

**PRIVATE PLACEMENT MEMORANDUM**

**Dated February 1, 2007**

**Ratings:**  
**Moody's: "Aaa"**  
**S&P: "AAA"**  
**See ("Other Information –  
Ratings" herein)**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Bonds 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 BONDS HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"  
FOR FINANCIAL INSTITUTIONS**

**\$5,250,000**  
**CITY OF CORINTH, TEXAS**  
**(Denton County)**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2007**

**Dated Date: February 1, 2007**

**Due: February 15, as shown on page 2**

**PAYMENT TERMS.** . . Interest on the \$5,250,000 City of Corinth, Texas, General Obligation Refunding Bonds, Series 2007 (the "Bonds") will accrue from March 6, 2007 (the "Delivery Date"), will be payable August 15 and February 15 of each year, commencing August 15, 2007, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to the registered owners of the Bonds. The initial Paying Agent/Registrar is Zions First National Bank, Houston, Texas (see "The Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Texas Government Code, Chapter 1207, as amended, and an ordinance passed by the City Council of the City, (the "Bond Ordinance"), and are direct obligations of the City of Corinth, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Bond Ordinance authorizing the Bonds (see "The Bonds - Authority for Issuance" and "The Bonds - Security for the Bonds").

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding ad valorem tax debt (collectively, the "Refunded Obligations") in order to lower the overall debt service requirements of the City, and (ii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing - Refunded Obligations" herein).

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**CUSIP PREFIX: 21885A**

**MATURITY SCHEDULE & 9 DIGIT CUSIP**

**See Schedule on Page 2**

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**LEGALITY . . .** The Bonds are offered for delivery by the City when, as and if issued and received by the Underwriter 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.

**DELIVERY . . .** It is expected that the Bonds will be available for delivery through The Depository Trust Company on March 6, 2007.

## MATURITY SCHEDULE

Amount	Maturity (Feb. 15)	Rate	Price or Yield
\$ 20,000	2008	3.780%	3.780%
20,000	2009	3.850%	3.850%
20,000	2010	3.870%	3.870%
235,000	2011	3.890%	3.890%
245,000	2012	3.950%	3.950%
255,000	2013	3.950%	3.950%
255,000	2014	4.000%	4.000%
700,000	2015	4.050%	4.050%
735,000	2016	4.010%	4.010%
890,000	2017	4.090%	4.090%
930,000	2018	4.190%	4.190%
670,000	2019	4.290%	4.290%
135,000	2020	4.390%	4.390%
140,000	2021	4.490%	4.490%

**(Accrued Interest from March 6, 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 Bonds 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 Bonds - Optional Redemption").

*This Private Placement Memorandum, 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.*

*For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an official statement of the City with respect to the Bonds that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.*

*No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Private Placement Memorandum, 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 City or the Financial Advisor. This Private Placement Memorandum 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.*

*This Private Placement Memorandum contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on continuing basis.*

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

*CUSIP NUMBERS HAVE BEEN ASSIGNED TO THIS ISSUE BY THE CUSIP SERVICE BUREAU, AND ARE INCLUDED SOLELY FOR THE CONVENIENCE OF THE OWNERS OF THE BONDS. THE CITY SHALL NOT BE RESPONSIBLE FOR THE SELECTION OR CORRECTNESS OF THE CUSIP NUMBERS SHOWN ON PAGES 1 AND 2.*

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Private Placement Memorandum.

**PRIVATE PLACEMENT MEMORANDUM SUMMARY**

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Private Placement Memorandum. No person is authorized to detach this summary from this Private Placement Memorandum or to otherwise use it without the entire Private Placement Memorandum.

- 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 City").
  
- THE BONDS** ..... The \$5,250,000 City of Corinth, Texas, General Obligation Refunding Bonds, Series 2007 are offered as serial bonds maturing on February 15 in each of the years 2008 through 2021 and in the principal amounts set forth on page 2 hereof. (see "The Bonds - Description of the Bonds").
  
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from March 6, 2007, and is payable August 15, 2007 and each February 15 and August 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "-Optional Redemption").
  
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the general laws of the State, including particularly V.T.C.A., Texas Government Code, Chapter 1207, as amended, and an ordinance passed by the City Council of the City (the "Bond Ordinance") (see "The Bonds - Authority for Issuance").
  
- SECURITY FOR THE BONDS** ..... The Bonds constitute 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 Bond Ordinance (see "The Bonds - Security for the Bonds").
  
- QUALIFIED TAX-EXEMPT BONDS**..... The City **have not** designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.
  
- REDEMPTION** ..... The City reserves the right, at its option, to redeem Bonds 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 Bonds - Optional Redemption").
  
- TAX STATUS** ..... In the opinion of Bond Counsel, interest on the Bonds 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.
  
- USE OF BOND PROCEEDS** ..... Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding ad valorem debt (collectively, the "Refunded Obligations") in order to lower the overall debt service requirements of the City, and (ii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing - Refunded Obligations" herein).
  
- RATINGS** ..... The Bonds are rated "Aaa" by Moody's Investor Service, Inc. ("Moody's") and "AAA" by Standard and Poor's Rating Service, a division of The McGraw-Hill Companies, Inc. ("S&P"). The presently outstanding tax-supported debt of the City is rated "A2" by Moody's and "A+" by S&P. The City also has various issues outstanding rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies (see "Other Information - Ratings").
  
- PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation	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%	106.02%
2004	17,592	1,135,186,242	62,547	18,415,000	1,047	1.67%	105.69%
2005	17,800	1,184,225,509	66,096	17,850,000	1,003	1.52%	102.99%
2006	18,500	1,215,046,284	64,090	16,260,000	879	1.37%	98.72%
2007	19,100	1,287,406,176	67,403	15,295,000	801	1.19%	25.33% <sup>(2)</sup>

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

(2) Collections through January 1, 2007.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

	For Fiscal Year Ended September 30,				
	2006 <sup>(1)</sup>	2005	2004	2003	2002
Beginning Balance	\$ 4,010,306 <sup>(2)</sup>	\$ 2,967,017 <sup>(2)</sup>	\$ 1,580,277	\$ 3,254,610	\$ 4,554,602
Total Revenue	9,671,418	8,493,774	10,355,034	8,525,792	7,521,250
Total Expenditures	8,561,060	7,375,309	9,028,530	9,595,403	8,481,630
Net Transfers	-	(12,420)	-	787,500	(339,612)
Net Funds Available	1,110,358	1,106,045	1,326,504	(282,111)	(1,299,992)
Ending Balance	<u>\$ 5,120,664</u>	<u>\$ 4,073,062</u>	<u>\$ 2,906,781</u>	<u>\$ 2,972,499</u>	<u>\$ 3,254,610</u>

(1) Preliminary, subject to change.

