(22,500)	(486,669)	22,500	485,120	-	(1,549)
Increase (decrease) in net assets	490,122	(857,668)	1,801,081	1,259,502	2,291,203	401,834
Net assets - beginning, as restated (see Note I.F.)	53,490,236	54,347,904	14,625,325	13,365,823	68,115,561	67,713,727
Net assets - ending	$ 53,980,358	$ 53,490,236	$ 16,426,406	$ 14,625,325	$ 70,406,764	$ 68,115,561

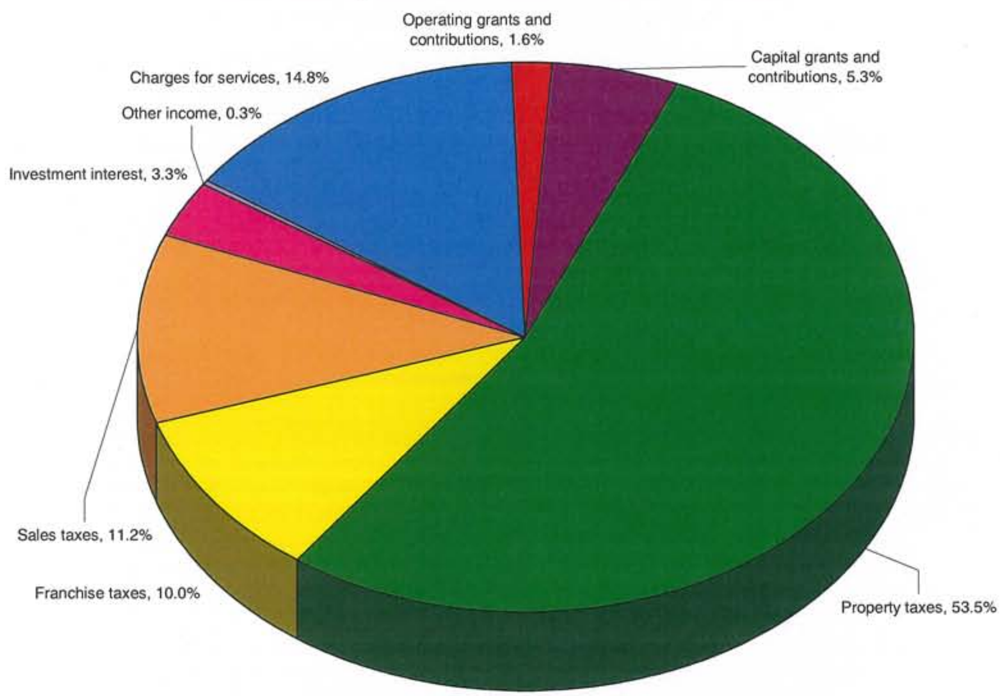
City of Corinth's Changes in Net Assets

This year, in the general fund, revenues exceeded expectations by a total of $888,110. Franchise taxes exceeded budget expectations by $397,295; sales tax exceeded budget by $155,133 as well. The City began an active investment program in fiscal year 2006, which resulted in $379,142 in investment interest, almost $310,000 over the budgeted amount. Most of the City's revenue streams saw considerable growth for the year. The City of Corinth reduced the property tax rate from .5606 per $100 to .55698 which is reflected in a less than one percent increase in property tax collections over last year. Expenditures were less than budget by $735,309 due to intentional reductions in spending for budgeted items by the City.

Revenues by Source – Governmental Activities

Property taxes, charges for services, sales taxes and franchise taxes provide 89.5 percent of the revenues for the governmental activities. The chart below (Figure 2) provides a graphic representation of the City's revenues by source.

Revenues by Source - Governmental Activities

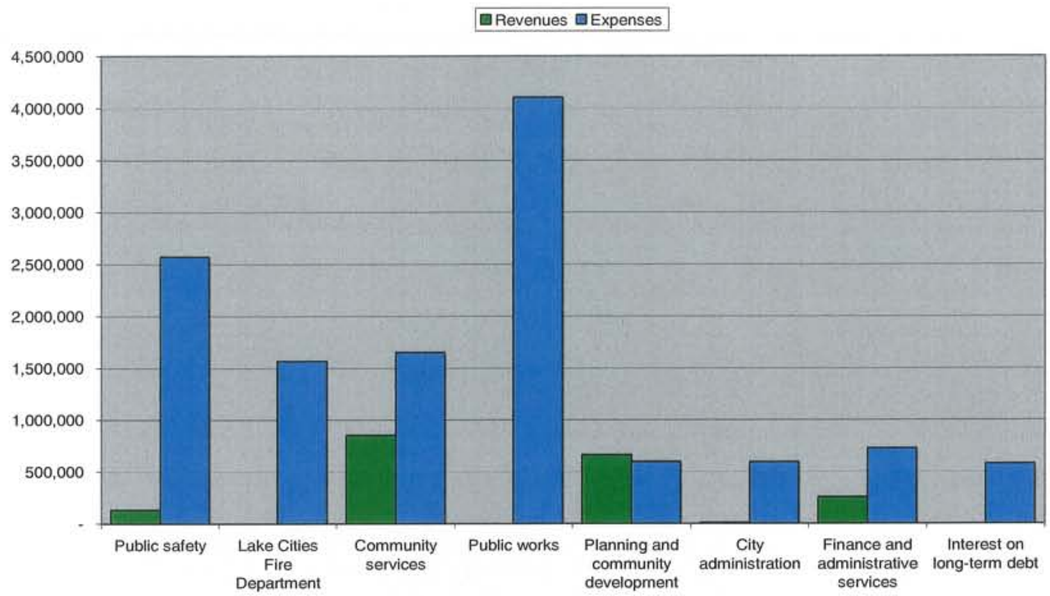


Expenses and Program Revenues –Governmental Activities

Public safety, community services, planning and community development and public works account for 72 percent of the expenditures for the governmental activities. Another 12.6 percent is represented by the City of Corinth's portion of the Lake Cities Fire Department. Each of the four Lake Cities, Corinth, Lake Dallas, Hickory Creek and Shady Shores, is responsible for a portion of the LCFD's annual budget, based on each city's anticipated needs. The LCFD pays the City of Corinth an administrative fee for payroll services; in fiscal year 2005-06 the fee was $25,000. City administration, finance and administrative services and interest on long-term debt account for the remaining 15.4 percent of total expenditures .

Figure 3 provides a graphic representation of the City's expenditures and any directly related revenues by source.

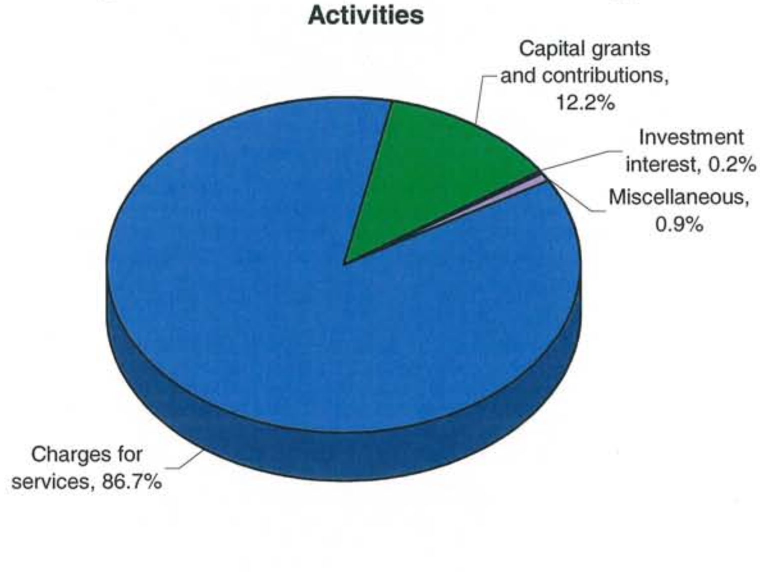
Figure 3: Program Revenues v. Expenses



Revenues by Source – Business-type Activities

Business-type activities increased the City's net assets by $1,801,081. Charges for services account for 86.7 percent of the revenue. Of the $8,989,499 in charges for service revenue, water and wastewater charges account for $8,624,995 and storm water utility charges $364,504 of the revenue. The remaining 13.3 percent of revenue is made up of capital grants and contributions including impact fees and developer contributions to infrastructure, investment interest and other miscellaneous revenue. (See Figure 4)

Figure 4: Revenues by Source - Business-type Activities



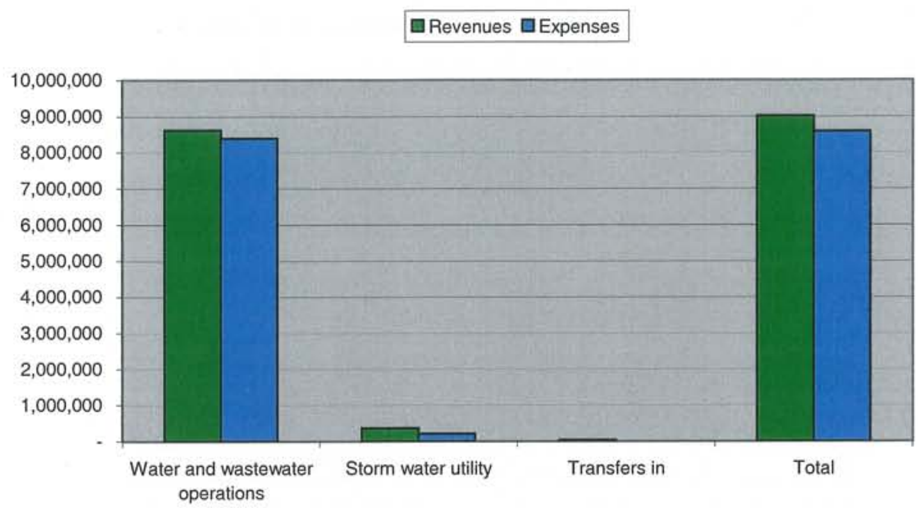
Management's Discussion and Analysis

Expenses and Program Revenues – Business-type Activities

Total revenue from water and wastewater sales and services was $8,624,995; associated costs of water, wastewater treatment, operations and maintenance accounted for $8,384,025 of the total business-type expenses of $8,591,793. The remaining $207,768 is made up of storm water utility costs.