(2) Restated (see Table 12).

For additional information regarding the City, please contact:

Clovia English  
 City Manager  
 City of Corinth  
 3300 S. S. Corinth Parkway  
 Corinth, Texas 76208  
 (940) 498-3240

Or

W. Boyd London, Jr.  
 Marti Liljekvist  
 First Southwest Company  
 325 N. St. Paul St., Suite 800  
 Dallas, Texas 75201  
 (214) 953-4000

**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Vic Burgess Mayor	3 years	May 2007	Owner Burgess & Associates Real Estate
Shannon Bryan Mayor Pro Tem	1 1/2 years	May 2007	Director of Business Development Roy Bryan, CPA
Joe Harrison Councilmember	7 months	May 2008	Retired
Lynn Mayfield Councilmember	3 years	May 2007	Retired
Paul Ruggiere Councilmember	7 months	May 2008	Research Analyst University of North Texas
Ronnie Glasscock Councilmember	7 months	May 2008	Retired

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>
Clovia English	City Manager	3 months
Kim Pence	City Secretary	7 years
Don Locke	Director of Public Works	3 months
Kathy DuBose	Finance Director	1 year

**CONSULTANTS AND ADVISORS**

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

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

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

**PRIVATE PLACEMENT MEMORANDUM**  
**RELATING TO**  
**\$5,250,000**  
**CITY OF CORINTH, TEXAS**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2007**

**INTRODUCTION**

This Private Placement Memorandum, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Corinth, Texas (the "City") of \$5,250,000 General Obligation Refunding Bonds, Series 2007 (the "Bonds"). Capitalized terms used in this Private Placement Memorandum have the same meanings assigned to such terms in the Bond Ordinance to be adopted on the date of sale of the Bonds, which will authorize the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Private Placement Memorandum descriptions of the Bonds 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.

**PLAN OF FINANCING**

**PURPOSE . . .** The Bonds are being issued for the purpose of (i) refunding a portion of the City's outstanding ad valorem debt (collectively, the "Refunded Obligations") in order to lower the overall debt service requirements of the City, and (ii) to pay the costs associated with the issuance of the Bonds. See Schedule I for a listing of the Refunded Obligations and their respective call dates at par.

**REFUNDED OBLIGATIONS . . .** The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Wells Fargo Bank, National Association, Dallas, Texas (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter and funds contributed by the City, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal and interest on the Federal Securities will not be available to pay the Bonds (see "Other Information - Verification of Arithmetical and Mathematical Computations").

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

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds, together with a contribution from the City, will be applied approximately as follows:

Sources of Funds	
Par Amount of Bonds	\$ 5,250,000.00
Transfers from Prior Issue Debt Service Funds	<u>30,970.08</u>
Total Sources	<u><u>\$ 5,280,970.08</u></u>
Uses of Funds	
Costs of Issuance <sup>(1)</sup>	\$ 82,266.50
Deposit to Debt Service Fund	<u>5,198,703.58</u>
Total Uses	<u><u>\$ 5,280,970.08</u></u>

(1) Includes rounding amount.

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated February 1, 2007 and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing August 15, 2007. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to the registered owners of the Bonds.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the general laws of the State, including particularly V.T.C.A., Texas Government Code, Chapter 1207, as amended, the City's Home Rule Charter and the Bond Ordinance.

**SECURITY FOR THE BONDS . . .** The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, as provided in the Bond 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 debt service secured by a levy of ad valorem taxes, as calculated at the time of issuance.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Bonds 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 a maturity of a Bond is to be redeemed, the Paying Agent/Registrar shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.



**NOTICE OF REDEMPTION . . .** At least 30 days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof, as the case may be, being called for redemption by depositing such notice in the United States mail, first class postage prepaid, addressed to each such registered owner at the address shown on the Registration Books of the Paying Agent/Registrar provided, however, that the failure to send, mail, or receive such notice described above, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. If a Bond (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 Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption have been provided for, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE . . .** The Bond Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or an authorized escrow agent (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds being defeased. The Bond Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is Zions First National Bank, Houston, Texas. In the Bond 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 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of such Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the corporate trust office of the Paying Agent/Registrar (the "Designated Trust Office"). Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "The Bonds – Record Date for Interest Payments" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** Bonds will be delivered to the registered owners of the Bonds and thereafter the Bonds 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 purchaser, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in

an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate designated amount as the Bonds surrendered for exchange or transfer. Neither the City or the Paying Agent/Registrar shall be required to transfer or exchange any Bond (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 Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the 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 Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**AMENDMENTS TO THE BOND ORDINANCE . . .** In the Bond Ordinance, the City has reserved the right to amend such Bond Ordinance without the consent of any holder for the purpose of amending or supplementing such Bond Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders of the respective series of Bonds, (ii) grant additional rights or security for the benefit of the holders of the respective series of Bonds, (iii) add events of default as shall not be inconsistent with the provisions of the Bond Ordinance that do not materially adversely affect the interests of the holders of the respective series of Bonds, (iv) qualify the Bond 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 Bond 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 of the respective series of Bonds.

The Bond Ordinance further provides that the holders of the respective series of Bonds aggregating in principal amount 51% of the outstanding respective series of Bonds shall have the right from time to time to approve any amendment not described above to the Bond 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 respective series of Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of such outstanding Bonds; (ii) reducing the rate of interest borne by any of such outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any such outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on such outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of such Bonds necessary for consent to such amendment. Reference is made to the Bond Ordinance for further provisions relating to the amendment thereof.

**BONDHOLDERS' REMEDIES . . .** The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds 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 Bonds, 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 Bonds, 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 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the Bonds, upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3<sup>rd</sup> 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 Bonds may not be able to bring such a suit against the City for breach of the Bonds, or the 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 Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of the Bonds 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 Bonds 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.