The following chart (Figure 5) provides a graphic representation of the City's business-type expenses and any directly related revenues by source.

Figure 5: Program Revenues v. Expenses



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $9,387,445 an increase of $1,289,910 due to:

- a net increase in the general fund balance of $1,585,890
- a net decrease in the debt service fund of ($551,902)
- a net decrease in the capital projects fund of ($209,173)
- a net increase in the special revenue funds of 474,095. The Corinth Crime Control and Prevention District, which was previously reported as a discreet component unit, has been included in the special revenue funds. The District is a blended component unit because the governing body is substantively the same as the governing body of the City and the sales tax collected by the District is used for the exclusive or almost exclusive benefit of the primary government.

Of the combined total governmental fund balances of $9,387,445, $5,574,039 (59.4 percent) reflects the general fund unreserved fund balance which is available for spending at the government's discretion. The fund balance that is designated as *reserved* is not available for new spending because it has already been committed for one of the following reasons:

- to liquidate contracts and purchase orders (encumbrances) of the prior period, $41,440
- to pay debt service in future periods, $1,259,957
- reserved for prepaid items, $2,213
- amount represented by inventories, $44,658

General Fund. The general fund is the chief operating fund of the City of Corinth. At the end of the current fiscal year, unreserved fund balance of the general fund was $5,574,039, while total fund balance reached $5,662,350. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total budgeted fund expenditures for the upcoming fiscal year. Unreserved fund balance represents 54.6 percent of total budgeted general fund expenditures for fiscal year 2006-07, while total fund balance represents 55.5 percent of that same amount.

Key factors in the increase to fund balance of the general fund are as follows:

- Franchise tax collections exceeded budget by $397,295 due to electric utility payments in excess of the forecast by almost $200,000 and several other unanticipated increases in payment amounts.

- Sales tax exceeded budget by $155,133; sales tax growth was higher than forecast.

- Housing growth in the City also exceeded expectations, related fees and permits exceeded budget by $63,052.

- Investment Interest exceeded budget by $309,142; the City began an active investment program in fiscal year 2006.

- Transfers in included the unbudgeted closure of the internal service fund to the general fund and the subsequent transfer of $22,500 to the water and wastewater and storm water utility funds to offset increasing health care costs.

- Actual expenditures were less than budget by $735,309 because of intentional reductions in spending and vacancy savings.

Debt Service Fund. As part of the budgetary process, the government enacts a dedicated property tax for debt service each fiscal year. The debt service fund has a total fund balance of $1,259,957, all of which is reserved for the payment of debt service. The net decrease in fund balance was a budgeted draw-down of excess fund balance represented by debt service on the retired 2004 Tax Notes.

Capital Projects Fund. The capital projects fund is used to track capital project expenditures by the City. No additional debt was issued for capital projects in fiscal year 2006; however, planned projects funded by previous debt issues continued, which represent the reduction in CIP fund balance of $209,173.

Other Governmental Funds. The nonmajor governmental funds are the special revenue fund, 2007 streets CIP fund, Public Improvement District (PID) #1 fund, street maintenance sales tax fund, roadway impact fee fund and the Corinth Crime Control and Prevention District fund. Each of these funds is used to account for revenues and expenditures related to specific purposes.

- The special revenue fund saw a decrease in fund balance of ($6,261) with the expenditure of developer park donation funds.

- The 2007 streets CIP was created in fiscal year 2006 with a transfer in of $114,739 from the general fund as part of a reimbursement resolution to be repaid by debt issued in fiscal year 2007.

- The PID #1 fund was budgeted to collect $5,000 in special assessment revenue; however in fiscal year 2006 the City collected over $20,000 due to home sales within the district. The original PID required that the homeowner pay off the PID lien in full before a home within the district may be sold. The PID fund maintained a fund balance of $2,959; the $20,880 collected was transferred to the debt service fund to offset the payments on the 1995 Certificates of Obligation associated with the PID.

- The street maintenance sales tax fund accounts for the collection of a special sales tax of $.0025. Sales tax collections exceeded budget by $104,508 and expenditures were $65,263 under budget due to planned expenditures postponed until fiscal year 2007. This fund had an increase to fund balance of $111,419.
- The roadway impact fee fund was created in fiscal year 2006 to account for the collection and expenditure of impact fees levied as of January, 2006. Total collections for the fiscal year were $163,206.

- The Corinth Crime Control and Prevention District is a special sales tax of $.0025 levied for crime control and prevention within the City. Sales tax collections exceeded budget by $49,375 and public safety expenditures were less than anticipated for the year, which is reflected in the $90,992 increase in fund balance.

Proprietary funds

The City of Corinth's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The City maintains two enterprise funds, the water and wastewater fund and the storm water utility fund.

Water and Wastewater Fund. Water and wastewater fund assets of $19,571,140 exceeded liabilities of $3,849,306, reporting net assets of $15,721,834.

- Total net assets increased $1,204,022 during fiscal year 2006. A net gain from operations of $399,404 follows a prior year net loss from operations of $420,242. Current year water consumption was high, due to the ongoing decline in the amount of rainfall during the spring and summer in comparison with previous years.

- Net non-operating expenses were $51,014, which included investment interest, debt service interest and amortization of bond issue costs.

- Total capital contributions and transfers were $855,632. Water and wastewater impact fees totaled $392,639 and developer contributions were $442,993. A $20,000 transfer to offset increased health care cost was made from the general fund. Unrestricted net assets for the water and wastewater fund increased from $799,118 in fiscal year 2005 to $2,330,355 for fiscal year 2006.

- A five-year water and wastewater capital improvement plan and rate increase plan was adopted for fiscal years 2007-2011.

Storm Water Utility Fund. Storm water utility fund assets of $801,410 exceeded liabilities of $96,838, leaving total net assets of $704,572.

- Previously the storm water utility fund was reported as part of the water and wastewater fund. Of the ending net assets for that fund as of September 30, 2005 of $14,625,325, $107,513 was storm water utility related. Additionally, the $799,118 in unrestricted net assets included $107,513 of unrestricted funds now reported in the storm water utility fund.

- Total net assets increased $597,059 of which $294,684 is unrestricted. The storm water utility reported a net gain from operations of $160,890 in fiscal year 2006.

- Net non-operating income was $4,121. Developer contribution totaled $429,548 and the general fund transferred $2,500 to the storm water utility fund to offset increased health care costs.

Management's Discussion and Analysis

General Fund Budgetary Highlights

During the year the following changes to budgeted appropriations were submitted as budget amendments and approved by the City Council:

1. $200,000 was added to the Police Department expenditure budget for the addition of a traffic division comprised of two motorcycle officers. An offsetting amendment to general fund revenue of $200,000 was projected as a result of the addition of the traffic division. Approved October 6, 2005, ordinance number 05-10-06-23.

2. $26,800 was added to the Municipal Court expenditure budget for salary, benefits and other related costs of hiring one additional court clerk. Approved April 6, 2006, ordinance number 06-04-06-11.

3. $69,000 was added to the Corinth Economic Development Corporation expenditures and revenue to account for a transfer from the general fund to offset salary and benefit costs. The general fund budget was reduced by $77,631 in expenditures with the agreement that the CEDC would pay a portion of the salary and benefits of CEDC staff. Approved January 5, 2006, ordinance number 06-01-05-01. (Approved by the CEDC Board 12/07/2006)

Analysis of significant budget variances. The new traffic division of the police department was projected to increase municipal court revenue by $200,000; however, the additional revenue over the prior year exceeded $260,000. The final adopted budget included in revenue the amount collected for the State, which was then expensed in the municipal court division of the community services department. The City changed its accounting method for this revenue during fiscal year 2006; the portion of revenue due to the State is now recorded as a liability. Thus, both the revenue and expenditure appear considerably under budget for the fiscal year. Of the budget variances, ($174,805) in fines and forfeiture revenue and $445,520 in community services expenditures, $353,361 is represented by the portion of fines collected by the City payable to the State of Texas.