## **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 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 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. 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. 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, 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: (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 this provision 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 in the tax year beginning January 1, 2004, State law provides that the City Council may choose to establish an ad valorem tax freeze on residence homesteads of the disabled and of persons sixty-five years of age or older and their spouses. If the City Council does not take action to establish the tax limitation, City voters may submit a petition, signed by five percent of the registered voters of the City, requiring the City Council to call an election to determine by majority vote whether to establish the ad valorem tax freeze. Once established, the City Council may not repeal or rescind the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the City may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older or disabled at the time of the person's death. A proportionate share of the limitation applicable to a person's homestead is transferred to a new residence homestead of such person if the person moves to a different residence within the City.

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.

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 and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The 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 . . .** The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

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

## **2007 TEXAS REGULAR LEGISLATIVE SESSION**

The Texas Legislature convened its biennial regular session on January 9, 2007. Among other subjects being considered by the Legislature which could have a direct effect on the City, the Legislature is considering the revision of the property tax laws. In that connection, several bills that would modify the taxing procedures and powers of local governmental units, including the City, and limit the annual increase in the appraised value of property for ad valorem tax purposes, are being considered. The Legislature will adjourn on May 29, 2007. The City cannot predict the actions of the Legislature that might affect the City.

**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, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. 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	
Agricultural Land Use Reductions	<u>17,691,372</u>	<u>34,635,061</u>
2006/2007 Taxable Assessed Valuation		\$ 1,287,406,176
General Obligation Debt Payable from Ad Valorem Taxes <sup>(1)</sup>	\$ 11,010,000	
The Bonds	5,250,000	<u>\$ 16,260,000</u>
Self-supporting Debt	\$ 2,782,600	
Total General Obligation Debt Payable from Ad Valorem Taxes		\$ 13,477,400
General Obligation Interest and Sinking Fund (estimated as of 12/31/06)	.	\$ 1,302,258
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.05%

2007 Estimated Population - 19,100  
Per Capita Taxable Assessed Valuation - \$67,403  
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$706

(1) Excludes the Refunded Obligations.

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

Category	Taxable Appraised Vaue for Fiscal Year Ended September 30,					
	2007		2006		2005	
	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	<u>\$ 1,287,406,176</u> <sup>(1)</sup>		<u>\$ 1,215,046,284</u>		<u>\$ 1,184,225,509</u>	

Category	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%	29,286,371,437,349	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	<u>\$ 1,135,186,242</u>		<u>\$ 1,033,646,090</u>	

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

NOTE: Valuations shaen are certified taxable assessed values reported by the 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 Apraisal District updates records.

**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2003	15,800	\$ 1,033,646,090	\$ 65,421	\$ 19,515,000	1.89%	\$ 1,235
2004	16,919	1,135,186,242	67,095	19,605,000	1.73%	1,159
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	16,175,000	1.33%	874
2007	19,100	1,287,406,176	67,403	15,295,000 <sup>(3)</sup>	1.19% <sup>(3)</sup>	801 <sup>(3)</sup>

(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) Includes self-supporting debt. Excludes the Refunded Obligations. Includes the Bonds.

**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	98.80%	106.02%
2004	0.5498	0.36762	0.18213	6,052,166	104.71%	105.69%
2005	0.5606	0.39328	0.16734	6,595,734	100.72%	101.87%
2006	0.5570	0.43239	0.12459	6,565,751	99.17%	98.72%
2007	0.5570	0.44739	0.10959	7,084,199	25.05% <sup>(1)</sup>	25.33% <sup>(1)</sup>

(1) Collections as of January 1, 2006.

**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%
		<u>\$ 73,187,422</u>	<u>5.68%</u>

**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 "Tax Rate Limitation").



**TABLE 6 – TAX ADEQUACY**

2007 Principal and Interest requirements.....	\$ 1,336,735
\$ 0.1093 Tax Rate at 95% collection produces.....	\$ 1,336,778
Average Annual Principal and Interest requirements, 2007-2021.....	\$ 1,161,584
\$ 0.0950 Tax Rate at 95% collection produces.....	\$ 1,161,884
Maximum Principal and Interest requirements, 2012.....	\$ 1,372,190
\$ 0.1122 Tax Rate at 95% collection produces.....	\$ 1,372,246

**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 2/1/2007	Authorized But Unissued Debt As Of 2/1/2007
City of Corinth	\$ 1,287,406,176	\$0.55698	\$ 16,260,000 <sup>(1)</sup>	100.00%	\$ 16,260,000	\$ 2,030,000
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	172,667,571	3.36%	5,801,630	198,259,373
Denton ISD	7,544,463,239	1.76400	465,297,579	4.09%	19,030,671	40,004,713
Lake Dallas ISD	1,097,828,413	1.79000	90,456,680	41.27%	37,331,472	13,000,000
Total Direct and Overlapping Funded Debt					<u>\$ 79,198,773</u>	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation . . . . .				6.15%		
Per Capita Direct and Overlapping Funded Debt . . . . .				\$ 4,147		

(1) Includes the Bonds, excludes the Refunded Obligations.

**DEBT INFORMATION**

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

Fiscal Year Ending 9/30	Outstanding Debt Service <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Less: Self-Supporting Debt <sup>(3)</sup>	Total Debt Service Requirements <sup>(3)</sup>	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2007	\$ 965,000	\$ 583,129	\$ 1,548,129	\$ -	\$ 95,196	\$ 95,196	\$ 306,589	\$ 1,336,735	
2008	1,030,000	407,934	1,437,934	20,000	215,161	235,161	313,316	1,359,778	
2009	1,070,000	359,889	1,429,889	20,000	214,398	234,398	337,588	1,326,698	
2010	1,105,000	311,678	1,416,678	20,000	213,626	233,626	342,985	1,307,318	
2011	935,000	267,725	1,202,725	235,000	208,668	443,668	284,069	1,362,323	33.21%
2012	985,000	227,761	1,212,761	245,000	199,258	444,258	284,829	1,372,190	
2013	1,020,000	185,725	1,205,725	255,000	189,383	444,383	285,182	1,364,926	
2014	1,055,000	141,783	1,196,783	255,000	179,247	434,247	277,352	1,353,677	
2015	670,000	105,483	775,483	700,000	159,972	859,972	276,999	1,358,455	
2016	685,000	77,494	762,494	735,000	131,060	866,060	275,126	1,353,428	73.83%
2017	555,000	51,531	606,531	890,000	98,123	988,123	267,210	1,327,444	
2018	580,000	27,413	607,413	930,000	60,439	990,439	269,799	1,328,052	
2019	175,000	11,369	186,369	670,000	26,584	696,584	41,001	841,952	
2020	180,000	3,825	183,825	135,000	9,249	144,249	40,442	287,633	
2021	-	-	-	140,000	3,143	143,143	-	143,143	100.00%
	<u>\$ 11,010,000</u>	<u>\$ 2,762,736</u>	<u>\$ 13,772,736</u>	<u>\$ 5,250,000</u>	<u>\$ 2,003,506</u>	<u>\$ 7,253,506</u>	<u>\$ 3,602,489</u>	<u>\$ 17,423,754</u>	