The Internal Service Fund, used to account for the City's self-insurance through fiscal year 2003-04, was closed to the general fund, which is reflected in the $224,509 positive budget variance in General Fund transfers in. Transfers of a portion of these funds were budgeted in the amount of $84,500 to the General Fund, $20,000 to the Water and Wastewater Fund and $2,500 to the Storm Water Utility Fund to partially offset the increasing cost of employee health insurance coverage.

The Recreation Fund, a minor special revenue fund, was also closed to the General Fund for reporting purposes in fiscal year 2005-06. The Recreation Fund was not self-supporting and maintained a fund balance of less than one-half of one percent of the total governmental fund balance. All salaries and benefits related to recreation programs were paid by the General Fund. Recreation revenue and expenditures are reported in community services in the government-wide and fund-level statements.

Overall, expenditures in the General Fund were less than budget by $735,309 due to offsetting departmental budgeted variances and city-wide vacancy savings. See Exhibit B-1: General Fund Budgetary Comparison Schedule for more information on budget variances.

Capital Assets and Debt Administration

Capital assets. The City of Corinth's investment in capital assets for its governmental and business type activities as of September 30, 2006, amounts to $74,578,165 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities and infrastructure. The total change in the City's investment in capital assets for the current fiscal year represents purchases, retirements and construction in progress for infrastructure as of September 30, 2006. In order to comply with the Governmental Accounting Standard Board (GASB) Statement 34, an inventory and valuation of the historical cost of Corinth streets was completed in fiscal year 2006.

TABLE III
CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-Type Activities		TOTAL	
	2006	2005*	2006	2005*	2006	2005*
Land	$ 234,267	$ 184,251	$ 300,273	$ 300,273	$ 534,540	$ 484,524
Buildings	5,175,350	5,087,037	229,633	230,818	5,404,983	5,317,855
Infrastructure	72,453,468	71,906,744	15,073,447	14,146,624	87,526,915	86,053,368
Improvements other than buildings	275,282	275,282	-	-	275,282	275,282
Office equipment	244,442	228,797	97,304	145,046	341,746	373,843
Parks equipment	491,648	380,061	-	-	491,648	380,061
Automobiles & machinery	2,044,422	1,877,831	1,051,427	1,038,851	3,095,849	2,916,682
Construction in progress	6,765,378	6,747,886	4,931,629	4,463,551	11,697,007	11,211,437
Total capital assets	$ 87,684,257	$ 86,687,889	$ 21,683,713	$ 20,325,163	$ 109,367,970	$ 107,013,052

* Fiscal year 2005 as restated, see Note I.F.

Readers desiring more detailed information on capital asset activity should see note III.E. in the Notes to Basic Financial Statements on page 49.

Long-term debt. At the end of the current fiscal year, The City had total bonded debt outstanding of $16,175,000 consisting of General Obligation Bonds and Certificates of Obligation. The City issued $5,080,000 in refunding bonds during fiscal year 2006. All debt payments were made when due. Outstanding debt decreased in fiscal year 2006 by $1,675,000. (see Note III.E.)

TABLE IV
OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		TOTAL	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	$ 13,257,400	$ 13,121,000	$ 2,782,600	$ 2,889,000	$ 16,040,000	$ 16,010,000
Certificates of Obligation and Tax Notes	135,000	1,640,000	-	200,000	135,000	1,840,000
Total outstanding debt	$ 13,392,400	$ 14,761,000	$ 2,782,600	$ 3,089,000	$ 16,175,000	$ 17,850,000

The City of Corinth's rating on its outstanding debt is "A+" from Standard & Poor's and "A2" from Moody's. The City received a rating increase from Standard & Poor's from "A" to "A+" in January, 2007. Additional information on the City's long-term debt can be found in this report in the notes to the financial statements. (see Note III.E.)

Economic Factors and Next Year's Budgets and Rates

The City of Corinth saw significant growth in franchise tax collections in fiscal year 2006. Additionally, in spite of the slowdown in the housing market, Corinth continued to experience some growth in the property tax base. Net taxable values grew $28.8 million or 2.40 percent.

The City's population growth has been slow but steady for the past few years; estimates increased from 17,600 in 2004 to 17,800 in 2005 and 18,550 in 2006. Denton County's unemployment rate at September 30, 2006 was 3.8 percent, down from 4.1 percent in September, 2005.

All of these factors were considered in preparing The City's budget for the 2007 fiscal year. The operating budget for the 2007 fiscal year that was developed by City management and approved by the City's elected officials focused on preparing a baseline budget maintaining the current service level. Expenditures in fiscal year 2007 are anticipated to be higher due to high fuel and health care costs and the increase in cost of many basic materials, including concrete. The City of Corinth adopted a balanced budget for fiscal year 2007.

The 2005-06 adopted budget authorized the use of current year's revenues as well as available fund balance to fund 2005-06 expenditures. Actual numbers for 2005-06 show just the opposite; an increase to fund balance in the general fund of $1,585,890 was achieved with higher than expected revenues and a favorable expenditure variance (actual expenditures less than budgeted). The favorable variance is due primarily to employee vacancy savings and revised cost estimates resulting in overall cost savings.

Management's Discussion and Analysis

The City Council approved maintaining the overall ad valorem rate of $.55698 for fiscal year 2007. General operations and maintenance will receive $.45239 of the total and the remaining $.10459 and a budgeted use of debt service fund balance will fund long-term debt of the City.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, City of Corinth, 3300 Corinth Parkway, Corinth, Texas, 76208.

Basic Financial Statements

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EXHIBIT A-1

CITY OF CORINTH, TEXAS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	$ 1,236,941	$ 557,571	$ 1,794,512	$ 124,851
Investments	6,692,370	1,794,626	8,486,996	1,098,579
Receivables (net of allowances for uncollectibles):	1,234,387	1,268,974	2,503,361	108,007
Special assessments	39,971	--	39,971	--
Due from component unit	10,306	--	10,306	--
Inventories	44,658	117,846	162,504	--
Prepaid items	2,213	--	2,213	--
Restricted Assets:				
Cash and cash equivalents	249,186	--	249,186	--
Investments	802,406	--	802,406	--
Deferred charges	61,546	17,358	78,904	--
Capital assets not being depreciated:				
Land	234,267	300,273	534,540	--
Construction in progress	6,765,378	4,931,629	11,697,007	--
Capital assets (net of accumulated depreciation):				
Buildings	4,530,792	151,519	4,682,311	--
Machinery and equipment	1,181,449	198,735	1,380,184	--
Infrastructure	45,250,104	11,034,019	56,284,123	--
Total Assets	68,335,974	20,372,550	88,708,524	1,331,437
LIABILITIES:				
Accounts payable	187,557	652,538	840,095	159,335
Accrued liabilities	242,147	39,192	281,339	3,215
Accrued interest payable	77,849	18,003	95,852	--
Municipal court bonds	52,426	--	52,426	--
Customer meter deposits	--	348,490	348,490	--
Other liabilities	111,671	14,220	125,891	111
Due to primary government	--	--	--	10,306
Noncurrent Liabilities:				
Due within one year	794,660	199,603	994,263	--
Due in more than one year	12,889,306	2,674,098	15,563,404	--
Total Liabilities	14,355,616	3,946,144	18,301,760	172,967
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	45,102,746	13,801,367	58,904,113	--
Restricted For:				
Debt Service	1,371,008	--	1,371,008	--
Capital Projects	1,672,512	--	1,672,512	--
Unrestricted	5,834,092	2,625,039	8,459,131	1,158,470
Total Net Assets	$ 53,980,358	$ 16,426,406	$ 70,406,764	$ 1,158,470

The accompanying notes are an integral part of this statement.

CITY OF CORINTH, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
Public safety	$ 2,570,307	$ 133,700	$ 174,970	$ --
Lake Cities Fire Department	1,565,570	--	8,138	--
Community services	1,649,758	853,092	100	--
Public works	4,105,885	--	--	688,101
Planning and community development	596,687	661,209	28,632	--
City Administration	594,134	7,890	--	--
Finance and administrative services	725,165	252,636	--	--
Interest on long-term debt	578,365	--	--	--
Total Governmental Activities	12,385,871	1,908,527	211,840	688,101
Business-type Activities:				
Water and Wastewater	8,384,025	8,624,995	--	835,632
Storm Water Utility	207,768	364,504	--	429,548
Total Business-type Activities	8,591,793	8,989,499	--	1,265,180
Total Primary Government	$ 20,977,664	$ 10,898,026	$ 211,840	$ 1,953,281
COMPONENT UNIT:				
4 (B) Corporation	$ 332,086	$ --	$ --	$ --

General Revenues:

Property taxes

Sales taxes

Franchise taxes

Miscellaneous income

Unrestricted investment earnings

Transfers

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit
$ (2,261,637)		$ (2,261,637)	
(1,557,432)		(1,557,432)	
(796,566)		(796,566)	
(3,417,784)		(3,417,784)	
93,154		93,154	
(586,244)		(586,244)	
(472,529)		(472,529)	
(578,365)		(578,365)	
(9,577,403)		(9,577,403)	
--	$ 1,076,602	1,076,602	
--	586,284	586,284	
--	1,662,886	1,662,886	
(9,577,403)	1,662,886	(7,914,517)	
			$ (332,086)
6,894,264	--	6,894,264	--
1,441,016	--	1,441,016	496,998
1,289,688	--	1,289,688	--
37,082	19,983	57,065	--
427,975	95,712	523,687	48,266
(22,500)	22,500	--	--
10,067,525	138,195	10,205,720	545,264
490,122	1,801,081	2,291,203	213,178
53,490,236	14,625,325	68,115,561	945,292
$ 53,980,358	$ 16,426,406	$ 70,406,764	$ 1,158,470