- (1) Includes Self-supporting debt. Excludes lease/purchase obligations. Excludes the Refunded Obligations.  
(2) Average life of the issue is 9.218 years. Interest on the Bonds has been calculated at the rates set forth on page 2.  
(3) Excludes the Refunded Obligations, includes the Bonds.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/07		\$ 1,336,735
Interest and Sinking Fund Balance, Fiscal Year Ending 9/30/06 <sup>(1)</sup>	\$ 1,256,216	
2006/07 Budgeted Interest and Sinking Fund Tax Levy Collection	1,410,868	
Delinquent Taxes/Penalty/Interest	-	
Budgeted Interest Income	-	2,667,084
Estimated Balance, Fiscal Year Ending 9/30/07		<u>\$ 1,330,349</u>

(1) Preliminary, subject to change.

**TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Municipal Building	10/24/1970	\$ 30,000	\$ -	\$ -	\$ 30,000
Streets	11/3/1998	8,500,000	6,500,000	-	2,000,000
		<u>\$ 8,530,000</u>	<u>\$ 6,500,000</u>	<u>\$ -</u>	<u>\$ 2,030,000</u>

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT.** . . The City anticipates the issuance of additional general obligation debt in the summer of 2007 in the amount of \$16 million.

**TABLE 11 – OTHER OBLIGATIONS**

The City has no unfunded debt outstanding as of January 1, 2007.

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.

Contributions – The contribution rate for the employees is 7%, and the City’s current matching ratio is currently 2 to 1, both as adopted by the governing body of the City. 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 for the plan’s 25-year 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 purpose, 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, 2004 valuation is effective for rates beginning January 2006).

For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City’s Annual Financial Report" - Note IV-B.

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/2004	12/31/2003	12/31/2002
Actuarial Value of Assets	\$ 5,200,450	\$ 4,135,143	\$ 2,425,948
Actuarial Accrued Liability	6,448,306	5,215,888	3,155,136
Percentage Funded	80.65%	79.30%	76.90%
Unfunded Actuarial Accrued Liability (UAAL)	1,247,856	1,080,745	729,188
Annual Covered Payroll	5,525,187	4,903,503	4,402,317
UAAL as a % of Covered Payroll	22.58%	22.00%	16.60%
Net Pension Obligation (NPO) at the Beginning of the Period	-	-	-
Annual Pension Cost	-	-	-
Annual Required Contribution (ARC)	501,120	441,389	426,836
Contributions Made	501,120	441,389	426,836
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.

**FINANCIAL INFORMATION**

**TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended September 30,				
	2006 <sup>(2)</sup>	2005	2004	2003	2002
<b>Revenues:</b>					
Property Taxes	\$ 5,355,332	\$ 4,762,241	\$ 4,306,483	\$ 3,689,016	\$ 3,077,928
Franchise Taxes	1,104,382	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	688,916	916,794	645,562	1,108,403	1,243,710
Fine and Forfeitures	658,761	614,242	206,161	401,998	348,166
Charges for Services	338,243	292,845	-	87,905	42,465
Interest	372,028	36,028	27,843	47,424	75,210
Investment Income	5,651	-	-	-	-
Park Donations	-	91,574	6,756	431	725
Grants	8,138	-	-	-	-
Fire Department Reimbursement	-	-	2,049,990	1,662,344	1,356,033
Transfers In	84,500	-	-	-	-
Miscellaneous	56,333	93,643	546,344	24,173	144,086
<b>Total Revenues</b>	<b>\$ 9,671,418</b>	<b>\$ 8,493,774</b>	<b>\$ 10,355,034</b>	<b>\$ 8,525,792</b>	<b>\$ 7,521,250</b>
<b>Expenditures:</b>					
General Government	\$ 809,321	\$ 1,310,186	\$ 1,291,154	\$ 1,133,017	\$ 527,087
Public Safety	2,485,636	2,277,921	5,412,949	4,835,841	2,721,359
Highways and Street	1,039,164	821,183	688,873	1,744,846	1,192,125
Municipal Court	219,729	-	-	-	253,655
Community Development	222,830	346,985	394,067	444,553	534,481
Health and Welfare	-	1,475,376	-	-	-
City Administrator	611,385	-	-	-	426,396
Economic Development	353,348	206,577	246,323	314,892	-
Fleet Maintenance	148,849	-	-	-	125,319
Parks and Recreation	1,037,568	937,081	952,130	948,754	1,070,709
Fire Department	1,567,960	-	-	-	1,341,618
Animal Control	65,273	-	-	-	48,812
Capital Outlay	-	-	43,032	173,499	240,069
<b>Total Expenditures</b>	<b>\$ 8,561,060</b>	<b>\$ 7,375,309</b>	<b>\$ 9,028,529</b>	<b>\$ 9,595,403</b>	<b>\$ 8,481,630</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,110,358	\$ 1,118,465	\$ 1,326,505	\$ (1,069,611)	\$ (960,380)
Other Sources (Uses)	-	(12,420)	-	787,500	-
Other Miscellaneous Adjustments	-	-	-	-	(339,612)
<b>Beginning Fund Balance</b>	<b>\$ 4,010,306</b> <sup>(1)</sup>	<b>\$ 2,967,017</b> <sup>(1)</sup>	<b>\$ 1,580,277</b> <sup>(1)</sup>	<b>\$ 3,254,610</b>	<b>\$ 4,554,602</b>
<b>Ending Fund Balance</b>	<b>\$ 5,120,664</b>	<b>\$ 4,073,062</b>	<b>\$ 2,906,782</b>	<b>\$ 2,972,499</b>	<b>\$ 3,254,610</b>

(1) Restated.

(2) Preliminary, subject to change.