CITY OF CORINTH, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	General Fund	Debt Service Fund
ASSETS		
Cash and cash equivalents	$ 632,954	$ 310,063
Investments	4,799,757	946,153
Receivables (net of allowances for uncollectibles):		
Property taxes	64,135	22,370
Sales taxes	216,017	--
Accounts	100,093	--
Interest	15,431	--
Warrants	226,510	--
Other	277,975	--
Due from other governments	203,564	--
Special assessments	--	--
Due from other funds	20,000	--
Due from component unit	10,306	--
Inventories	44,658	--
Prepaid items	2,213	--
Restricted Assets:		
Cash and cash equivalents	--	--
Investments	--	--
Total Assets	$ 6,613,613	$ 1,278,586
LIABILITIES:		
Accounts payable	$ 153,645	$ --
Accrued liabilities	240,691	--
Municipal court bonds	52,426	--
Due to other funds	114,739	--
Other liabilities	111,516	--
Deferred revenue	278,246	18,629
Noncurrent Liabilities:		
Total Liabilities	951,263	18,629
Fund Balances:		
Reserved Fund Balances		
Reserved for inventories	44,658	--
Reserved for prepaid items	2,213	--
Reserved for encumbrances	41,440	--
Reserved for debt service	--	1,259,957
Unreserved, reported in:		
General Fund	5,574,039	--
Special Revenue Funds	--	--
Capital Projects Funds	--	--
Total Fund Balances	5,662,350	1,259,957
Total Liabilities and Fund Balances	$ 6,613,613	$ 1,278,586

The accompanying notes are an integral part of this statement.

Capital Projects	Other Governmental Funds	Total Governmental Funds
$ 178,600	$ 115,324	$ 1,236,941
575,108	371,352	6,692,370
--	--	86,505
--	92,383	308,400
--	15,909	116,002
--	--	15,431
--	--	226,510
--	--	277,975
--	--	203,564
--	39,972	39,972
--	117,279	137,279
--	--	10,306
--	--	44,658
--	--	2,213
191,523	57,663	249,186
616,725	185,681	802,406
$ 1,561,956	$ 995,563	$ 10,449,718
$ 4,183	$ 29,729	$ 187,557
--	1,456	242,147
--	--	52,426
--	22,540	137,279
--	155	111,671
--	34,318	331,193
4,183	88,198	1,062,273
--	--	44,658
--	--	2,213
--	--	41,440
--	--	1,259,957
--	--	5,574,039
--	792,626	792,626
1,557,773	114,739	1,672,512
1,557,773	907,365	9,387,445
$ 1,561,956	$ 995,563	$ 10,449,718

CITY OF CORINTH, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total fund balances - governmental funds balance sheet	$	9,387,445
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		57,961,989
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		70,365
Payables for bond principal which are not due in the current period are not reported in the funds.		(13,302,199)
Payables for capital leases which are not due in the current period are not reported in the funds.		(87,646)
Payables for bond interest which are not due in the current period are not reported in the funds.		(77,848)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(294,121)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.		61,546
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.		226,510
Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.		34,318
Net assets of governmental activities - statement of net assets	$	53,980,358

The accompanying notes are an integral part of this statement.

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CITY OF CORINTH, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Debt Service Fund
Revenue:		
Taxes:		
Property	$ 5,343,072	$ 1,544,530
Franchise	1,289,688	--
Sales	999,133	--
Fees and permits	661,652	--
Fines and forfeitures	657,395	--
Charges for services	468,651	--
Interest income	379,142	--
Park donations	1,500	--
Roadway impact fees	--	--
Intergovernmental	58,138	--
Miscellaneous income	70,046	--
Child safety fines	--	--
Municipal court security	--	--
Municipal court technology	--	--
Total revenues	9,928,417	1,544,530
Expenditures:		
Current:		
Public safety	2,427,549	--
Lake Cities Fire Department	1,565,570	--
Community services	1,528,774	--
Public works	1,289,676	--
Planning and community development	584,199	--
City Administration	471,180	--
Finance and administrative services	669,849	--
Debt Service:		
Principal	--	1,437,500
Interest	--	580,911
Paying agent fees	--	6,478
Bond issuance costs	--	65,363
Total Expenditures	8,536,797	2,090,252
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,391,620	(545,722)
Other Financing Sources (Uses):		
Transfers in	309,009	20,880
Transfers out	(114,739)	--
Refunding debt issued	--	3,962,400
Premiums on debt issued	--	65,061
Discount on debt issued	--	(28,789)
Payment to Refunded Bond Escrow Agent	--	(4,025,732)
Total Other Financing Sources (Uses)	194,270	(6,180)
Net Change in Fund Balances	1,585,890	(551,902)
Fund Balances - Beginning	4,076,460	1,811,859
Fund Balances - Ending	$ 5,662,350	$ 1,259,957

The accompanying notes are an integral part of this statement.

Capital Projects	Other Governmental Funds	Total Governmental Funds
$ --	$ --	$ 6,887,602
--	--	1,289,688
--	441,883	1,441,016
--	--	661,652
--	--	657,395
--	--	468,651
36,239	12,594	427,975
--	119,070	120,570
--	160,578	160,578
--	6,000	64,138
--	21,225	91,271
--	20,458	20,458
--	17,319	17,319
--	22,957	22,957
36,239	822,084	12,331,270
--	104,728	2,532,277
--	--	1,565,570
--	193,383	1,722,157
245,412	143,737	1,678,825
--	--	584,199
--	--	471,180
--	--	669,849
--	--	1,437,500
--	--	580,911
--	--	6,478
--	--	65,363
245,412	441,848	11,314,309
(209,173)	380,236	1,016,961
--	114,739	444,628
--	(20,880)	(135,619)
--	--	3,962,400
--	--	65,061
--	--	(28,789)
--	--	(4,025,732)
--	93,859	281,949
(209,173)	474,095	1,298,910
1,766,946	433,270	8,088,535
$ 1,557,773	$ 907,365	$ 9,387,445

EXHIBIT A-6

CITY OF CORINTH, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	$ 1,298,910
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	474,650
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,033,749)
Donations of capital assets increase net assets in the SOA but not in the funds.	527,523
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	6,662
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	4,091,095
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,437,500
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	40,284
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(3,817)
(Increase) decrease in accrued interest from beginning of period to end of period	12,841
The net revenue (expense) of internal service funds is reported with governmental activities.	(331,509)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(64,633)
Certain fine revenues are deferred in the funds. This is the change in these amounts this year.	58,595
Certain assessment revenues are deferred in the funds. This is the change in these amounts this year.	(25,556)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(3,962,400)
Bond premiums are reported in the funds but not in the SOA.	(65,061)
Bond discounts are reported in the funds but not in the SOA.	28,787
Change in net assets of governmental activities - statement of activities	$ 490,122

The accompanying notes are an integral part of this statement.

CITY OF CORINTH, TEXAS

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Enterprise Fund	Nonmajor Enterprise Fund	
	Water and Wastewater	Storm Water Utility	Total Enterprise Funds
ASSETS:			
Current Assets:			
Cash and cash equivalents	$ 492,436	$ 65,135	$ 557,571
Investments	1,584,886	209,740	1,794,626
Receivables (net of allowances for uncollectibles):			
Accounts	1,239,973	29,001	1,268,974
Inventories	117,846	--	117,846
Total Current Assets	3,435,141	303,876	3,739,017
Noncurrent Assets:			
Deferred charges	17,358	--	17,358
Capital Assets:			
Land	300,273	--	300,273
Construction in Progress	4,931,629	--	4,931,629
Buildings	229,633	--	229,633
Machinery and Equipment	1,041,385	107,346	1,148,731
Infrastructure	14,643,898	429,548	15,073,446
Less Accumulated Depreciation	(5,028,177)	(39,360)	(5,067,537)
Total Capital Assets (net of accumulated depreciation)	16,118,641	497,534	16,616,175
Total Noncurrent Assets	16,135,999	497,534	16,633,533
Total Assets	$ 19,571,140	$ 801,410	$ 20,372,550
LIABILITIES:			
Current Liabilities:			
Accounts payable	$ 649,732	$ 2,806	$ 652,538
Accrued liabilities	36,182	3,010	39,192
Accrued interest payable	15,948	2,055	18,003
Customer meter deposits	348,490	--	348,490
Other current liabilities	14,220	--	14,220
Current portion of capital lease obligations	--	20,548	20,548
Current portion of general obligation bonds	183,250	--	183,250
Total Current Liabilities	1,247,822	28,419	1,276,241
Noncurrent Liabilities:			
Compensated absences	57,572	1,321	58,893
Capital lease obligations	--	67,098	67,098
General obligation bonds	2,543,912	--	2,543,912
Total Noncurrent Liabilities	2,601,484	68,419	2,669,903
Total Liabilities	3,849,306	96,838	3,946,144
NET ASSETS:			
Investment in capital assets, net of related debt	13,391,479	409,888	13,801,367
Unrestricted Net Assets	2,330,355	294,684	2,625,039
Total Net Assets	$ 15,721,834	$ 704,572	$ 16,426,406

The accompanying notes are an integral part of this statement.