**TABLE 13 - CHANGE IN NET ASSETS HISTORY<sup>(1)</sup>**

	Fiscal Year Ended September 30,	
	2005	2004
Revenues		
Program Revenues:		
Charges for services	\$ 1,991,003	\$ 1,889,801
Operation grants and contributions	159,282	2,075,707
capital grants and contributions	5,786	36,796
General revenues:		
Property taxes	6,827,391	6,515,600
Sales taxes	1,114,945	824,038
Franchise taxes	733,510	832,345
Other taxes	4,169	18,297
Judgement proceeds	-	490,000
Interest on investments	114,676	86,918
Gain (loss) on sale of fixed assets	(100,430)	-
Miscellaneous	336,593	41,844
Total revenues	<u>\$ 11,186,925</u>	<u>\$ 12,811,346</u>
Expenditures		
Community Development	\$ 350,040	\$ 398,922
Culture-recreation	1,173,264	1,241,220
Interest on Long-term debt	749,545	870,298
Economic development	206,577	246,323
General government	1,792,164	1,555,275
Highways and streets	945,628	956,504
Intergovernmental expenditures	1,475,376	2,049,990
Public safety	2,378,172	3,428,042
Total expenses	<u>\$ 9,070,766</u>	<u>\$ 10,746,574</u>
Increase (Decrease) in net assets before transfers		
Transfers	\$ 2,116,159	\$ 2,064,772
Net transfers	(486,669)	(559,938)
Increase (decrease in net assets)	<u>\$ 1,629,490</u>	<u>\$ 1,504,834</u>
Net assets-beginning	5,678,055	4,112,987 <sup>2</sup>
Net assets-ending	<u>\$ 7,307,545</u>	<u>\$ 5,617,821</u>

(1) Preliminary FYE 2006 numbers are currently unavailable.

**TABLE 14 - 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 Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita <sup>(2)</sup>
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	259,338 <sup>(1)</sup>	3.66%	0.0201	13.58

- (1) Based on population estimates by the City.
- (2) Preliminary, subject to change.
- (3) Partial Collections through January, 2007.

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%
	<u>8.25%</u>

**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 ensuing fiscal year by the first of July. The City Administrator 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 Corinth. Both state law and the City's investment policies are subject to change.

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . .** Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligation, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 that are issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or 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) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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) of the second preceding paragraph, (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) of the second preceding paragraph, clauses (10) through (12) of the second preceding paragraph, 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.

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



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

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

**TABLE 15 - CURRENT INVESTMENTS**

As of December 1, 2006, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent of Investments</u>	<u>Market Value</u>
U.S Govt. Securities	26.53%	\$ 2,776,719
State Investment Pool	73.47%	7,688,027
	<u>100.00%</u>	<u>\$ 10,464,746</u>

**TAX MATTERS**

**OPINION . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinions with respect to the Bonds that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds 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 Bonds. See Appendix C -- Forms of Opinion of Bond Counsel.

In rendering its opinions, 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 for the Bonds, (b) covenants of the City contained in the documents for the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Obligations and the property financed or refinanced therewith, and (c) the verification report prepared by Grant Thornton LLP. Failure by the City to observe the aforementioned representations or covenants, could cause the interest on the Bonds 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 Bonds in order for interest on the Bonds 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 Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is 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 Bonds.

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 Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the projects financed with the Bond proceeds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders 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 Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds 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 Bond 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 Bond 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 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (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 Bonds.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds 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 Bonds 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 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**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 Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are 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 BONDS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds 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 Bonds, 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 Bonds, 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 holder 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 holder 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 Bonds 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 the Bond Ordinance, the City has made the following agreement for the benefit of the holders of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. 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 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 Private Placement Memorandum under Tables numbered 1 through 5, 7 through 15 and in Appendix B. The City will update and provide this information within 6 months after the end of each fiscal year ending in or after 2006.

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 nationally recognized municipal securities information repository ("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 MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.org](http://www.DisclosureUSA.org) ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

**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 Bonds, if such event is material to a decision to purchase or sell Bonds: (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 Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; 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.

**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 holders of Bonds only if the holders 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 agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds sale in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders of the respective series of Bonds. The City may also amend or repeal the provisions of its continuing disclosure agreements 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 have prevented an underwriter from lawfully purchasing or selling Bonds as a primary offering of the Bonds. If the City so amends either agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreements 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 . . .** 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 are rated "Aaa" by Moody's Investor Service, Inc. ("Moody's") and "AAA" by Standard and Poor's Rating Service, a division of The McGraw-Hill Companies, Inc. ("S&P"). The presently outstanding tax-supported debt of the City is rated "A2" by Moody's and "A+" by S&P. The City also has various issues outstanding 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 ratings 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 Bonds.

### **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 BONDS FOR SALE**

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "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 Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

## **LEGAL OPINIONS**

The City will furnish to the initial purchaser of the Bonds a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the respective series of Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of such Bonds will also be furnished. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Private Placement Memorandum, 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 describing the Bonds in the Private Placement Memorandum to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

## **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. 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 Bonds, 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 Private Placement Memorandum. The Financial Advisor has reviewed the information in this Private Placement Memorandum 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.

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

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Obligations and (b) computation of the yields of the Refunding Bonds and the restricted Federal Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company on behalf of the City. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Obligations.

**PURCHASE OF THE BONDS**

Zions First National Bank has agreed, subject to certain conditions, to purchase the Bonds from the City, at a price equal to the par amount thereof

**FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Private Placement Memorandum, 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 Private Placement Memorandum 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 Private Placement Memorandum will prove to be accurate.

**AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Private Placement Memorandum 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.

**CERTIFICATION OF THE PRIVATE PLACEMENT MEMORANDUM**

The Bond Ordinance authorizing the issuance of the Bonds will also approve the form and content of this Private Placement Memorandum, and any addenda, supplement or amendment thereto.

\_\_\_\_\_  
VIC BURGESS  
Mayor  
City of Corinth , Texas

ATTEST:

\_\_\_\_\_  
KIM PENCE  
City Secretary  
City of Corinth, Texas

## SCHEDULE OF REFUNDED OBLIGATIONS

General Obligation Refunding & Improvement Bonds, Series  
1997

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
11/15/97	2/15/11	5.000%	\$ 215,000
	2/15/12	5.000%	225,000
	2/15/13	5.000%	240,000
	2/15/14	5.100%	240,000
	2/15/15	5.100%	250,000
	2/15/16	5.150%	265,000
	2/15/17	5.150%	275,000
	2/15/18	5.150%	295,000
			<u>\$ 2,005,000</u>

The 2011-2018 maturities will be redeemed prior to original maturity on April 1, 2007 at par.

## General Obligation Bonds, Series 1999

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
4/1/99	2/15/15	4.600%	\$ 440,000
	2/15/16	4.650%	465,000
	2/15/17	4.700%	485,000
	2/15/18	4.750%	510,000
	2/15/19	4.800%	540,000
			<u>\$ 2,440,000</u>

The 2015-2019 maturities will be redeemed prior to original maturity on April 1, 2007 at par.

## General Obligation Bonds, Series 2001

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2/15/01	2/15/17	4.800%	130,000
	2/15/18	4.850%	135,000
	2/15/21 <sup>(1)</sup>	5.000%	455,000
			<u>\$ 720,000</u>

The 2017-2018 and 2021 maturities will be redeemed prior to original maturity on February 15, 2010 at par.

(1) Represents a Term Bond.

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**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 TXU Electric.

**BUILDING PERMITS**

Year Ended 9/30	Commercial		Residential		Grand Total
	Number	Value	Number	Value	
2002	23	\$ 6,103,800	364	\$ 67,015,059	\$ 73,118,859
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 <sup>(1)</sup>	9	25,311,565	114	31,353,341	56,664,906

(1) Preliminary, subject to change.

**MAJOR BUSINESSES**

Major Businesses	Type of Business	Number of Employees
Labinal	Defense	650
CoServ	Utility	300
Albertsons	Grocery	115
Bill Utter Ford	Auto Dealership	110
City of Corinth	Municipality	86.5
North Central Texas College	Education	78
Huffines Jeep-Eagle Mazda	Auto Dealership	58
McClains RV Duperstore	RV Sales	55
State Farm Regional Claims center	Insurance	47
Metroplex Cabinets	Cabinet Store	40

## EMPLOYMENT

Employment statistics for Denton County are as follows:

<u>Denton County</u>	<u>Average Annual</u>				
	<u>2006<sup>(1)</sup></u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Civilian Labor Force	318,560	309,312	296,034	292,338	285,386
Total Employed	305,707	296,138	282,939	277,699	271,662
Total Unemployed	12,853	13,174	13,095	14,639	13,724
Unemployment Rate	4.0%	4.3%	4.4%	5.0%	4.8%

(1) Figures through November, 2006.

Source: Texas Employment Commission, Austin, Texas.

**APPENDIX B**

EXCERPTS FROM THE  
CITY OF CORINTH, TEXAS  
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2005

The information contained in this Appendix consists of excerpts from the City of Corinth, Texas Annual Financial Report for the Year Ended September 30, 2005, 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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# GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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<http://www.greggandcompany.com/>

MEMBER  
TEXAS SOCIETY OF CPAs

MEMBER  
AMERICAN INSTITUTE OF CPAs

## 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, each major fund, and the aggregate remaining fund information of the City of Corinth, Texas, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Corinth, Texas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the City of Corinth, Texas, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the City of Corinth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis identified as Required Supplementary Information in the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Corinth's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables 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 section and statistical tables 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.

*Gregg & Company CPAs*

Tom Bean, Texas  
December 9, 2005



# City of Corinth

## 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, 2005. 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 \$21,932,663 (net assets). Of this amount, \$4,794,504 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,175,087 in comparison with the prior year. The increase in net assets reflects the degree to which revenues exceeded expenses for fiscal year 2005, net of changes to beginning net assets. (See note I.E.)
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,109,355, an increase of \$1,056,975 in comparison with the prior year. Of the combined ending balances, \$4,012,828, or 49.5 percent is available for spending within the City's guidelines (unreserved fund balance).
- The City's unreserved fund balance for the general fund was \$4,012,828, or 43.4 percent of total budgeted general fund expenditures.
- The City's long term liabilities of \$16,225,528 decreased \$1,241,341 or 7.1 percent during fiscal year 2005. The decrease reflects the retirement of long-term debt. The City also issued new debt this fiscal year, the Series 2004 Tax Notes, in the amount of \$1,200,000.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City of Corinth's basic financial statements are comprised of 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.

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

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.

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 community development, culture-recreation, debt service, economic development and assistance, general government, highways and streets, intergovernmental and public safety. The business-type activities are the water and sewer utility fund.

The government-wide financial statements include not only the City itself (*known as the primary government*), but also a legally separate Economic Development Corporation and Corinth Crime Control and Prevention District as component units for which the City is financially accountable. Financial information for the component units is reported separately from and immediately following the financial information presented for the primary government itself.

The government-wide financial statements can be found starting on page 20 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 three categories: governmental funds, proprietary funds, and fiduciary 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 seven 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, Public Improvement District (P.I.D) #1 fund, capital projects fund, recreation fund, street maintenance fund and special revenue fund, all of which are considered to be major funds. 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.

**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 an *enterprise fund* to account for its Water and Sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Corinth uses internal service funds 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 sewer utility fund. The water and sewer utility fund is considered to be major funds of the City. Conversely, the single internal service fund is presented in a separate column in the proprietary fund financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Corinth has no fiduciary funds.

**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.

### **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 \$21,932,663 at the close of the most recent fiscal year.

At the end of the current fiscal year, The City reported a positive net asset balance for the government as a whole, and business-type activities. A negative net assets value of \$721,175 for investment in capital assets, net of related debt is reported in the governmental activities due to debt service in excess of capitalized assets. This situation happens because all of the capital infrastructure (for streets) is not capitalized and all of the debt service is reported. The City has been working with an engineering firm that will provide a data base to be used in the capitalization of the infrastructure. An additional \$977,579 in net assets is currently restricted for use in capital projects which will be capitalized as projects are completed. The following table shows a summary of Net Assets.