CITY OF CORINTH, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Fund	Nonmajor Enterprise Fund		Nonmajor Internal Service Fund
	Water and Wastewater	Storm Water Utility	Total Enterprise Funds	Internal Service
OPERATING REVENUES:				
Water sales	$ 4,562,477	$ --	$ 4,562,477	$ --
Sewer disposal	2,878,432	--	2,878,432	--
Storm drainage fees	--	364,504	364,504	--
Garbage	818,546	--	818,546	--
Penalties and reconnect fees	198,806	--	198,806	--
Tap and service fees	135,529	--	135,529	--
Inspections	31,205	--	31,205	--
Total Operating Revenues	8,624,995	364,504	8,989,499	--
OPERATING EXPENSES:				
Amortization	34,965	--	34,965	--
General government (administrative)	190,000	--	190,000	--
Infrastructure maintenance	791,876	--	791,876	--
Water purchases	2,886,306	--	2,886,306	--
Sewer treatment fees	1,245,368	--	1,245,368	--
Garbage contract fees	784,295	--	784,295	--
Salaries and benefits	1,115,717	125,235	1,240,952	--
Maintenance and supplies	225,381	30,740	256,121	--
Administration	491,828	19,211	511,039	--
Depreciation	448,978	21,469	470,447	--
Other	10,877	6,959	17,836	--
Total Operating Expenses	8,225,591	203,614	8,429,205	--
Operating Income	399,404	160,890	560,294	--
NON-OPERATING REVENUES (EXPENSES):				
Interest income	87,437	8,275	95,712	--
Miscellaneous income	19,983	--	19,983	--
Interest expense	(158,434)	(4,154)	(162,588)	--
Total Non-operating Revenues (Expenses)	(51,014)	4,121	(46,893)	--
Income Before Contributions and Transfers	348,390	165,011	513,401	--
Contributions and Transfers				
Special assessment - water and sewer impact fees	392,639	--	392,639	--
Contributions	442,993	429,548	872,541	--
Transfers in	20,000	2,500	22,500	--
Transfers out	--	--	--	(331,509)
Total Contributions and Transfers	855,632	432,048	1,287,680	(331,509)
Change in Net Assets	1,204,022	597,059	1,801,081	(331,509)
Total Net Assets - Beginning	14,517,812	107,513	14,625,325	331,509
Total Net Assets - Ending	$ 15,721,834	$ 704,572	$ 16,426,406	$ --

The accompanying notes are an integral part of this statement.

CITY OF CORINTH, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Enterprise Funds			
	Water and Sewer Fund	Nonmajor Storm Water Utility	Totals	Service Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 8,659,236	$ 360,664	$ 9,019,900	$ --
Cash Payments to Employees for Services	(1,124,331)	(125,132)	(1,249,463)	--
Cash Payments to Other Suppliers for Goods and Services	(6,658,628)	(59,420)	(6,718,048)	--
Net Cash Provided (Used) by Operating Activities	876,277	176,112	1,052,389	--
Cash Flows from Non-capital Financing Activities:				
Transfers From (To) Other Funds	412,639	2,500	415,139	(331,509)
Net Cash Provided (Used) by Non-capital Financing Activities	412,639	2,500	415,139	(331,509)
Cash Flows from Capital and Related Financing Activities:				
Principal and Interest Paid	(504,456)	(24,316)	(528,772)	--
Acquisition or Construction of Capital Assets	(573,724)	--	(573,724)	--
Net Cash Provided (Used) for Capital & Related Financing Activities	(1,078,180)	(24,316)	(1,102,496)	--
Cash Flows from Investing Activities:				
Interest and Dividends on Investments	87,436	8,275	95,711	--
Net Cash Provided (Used) for Investing Activities	87,436	8,275	95,711	--
Net Increase (Decrease) in Cash and Cash Equivalents	298,172	162,571	460,743	(331,509)
Cash and Cash Equivalents at Beginning of Year	1,779,150	112,304	1,891,454	331,509
Cash and Cash Equivalents at End of Year	$ 2,077,322	$ 274,875	$ 2,352,197	$ --
Summary of Cash and Cash Equivalents				
Cash	$ 492,436	$ 65,135	$ 557,571	$ --
Investments	1,584,886	209,740	1,794,626	--
	$ 2,077,322	$ 274,875	$ 2,352,197	$ --
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	$ 399,404	$ 160,890	$ 560,294	$ --
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	448,978	21,469	470,447	--
Miscellaneous Income	19,983	--	19,983	--
Change in Assets and Liabilities:				
Decrease (Increase) in Receivables	(77,191)	(3,840)	(81,031)	--
Decrease (Increase) in Inventories	2,393	--	2,393	--
Increase (Decrease) in Accounts Payable	98,887	(2,510)	96,377	--
Increase (Decrease) in Accrued Expenses	(24,644)	--	(24,644)	--
Increase (Decrease) in Accrued Wages Payable	(6,120)	(177)	(6,297)	--
Increase (Decrease) in Customer Deposits	17,080	--	17,080	--
Increase (Decrease) in Compensated Absences	(2,493)	280	(2,213)	--
Total Adjustments	476,873	15,222	492,095	--
Net Cash Provided (Used) by Operating Activities	$ 876,277	$ 176,112	$ 1,052,389	$ --
Noncash Investing, Capital, and Financing Activities:				
Developer contributions of infrastructure	$ 442,995	$ 527,523	$ 970,518	$ --

The accompanying notes are an integral part of this statement.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Corinth (the "City") are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board. A summary of the City's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Blended component unit. The City of Corinth's *"Corinth Crime Control and Prevention District"* (CCD), a special purpose district, was organized under Chapter 363, Texas Local Government Code. A special election was held on September 11, 2004 for the creation of the CCD and to levy a one-quarter (¼) of one percent sales and use tax for the support of crime reduction programs authorized by the City.

The CCD is governed by a board of directors that are appointed and serve at the discretion of the City Council. The CCD is reported as a governmental entity and its accounts are maintained on the modified accrual basis of accounting.

Discretely presented component unit. The City of Corinth's *"Corinth Economic Development Corporation"* (CEDC), a non-profit corporation, was organized under the Development Corporation Act of 1979, Article 5190.6 V.A.T.C.S. Section 4B for the purpose of promoting economic development. State statutes define projects that the corporation may fund. Some examples of permitted projects are in Note IV.D. Other Information- Component Unit Information.

The CEDC is governed by a board of directors that are appointed by and serve at the discretion of the City Council. The CEDC is reported as a governmental entity and its accounts are maintained on the modified accrual basis of accounting.

The CEDC and the CCD do not issue separate financial statements.

B. Implementation of new accounting principles

In fiscal year 2003, the City implemented GASB Statement No. 34, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments," as a part of this statement, there is a reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.) with required implementation for fiscal years ending after June 15, 2007. The City has made an inventory and performed a valuation of historic infrastructure for fiscal year 2006, restating net assets for fiscal year 2005 to reflect the infrastructure valuation. See Note I.F. for detailed information on the restatement of prior year.

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 direct expenses of a given function or segment is 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 or other items not properly included among program revenues are reported as general revenues.

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

D. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of 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 of the eligibility requirements imposed by the provider have been met.

Governmental 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 City considers revenues to be available if they are collected within 60 days of the current fiscal period. 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 and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales tax, municipal court fines, 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 cash is received by the City. The City reports the following major governmental funds:

General Fund - The General Fund is used to account for the resources used to finance the fundamental operations of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the payment of principal and interest on general long-term bonded debt of the City. Payments of principal and interest on equipment, financing used in general activities of the City and other financing are serviced by the General Fund.

Capital Projects Fund – The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City reports the following major proprietary fund:

Water and Wastewater Fund — The Water and Wastewater Fund provides water and wastewater services to the residents and businesses of Corinth. The activities supporting the delivery of services are accounted for in this fund, including operations and maintenance, administration, billing, financing and debt service. The Water and Wastewater Fund is financed and operated in a manner similar to private business enterprises, where the determination of net income is necessary or useful to sound financial administration.

Additionally, the City reports the following fund types:

Five nonmajor special revenue funds; special revenue funds account for specific revenue sources that are legally restricted to expenditures for specialized purposes.

- The PID #1 fund is used to account for collections and expenditure of Public Improvement District assessment funds.
- The Street Maintenance Sales Tax fund accounts for the receipt of a $.0025 special purpose sales tax and related expenditures.
- The Roadway Impact Fees fund is used to account for the receipt and expenditure of roadway impact fees as required by the state of Texas Local Government Code Section 395.
- The Crime Control and Prevention District fund is the *blended component unit* described above. All revenues and expenditures related to the $.0025 sales tax are recorded in this fund.
- The Special Revenue fund accounts for revenues that are designated for a particular purpose, i.e., park donations, Keep Corinth Beautiful donations and other designated revenues and related expenditures.

One nonmajor capital projects fund; capital project funds are used to account for acquisition and construction of major capital facilities (other than those accounted for within the City's proprietary funds). Capital projects are funded primarily though certificates of obligation.

- The 2007 Streets CIP fund is used to account for funds and expenditures related to the 2007 streets capital improvement program.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). 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 City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule include charges between the government's water and wastewater function and various 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 and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, liabilities, and net assets or equity

Cash and Investments

For purposes of the statement of cash flows, cash includes amounts in demand deposits, restricted cash and investments, as well as short-term investments with maturity dates within three months of the date acquired by the City. All City funds participate in a pooling of cash to maximize interest earnings.

Receivables and payables

Activities between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Balances between the City and its discrete component unit are referred to as "due from discrete component unit" and "due to primary government." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts for utility billing is estimated on a percentage of aged accounts receivable.

Ad valorem (property) taxes are levied based on the January 1 property values as assessed by the Denton Central Appraisal District. Property taxes are recognized as revenue 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. Current taxes are due on October 1, and become delinquent if unpaid on February 1.

Inventories and prepaid items

All inventories are valued at cost using the first-in first-out (FIFO) method. Inventories consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets

Certain proceeds of the City's general obligation (GO), certificates of obligation (CO) and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the City, as well as the component unit, are depreciated using the straight-line method over the following useful lives:

Building and building improvements	20-50 years
Water and Wastewater system infrastructure	30 years
Storm drainage system infrastructure	30 years
Public domain infrastructure	50 years
Vehicles and equipment	5-10 years
Office equipment	5-10 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time and sick pay benefits. Eligible employees are reimbursed upon separation from service for accumulated vacation, accumulated sick pay and only non-exempt employees are reimbursed for compensatory time. The liabilities for these amounts are accrued as they are incurred in the government-wide and proprietary fund financial statements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Prior year restatements and reclassifications

The City made several restatements and reclassifications of the prior year. The following is a summary description of the changes, by activity and fund type.

	As Reported 9/30/05 Dr(Cr)	Restatement Dr(Cr)	After Restatement 9/30/05 Dr(Cr)
Government-wide Governmental Type Activities			
Current and other assets	9,306,666	(44,080)	9,262,586
Capital assets	14,039,825	45,959,545	59,999,370
Long-term liabilities	(13,492,987)	(109,963)	(13,602,950)
Other liabilities	(2,545,959)	377,089	(2,168,870)
Expenses	9,070,766	2,271,732	11,342,498
Program revenue	(2,156,071)	217,663	(1,938,408)
General revenue	(8,057,516)	(20,128)	(8,077,644)
Net assets (post closing effect)	(7,307,545)	(46,182,691)	(53,490,236)
Business-type Activities			
Storm Water Utility Fund			
Capital assets	-	89,455	89,455
Long-term liabilities	-	(89,248)	(89,248)
Expenses	126,983	(207)	126,776
Net assets (post closing effect)	(107,513)	(207)	(107,720)
Governmental Funds			
General Fund			
Assets	4,802,836	5,816	4,808,652
Liabilities	(729,774)	19,448	(710,326)
Revenue	(8,493,774)	81,880	(8,411,894)
Expenditures	7,375,309	2,153	7,377,462
Other sources (uses)	12,420	(107,346)	(94,926)
Fund balance (net of closing effect)	(4,073,062)	(3,398)	(4,076,460)
Special Revenue Funds			
Recreation Fund			
Assets	39,026	(39,026)	-
Liabilities	(5,206)	5,206	-
Revenue	(130,454)	130,454	-
Expenditures	129,007	(129,007)	-
Fund balance (post closing effect)	(33,820)	33,820	-
Special Revenue Fund			
Expenditures	36,175	21,569	57,744
Fund balance (net of closing effect)	(269,360)	21,569	(247,791)
Debt Service Fund			
Liabilities	(30,770)	10,699	(20,071)
Expenditures	2,147,445	(2,886)	2,144,559
Fund balance (net of closing effect)	(1,801,160)	(10,699)	(1,811,859)
Internal Service Fund			
Expenditures	253,746	(183,959)	69,787
Net assets (post closing effect)	(147,550)	(183,959)	(331,509)

Prior Period Adjustments

1) Change fund classification for the Recreation and Crime Control and Prevention District funds as noted below in "reclassifications."

2) Record street infrastructure.

3) Recognize current revenue effect of taxes and fines collected in subsequent year.

4) Record capital lease activity.

5) Release certain assets to expense/expenditures.

Reclassifications

1) The Recreation special revenue fund was reclassified to the General Fund.

2) The Crime Control and Prevention District fund was reclassified from a discrete component unit to a special revenue fund

3) The function/program groupings for the General Fund were reclassified for consistency with the legal level of budgetary control.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets for the following funds are adopted on a basis consistent with generally accepted accounting principles (GAAP): the General fund, the Debt Service fund, the Street Maintenance Sales Tax fund, the Public Improvement District (PID) #1 fund and the Corinth Crime Control and Prevention District fund. The budgets for the Water and Wastewater fund and the Storm Water Utility fund are adopted on a budgetary basis different from GAAP, debt service principal payments and fixed asset purchases are budgeted as expenses and depreciation expense is not budgeted. The Special Revenue fund and the Capital Projects fund are not included in the annual budget process; special and capital projects are addressed on an individual basis by management and the Council. All annual appropriations lapse at fiscal year-end unless encumbered.

The appropriated budget is prepared by fund, functional department and division. Transfers of appropriations between divisions within a department may be initiated by staff and approved by the director. Transfers between functional departments require the approval of the director, budget manager, and finance director. Transfers between funds may require council approval. All transfers of appropriations require the approval of the city manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. The City Council is required to approve all budget amendments that alter department or operating appropriations.

Encumbrance accounting is employed by governmental funds. Encumbrances (i.e., contracts, purchase orders) outstanding at year end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

The cash and investment policy of the City is governed by State statutes and the adopted City Investment Policy. City policy governing bank deposits require depositors to be FDIC-insured institutions; depositories must fully collateralize all time deposits in excess of FDIC insurance limits.

Deposits - At September 30, 2006, the City's carrying amount of demand deposits was $2,168,549 while the bank balance was $2,908,270.

Investments - State statutes authorize the City to invest in obligations of the U. S. Treasury, agencies and instrumentalities, in obligations of the State of Texas and other political subdivisions of any state rated "A" or above by Standard & Poor's or Moody's Investors Service, and repurchase agreements. Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value which is based on quoted market prices. The City did not engage in repurchase nor reverse repurchase agreement transactions during the year. At year end, the City's investments were as follows:

Investments	**9/30/2006 Reported amount, fair/market value**	
Public funds investment pools		
TexPool, pooled City funds	2,782,796	
TexPool, CEDC component unit	1,098,579	
TexSTAR	3,738,433	
Subtotal	7,619,808	
Securities		**Days to maturity**
Federal agency coupon	1,277,900	347
Federal agency disc.	490,273	139
Federal agency coupon-callable	1,000,000	638
Subtotal	2,768,173	
Total investments	10,387,981	

Interest rate risk. In accordance with its investment policy, the City manages its exposure to decline in fair value of securities by limiting the City to securities with maturities not to exceed 24 months from date of purchase. The City also manages the weighted average days to maturity for the operating funds portfolio to less than 270 days, the reserve funds to less than 365 days and the special project and capital project to less than 270 days.

The CEDC component unit limits weighted average days to maturity for the operating funds portfolio to less than 270 days, the reserve and bond funds to less than 365 days.

The City and its component unit invest in the public funds investment pools listed above, which have specified maximum weighted average maturities for their investment portfolios. The maximum weighted average maturity (WAM) of TexPool investment portfolios cannot exceed 60 days. TexSTAR also maintains a portfolio maximum WAM of 60 days calculated according to SEC rule 2a-7.

Credit risk. The City's investment policy limits investments to obligations of the United States of America and its agencies, investment quality obligations of the states with a rating of not less than AA, fully insured certificates of deposit. The City's investments in the bonds of the US agencies was rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service.

The Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Inter-local Cooperation Act of the State of Texas. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard & Poor's and Aaa by Moody's. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's, as well as the Office of the State Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The Texas Short Term Asset Reserve Program (TexSTAR) has 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. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities to invest their public funds through the investment pools. TexSTAR is administered by JP Morgan Chase and First Southwest Asset Management, Inc., and is rated AAAm by Standard and Poor's.

Concentration of credit risk. The City's investment policy requires diversification of investments according to the following guidelines:

Investment	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	50%
Local Government Obligations	10%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	50%

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. The City of Corinth and the Corinth Economic Development Corporation have investment policies that specify collateralization agreements with the depository bank to protect the government from this risk. All deposits are collateralized by letters of credit from the Federal Home Loan Bank of Dallas, a third party custodian; securing deposits for the City up to $10 million and for the CEDC up to $500,000.

Custodial credit risk – investments. For an investment, this is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states that investments of City funds shall be secured by pledged collateral with a market value equal to or exceeding 102% of the principal plus accrued interest of deposits at financial institutions.