**TABLE I  
NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 9,306,666	\$ 8,161,181	\$ 3,233,527	\$ 3,237,504	\$ 12,540,193	\$ 11,398,685
Capital assets	14,039,825	13,655,266	15,550,900	15,737,404	29,590,725	29,392,670
Total assets	<u>23,346,491</u>	<u>21,816,447</u>	<u>18,784,427</u>	<u>18,974,908</u>	<u>42,130,918</u>	<u>40,791,355</u>
Long-term liabilities outstanding	13,492,987	15,178,273	2,732,541	1,890,988	16,225,528	17,069,261
Other liabilities	2,545,959	1,020,354	1,426,768	2,402,234	3,972,727	3,422,588
Total liabilities	<u>16,038,946</u>	<u>16,198,627</u>	<u>4,159,309</u>	<u>4,293,222</u>	<u>20,198,255</u>	<u>20,491,849</u>
Net assets:						
Invested in capital assets, net of related debt	(721,175)	(1,340,734)	12,461,900	12,328,403	11,740,725	10,987,669
Restricted	4,033,334	4,252,306	1,364,100	1,866,796	5,397,434	6,119,102
Unrestricted	3,995,386	2,706,248	799,118	(1,055,443)	4,794,504	1,650,805
Total net assets	<u>\$ 7,307,545</u>	<u>\$ 5,617,820</u>	<u>\$ 14,625,118</u>	<u>\$ 13,139,756</u>	<u>\$ 21,932,663</u>	<u>\$ 18,757,576</u>

A portion of the City's net assets totaling \$5,397,434 or 24.6 percent represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. In fiscal year 2005, as previously discussed, the City's net assets increased by \$2,888,785. This increase is attributable to the degree to which revenues exceeded expenses for the year.

**Governmental activities.** Governmental activities increased net assets by \$1,629,490 thereby accounting for 56.4 percent of the total increase in the net assets of the City. In Table II, key elements of this increase are shown as well as a comparison to prior year's activities.

**TABLE II  
CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 1,991,003	\$ 1,889,801	\$ 7,492,745	\$ 5,622,897	\$ 9,483,748	\$ 7,512,698
Operating grants and contributions	159,282	2,075,707	-	-	159,282	2,075,707
Capital grants and contributions	5,786	36,796	1,208,704	886,106	1,214,490	922,902
General revenues						
Property taxes	6,827,391	6,515,600	-	-	6,827,391	6,515,600
Franchise taxes	733,510	832,345	-	-	733,510	832,345
Sales taxes	1,114,945	824,038	-	-	1,114,945	824,038
Other taxes	4,169	18,297	-	-	4,169	18,297
Judgement proceeds	-	490,000	-	-	-	490,000
Investment interest	114,676	86,918	120,742	51,133	235,418	138,051
Miscellaneous	336,593	41,844	3,286	-	339,879	41,844
Gain (loss) on sale of fixed assets	(100,430)	-	19,550	-	(80,880)	-
Total Revenues	<u>\$ 11,186,925</u>	<u>\$ 12,811,346</u>	<u>\$ 8,845,027</u>	<u>\$ 6,560,136</u>	<u>\$ 20,031,952</u>	<u>\$ 19,371,482</u>
<b>Expenses:</b>						
Community development	350,040	398,922	-	-	350,040	398,922
Culture-recreation	1,173,264	1,241,220	-	-	1,173,264	1,241,220
Interest on long-term debt	749,545	870,298	-	182,672	749,545	1,052,970
Economic development	206,577	246,323	-	-	206,577	246,323
General government	1,792,164	1,555,275	-	-	1,792,164	1,555,275
Highways and streets	945,628	956,504	-	-	945,628	956,504
Intergovernmental expenditures	1,475,376	2,049,990	-	-	1,475,376	2,049,990
Public safety	2,378,172	3,428,043	-	-	2,378,172	3,428,043
Water and sewer	-	-	8,070,852	7,105,617	8,070,852	7,105,617
Total Expenses	<u>\$ 9,070,766</u>	<u>\$ 10,746,575</u>	<u>\$ 8,070,852</u>	<u>\$ 7,288,289</u>	<u>\$ 17,141,618</u>	<u>\$ 18,034,864</u>
Increase (decrease) in net assets before transfers	2,116,159	2,064,771	774,175	(728,153)	2,890,334	1,336,618
Net transfers	(486,669)	(559,938)	485,120	559,938	(1,549)	-
Increase (decrease) in net assets	<u>1,629,490</u>	<u>1,504,833</u>	<u>1,259,295</u>	<u>(168,215)</u>	<u>2,888,785</u>	<u>1,336,618</u>
Net assets - beginning, as restated (see Note I.E.)	<u>5,678,055</u>	<u>4,112,987</u>	<u>13,365,823</u>	<u>13,307,971</u>	<u>19,043,878</u>	<u>17,420,958</u>
Net assets - ending	<u>\$ 7,307,545</u>	<u>\$ 5,617,820</u>	<u>\$ 14,625,118</u>	<u>\$ 13,139,756</u>	<u>\$ 21,932,663</u>	<u>\$ 18,757,576</u>

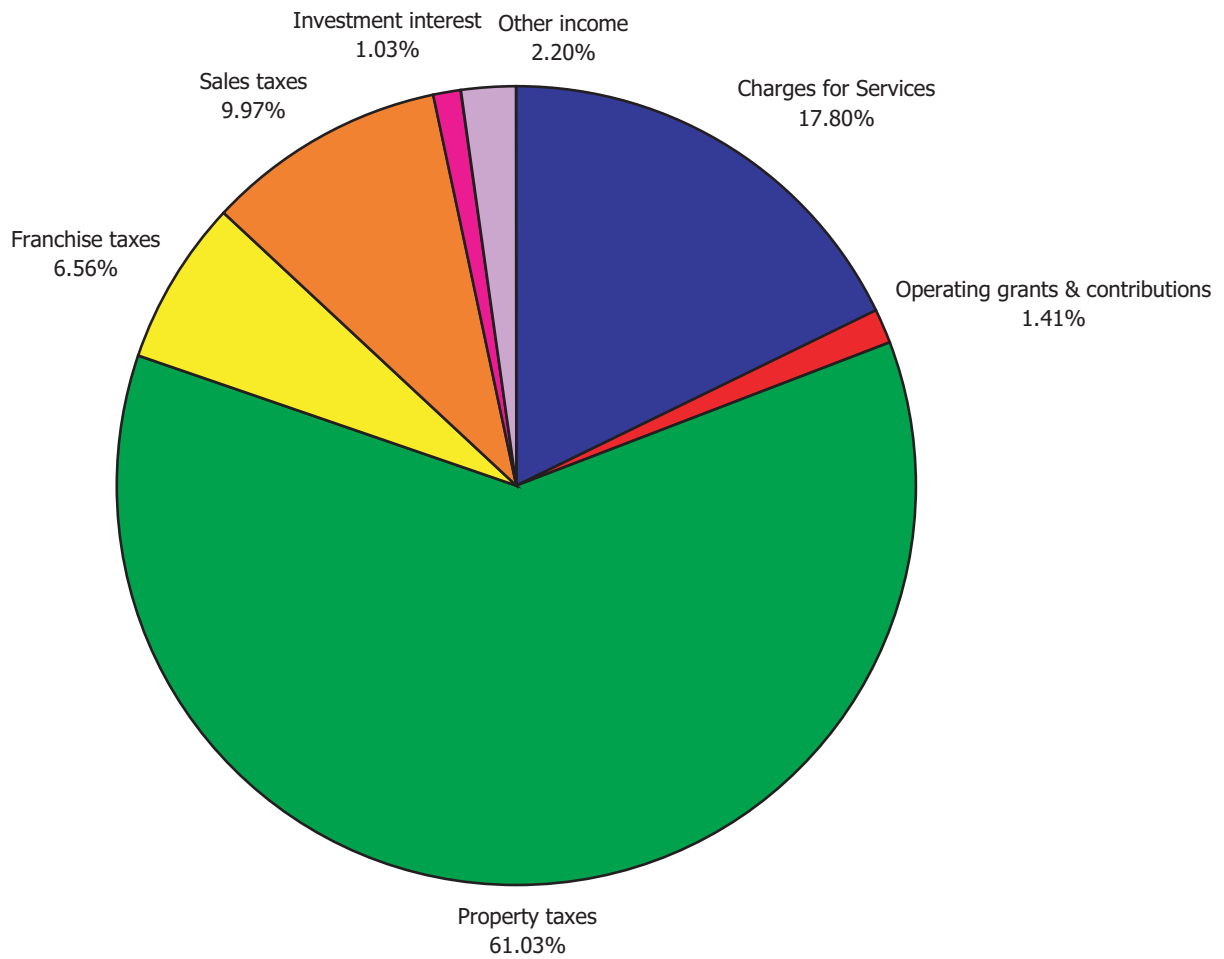
### City of Corinth's Changes in Net Assets