B. Receivables, Interfund Receivables and Transfers

Receivables as of the year ended September 30, 2006 for the government's individual major funds and non-major internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables	General Fund	Debt Service Fund	Other Governmental Funds	Water & Wastewater Fund	Nonmajor Enterprise Funds	Total
Taxes	$ 280,152	$ 22,370	$ 92,383	$ -	$ -	$ 394,905
Accounts	100,093	-	15,909	1,317,982	29,001	1,462,985
Interest	15,431	-	-	-	-	15,431
Warrants	1,339,230	-	-	-	-	1,339,230
Other	277,974	-	-	-	-	277,974
Special Assessments	-	-	39,972	-	-	39,972
Gross Receivables	2,012,880	22,370	148,264	1,317,982	29,001	3,530,497
LESS: Allowance for uncollectibles	(1,112,720)	-	-	(78,009)	-	(1,190,729)
Net total receivables	$ 900,160	$ 22,370	$ 148,264	$ 1,239,973	$ 29,001	$ 2,339,768

The only receivable not anticipated to be collected in full within one year is the PID #1 special assessment receivable, reported in other governmental funds. PID collections are made monthly, quarterly, semi-annually and annually, depending on the original agreement with the homeowner in the PID. Approximately $25,000 of the receivable will carry over into subsequent fiscal years.

The composition of interfund balances as of September 30, 2006, is as follows:

	Due from other funds	Due to other funds
General Fund	$ 20,000	$ 114,739
Nonmajor governmental funds	117,279	22,540
	$ 137,279	$ 137,279

	Due from component unit	Due to primary government
General Fund	$ 10,306	$ -
Discrete Component Unit	-	10,306
	$ 10,306	$ 10,306

The interfund balances above represent unsettled overdrafts of pooled cash which will be removed by rebalancing the funds' share of pooled cash and investments.

Interfund transfers:

	Transfers to other funds	Transfers from other funds
General Fund	$ 114,739	$ 309,009
Debt Service Fund	-	20,880
Nonmajor governmental funds	-	114,739
Water and Wastewater Fund	352,389	20,000
Nonmajor business-type funds	-	2,500
	$ 467,128	$ 467,128

Interfund transfers are used to pay an allocation of general and administrative services, provide funds for debt service, contribute toward the cost of capital projects and for other operational purposes.

C. Capital assets

Capital asset additions, disposals, and depreciation for governmental activities and business-type activities for the year ended September 30, 2006 was as follows:

	Governmental activities:				Business-type activities:			
	Beginning Balance*	Increases	Decreases	Ending Balance	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:								
Land	$ 184,251	$ 50,016	$ -	$ 234,267	$ 300,273	$ -	$ -	$ 300,273
Construction in progress	6,747,886	17,492	-	6,765,378	4,463,551	468,078	-	4,931,629
Totals, capital assets not being depreciated	6,932,137	67,508	-	6,999,645	4,763,824	468,078	-	5,231,902
Capital assets, being depreciated:								
Buildings	5,087,037	88,313	-	5,175,350	230,818	-	(1,185)	229,633
Machinery and equipment	2,761,971	293,823	-	3,055,794	1,183,897	49,566	(84,732)	1,148,731
Infrastructure	71,906,744	546,724	-	72,453,468	14,146,624	928,623	(1,800)	15,073,447
Totals, capital assets being depreciated	79,755,752	928,860	-	80,684,612	15,561,339	978,189	(87,717)	16,451,811
Less: accumulated depreciation for:								
Buildings	(507,399)	(137,159)	-	(644,558)	(71,930)	(7,369)	1,185	(78,114)
Machinery and equipment	(1,350,536)	(344,904)	-	(1,695,440)	(955,520)	(79,207)	84,732	(949,995)
Infrastructure	(24,830,584)	(2,551,686)	-	(27,382,270)	(3,657,358)	(383,871)	1,800	(4,039,429)
Total accumulated depreciation	(26,688,519)	(3,033,749)	-	(29,722,268)	(4,684,808)	(470,447)	87,717	(5,067,538)
Total capital assets, being depreciated, net	53,067,233	(2,104,889)	-	50,962,344	10,876,531	507,742	-	11,384,273
City capital assets, net	$ 59,999,370	$ (2,037,381)	$ -	$ 57,961,989	$ 15,640,355	$ 975,820	$ -	$ 16,616,175

*As restated, see Note I.F.

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

Governmental activities:

Public safety	$	92,776
Community services		116,144
Planning & community development		7,135
Public works		2,644,959
Finance and administrative services		41,234
City administration		131,501
Total depreciation expense - governmental activities	$	3,033,749

Business-type activities:

Water	$	296,292
Wastewater		152,686
Storm water utility		21,469
Total depreciation expense - business-type activities	$	470,447

D. Non-capital leases

The City entered into a 60-month lease with Xerox for copy machines on May 26, 2006. The lease will account for on-going operating expenditures of $13,778 in the general fund and $12,931 in the water and wastewater fund annually.

E. Long-term debt

Long-term debt of the City governmental activities consists of three general obligation, one certificate of obligation bond series, two refunding bond series, a shared capital lease obligation and accrued compensated absences. General obligation bond retirement is provided from ad valorem tax. The certificates of obligation will be retired through the levy of a special assessment. Interest rates on general long-term debt range from 2.6% to 6.7%.

Long-term debt of the City business-type activities consists of portions of two general obligation refunding bond series and accrued compensated absences, with interest rates ranging from 4.0% to 5.15%. Business-type activities long-term debt is serviced by revenue from the water and wastewater system.

The following is a summary of long-term debt as of September 30, 2006:

Governmental activities:	Beginning Balance	Increases	Decreases	2005 Refunding Bonds	Ending Balance	Due within one year
General obligation bonds	$ 13,221,000	$ 3,962,400	$ (757,500)	$ (3,168,500)	$ 13,257,400	$ 726,750
Certificates of obligation and tax notes	1,640,000	-	(780,000)	(725,000)	135,000	55,000
Capital lease obligations	107,346	-	(19,701)	-	87,645	20,548
Bond premium/discounts	-	-	(2,591)	36,273	33,682	2,591
Deferred amount from refunding	-	-	8,350	(132,232)	(123,882)	(10,229)
Compensated absences	229,486	101,948	(37,313)	-	294,121	-
Total governmental activities:	$ 15,197,832	$ 4,064,348	$ (1,588,755)	$ (3,989,459)	$ 13,683,966	$ 794,660
Business-type activities:						
General obligation bonds	$ 2,889,000	$ 1,117,600	$ (157,500)	$ (1,066,500)	$ 2,782,600	$ 183,250
Certificates of obligation and tax notes	200,000	-	(200,000)	-	-	-
Capital lease obligations	107,346	-	(19,701)	-	87,645	20,548
Bond premium/discounts	-	-	(731)	10,231	9,500	731
Deferred amount from refunding	(19,305)	-	23,330	(68,963)	(64,938)	(4,926)
Compensated absences	61,106	6,511	(8,723)	-	58,894	-
Total business-type activities:	$ 3,238,147	$ 1,124,111	$ (363,325)	$ (1,125,232)	$ 2,873,701	$ 199,603

Compensated absences are paid from the fund out of which an employee is regularly paid. Compensated absences in governmental activities are paid from the governmental funds; compensated absences in business-type activities are paid from the enterprise funds.

Long-term debt of the City is comprised of the following individual issues:

	Governmental Activities	Business-type Activities
	Amount Outstanding	Amount Outstanding
General Obligation Bonds:		
$8,245,000, General Obligation Refunding and Improvement Bonds, Series 1997, serial bonds due in annual installments of $100,000 to $500,000 through September 30, 2019; interest at 4.00% to 5.15%.	$ 2,035,000	$ 1,665,000
$7,000,000, General Obligation Bonds, Series 1999 serial bonds due in annual installments of $100,000 to $500,000 through September 30, 2019; interest at 3.50% to 4.80%.	5,330,000	-
$2,500,000 General Obligation Bonds, Series 2000 serial bonds due in annual installments of $75,000 to $205,000 through February 15, 2020; interest at 5.20% to 6.70%.	210,000	-
$2,000,000, General Obligation Bonds, Series 2001 serial bonds due in annual installments of $65,000 to $160,000 through September 30, 2021; interest at 5.00% to 6.25%.	1,720,000	-
$5,080,000, General Obligation Refunding Bonds, Series 2005, serial bonds due in annual installments of $25,000 to $580,000 through February 15, 2020; interest at 4.00% to 4.25%.	3,962,400	1,117,600
Total General Obligation Bonds	13,257,400	2,782,600
Certificates of Obligation:		
$4,660,000 Combination Tax and Revenue Cerificates of Obligation, Series 1994, serial obligations due in annual installments of $45,000 to $385,000 through February, 2006; interest at 6.25% to 7.00%.	-	-
$430,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, serial obligations due in annual installments of $15,000 to $35,000 through February, 2016; interest at 5.75% to 6.80%.	20,000	-
$800,000 Combination Tax and Revenue Certificates of Obligation, Series 1998, serial obligations due in annual installments if $20,000 to $65,000 through February, 2018; interest at 5.00% to 7.75%.	115,000	-
Total Certificates of Obligation	135,000	-
Capital Lease Obligations:		
$214,691 capital lease secured by equipment with a carrying value of $178,909; annual installments of $48,632 through March 15, 2010; interest at 4.30%. The lease is paid one-half by the public works department of the general government and one-half by the storm water utility fund.	87,645	87,645
Grand Total Outstanding Debt	$ 13,480,045	$ 2,870,245

The annual debt service requirements to maturity for the general obligation bonds, certificates of obligation and tax notes are as follows:

General Obligation Bonds:

	Governmental Activities		*Business-type Activities*	
Year Ended September 30	Principal	Interest	Principal	Interest
2007	$ 761,750	$ 580,227	$ 183,250	$ 123,339
2008	831,150	542,890	198,850	114,466
2009	836,850	506,813	233,150	93,185
2010	855,200	470,826	249,800	78,088
2011	948,750	431,863	201,250	82,819
2012-2021	9,158,700	1,784,529	1,716,300	327,992
Total	$ 13,392,400	$ 4,317,148	$ 2,782,600	$ 819,889

The annual capital lease obligation to maturity is as follows:

Capital Leases:

	Governmental Activities	*Business-type Activities*
Year Ended September 30	Minimum annual payment	Minimum annual payment
2007	24,317	24,317
2008	24,316	24,316
2009	24,317	24,317
2010	23,715	23,715
Total minimum payments	96,665	96,665
Imputed interest	(9,020)	(9,020)
Principal	87,645	87,645

Defeased debt:

On December 1, 2005, the City issued $5.08 million in General Obligation Refunding Bonds with an average interest rate of 4.058 percent to currently refund $260,000 of outstanding 1995 Series bonds with an average interest rate of 5.6 percent, advance refund $2,370,000 of outstanding 1997 Series bonds with an average interest rate of 5.10 percent, advance refund $465,000 of outstanding 1998 Series bonds with an average interest rate of 5.10 percent, and advance refund $1,865,000 of outstanding 2000 Series bonds with an average interest rate of 5.5 percent. The net proceeds of $5.161 million (after payment of approximately $133,650 in underwriting fees, insurance, and other issuance costs) plus an additional $131,000 of transferred sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on portions of the 1995, 1997, 1998, and 2000 Series bonds. As a result, portions of the 1995, 1997, 1998, and 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide long-term debt and the City's balance sheet. The City in effect reduced its aggregate debt service payments by about $386,000 over the next 14 years, which equates to an economic cash flow gain of approximately $281,000 on a net present value basis.

Deferred bond issuance costs:

	Governmental activities	Business-type activities
Bond issuance costs incurred in fiscal year 2006 in connection with the business-type portion of the $5,080,000 general obligation issue	$ 65,363	$ 18,435
Less: amortization through September 30, 2006	(3,817)	(1,077)
Deferred bond issuance costs, net	$ 61,546	$ 17,358

IV. OTHER INFORMATION

A. Upper Trinity Regional Water District (UTRWD)

On November 13, 1990, the City entered into a 30-year contract with Upper Trinity Regional Water District (UTRWD) and other participating political members to develop a regional water system for providing retail utility service to the Denton County area.

The contract included, among other things, a commitment by the City to 2.0 million gallons of water per day demand. On February 4, 1999 the City amended the contract with Upper Trinity to increase the demand from 2.0 million gallons per day to 5.5 million gallons per day. On September 2, 1999, due to continued growth, the City entered into the third contract amendment with Upper Trinity increasing the demand to 7.5 million gallons per day. The current demand capacity of 7.5 million gallons per day provides the City with three (3) weighted votes as a member of the Upper Trinity Board. The City has one appointed member to the Upper Trinity Board of Directors and one appointed member to the Upper Trinity Customer Advisory Committee.

Under agreements with the UTRWD, all participating and contract entities share in the cost of administering the District and in the cost of planning for future programs and services of the District. The Fee of $3,682 called an "Administrative Fee," is calculated according to a formula based on population and is included in the proprietary fund financial statements.

B. Employee retirement systems and pension plans

The City 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 811 administered by TMRS, an agent multiple-employer public employee retirement system.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/16/06):*

**To ensure the most accurate future rates are determined for the City, TMRS provided plan provisions as of 4/19/06 to the actuary in calculating the 12/31/05 valuation.*

Deposit rate:	7%
Matching ratio (City to employee)	2 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60; 20 years/any age.

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 City matching percent, which are the obligation of the City 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 City 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 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect, (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	**12/31/2005**	**12/31/2004**	**12/31/2003**
Actuarial Value of Assets	6,082,374	5,200,450	4,135,143
Actuarial Accrued Liability	7,555,214	6,448,306	5,215,888
Percentage Funded	80.50%	80.65%	79.30%
Unfunded Actuarial Accrued Liability (UAAL)	1,472,840	1,247,856	1,080,745
Annual Covered Payroll	5,826,215	5,525,187	4,903,503
UAAL as a % of Covered Payroll	25.30%	22.58%	22.00%
Net Pension Obligation (NPO) at the Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost	-0-	-0-	-0-
Annual Required Contribution (ARC)	588,206	501,120	441,389
Contributions Made	588,206	501,120	441,389
Increase in NPO	-0-	-0-	-0-
NPO at the End of the Period	-0-	-0-	-0-

Actuarial Assumptions. Actuarial gains and losses are recognized immediately and decrease or increase the unfunded actuarial liability, which is being amortized over a constant 25-year amortization period as a level percent of payroll. The actuarial assumptions were developed from an actuarial investigation of the experience of TMRS over the five years 1998-2002. The following table summarizes the basic actuarial assumptions used by TMRS:

Basic Actuarial Assumptions	
Actuarial cost method	Unit credit
Amortization method	Level percent of payroll
Remaining amortization method	25 years, open period
Asset valuation method	Amortized cost (to accurately reflect the requirements of GASB statement no.25, paragraphs 36e and 138)
Investment rate of return	7.00%
Projected salary increases	none
Includes inflation at	none
Cost of living adjustments	none

A detailed explanation of the actuarial assumptions is provided in the TMRS Comprehensive Annual Financial Report available at http://www.tmrs.org/. A copy may also be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

C. Risk Management

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks that are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on other risks of loss. The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

D. Component Unit Information

Corinth Economic Development Corporation

Background

A 4B Corporation is a public instrumentality and non-profit development corporation established under Section 4B of the Development Corporation Act of 1979, Tex. Rev. Civ. Stat. Ann. Article 5190.6, as amended. The Act provides that 4B Corporations may fund a wide variety of projects including land, buildings, equipment, facilities, expenditures and improvements related to projects defined in the Act and suitable for the promotion of amateur sports, athletic, entertainment, tourist, convention, and public park purposes and events, including stadiums, ball parks, auditoriums, amphitheaters, concert halls, parks and open space improvements, museums, exhibition facilities; related store, restaurant, concession, parking and transportation facilities; related street, water and sewer facilities; and to create or retain "primary jobs," including: public safety facilities, recycling facilities, streets and roads, drainage and related improvements, demolition of existing structures; and maintenance and operating costs associated with projects.

4B corporations are required to file an annual report with the Texas Comptroller of Public accounts by February 1. The 4B tax remains in effect until the City notifies the Revenue Accounting, Tax Allocation Section of the Comptroller's Office, to stop collecting the tax. A city can, of its own action or as a result of an election, dissolve a 4B corporation. A city must continue assessing the tax until all obligations incurred by the corporation, including principal and interest on bonds, are satisfied.

On November 5, 2002, Corinth held a 4B Sales Tax Election and the citizens voted to approve the collection of an additional one-half of one percent sales tax for economic development. On June 19, 2003 the City Council approved the Articles of Incorporation officially establishing the Corinth Economic Development Corporation ("CEDC") and naming its seven-member board of directors. The Articles of Incorporation were approved by the Secretary of State at the end of June, 2003. The corporation directors then appointed officers of the corporation and adopted their bylaws in September 2003. The bylaws were forwarded to the City Council for their approval on October 23, 2003. The Comptroller's office notified area merchants to begin collecting the new tax rate on April 1, 2003 and the City began receiving revenue from the tax in June 2003. Each month, the Comptroller's office issues a payment for the total city sales tax. Upon receipt, the 4B funds are transferred into a separate, interest-bearing account at the City's depository bank.

Current Year

The Corporation's fund balance as of September 30, 2005, was $945,292. The CEDC's fund balance grew to $1,158,470 as of September 30, 2006 due to increased sales tax collections and budget savings during the year.

E. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates, assuming no material changes in facts or law.

CITY OF CORINTH, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION,
SERIES 2007, DATED AUGUST 15, 2007
IN THE AGGREGATE PRINCIPAL AMOUNT OF $23,630,000

AS BOND COUNSEL for the City of Corinth, Texas, (the "Issuer") in connection with the issuance of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by surplus net revenues of the Issuer's Waterworks and Sewer System that remain after the payment of all maintenance and operation expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the Issuer's Waterworks and Sewer System, all as defined and provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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 Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole 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 from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (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 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 Issuer as the taxpayer. We observe that the Issuer 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 Certificates as includable in gross income for federal income tax purposes.

Respectfully,

APPENDIX D

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: ________________________________
Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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Financial Advisory Services
Provided By

First Southwest Company
Investment Bankers Since 1946