Property taxes increased by \$311,791 (4.8 percent) over last year. Most of this increase is the product of new construction and increased property values. This year, in the general fund, revenues exceeded expectations by a total of \$1,155,774 due primarily to increases in permits and fees in addition to property taxes. Expenditures were less than budget by \$748,991 due to intentional reductions in spending for budgeted items by the City. See Note II.B for a line item analysis.

## Revenues by Source – Governmental Activities

Property taxes, charges for services, sales taxes and franchise taxes provide 95 percent of the revenues for the governmental activities. The chart below provides a graphic representation of the City’s revenues by source.

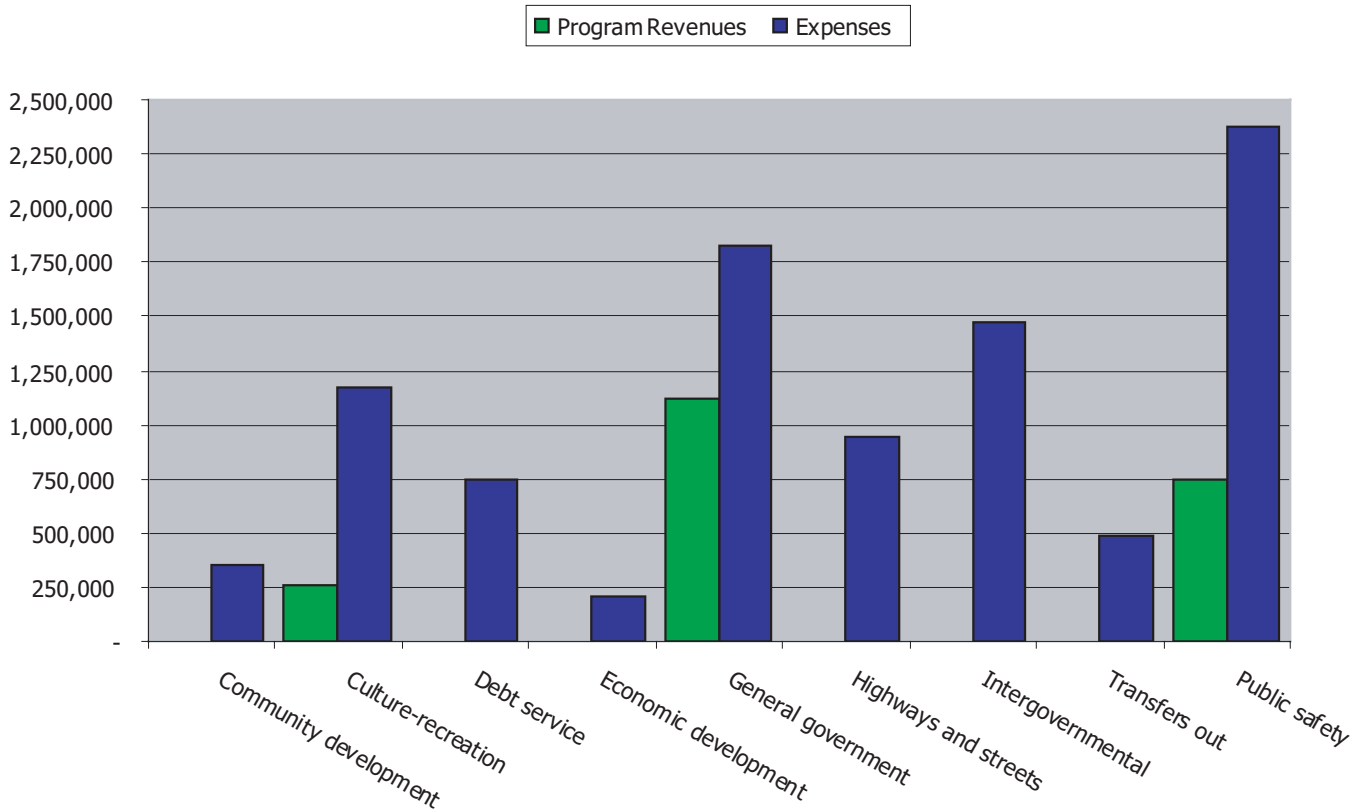
**Revenues by Source - Governmental Activities**



## Expenses and Program Revenues –Governmental Activities

Public safety, highways and streets, general government, culture and recreation, and interest and fiscal charges, account for 78 percent of the expenditures for the governmental activities. The following chart provides a graphic representation of the City’s expenditures and any directly related revenues by source. Intergovernmental expenditures refer to the City’s contract with the Lake Cities Fire Department (LCFD). 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.

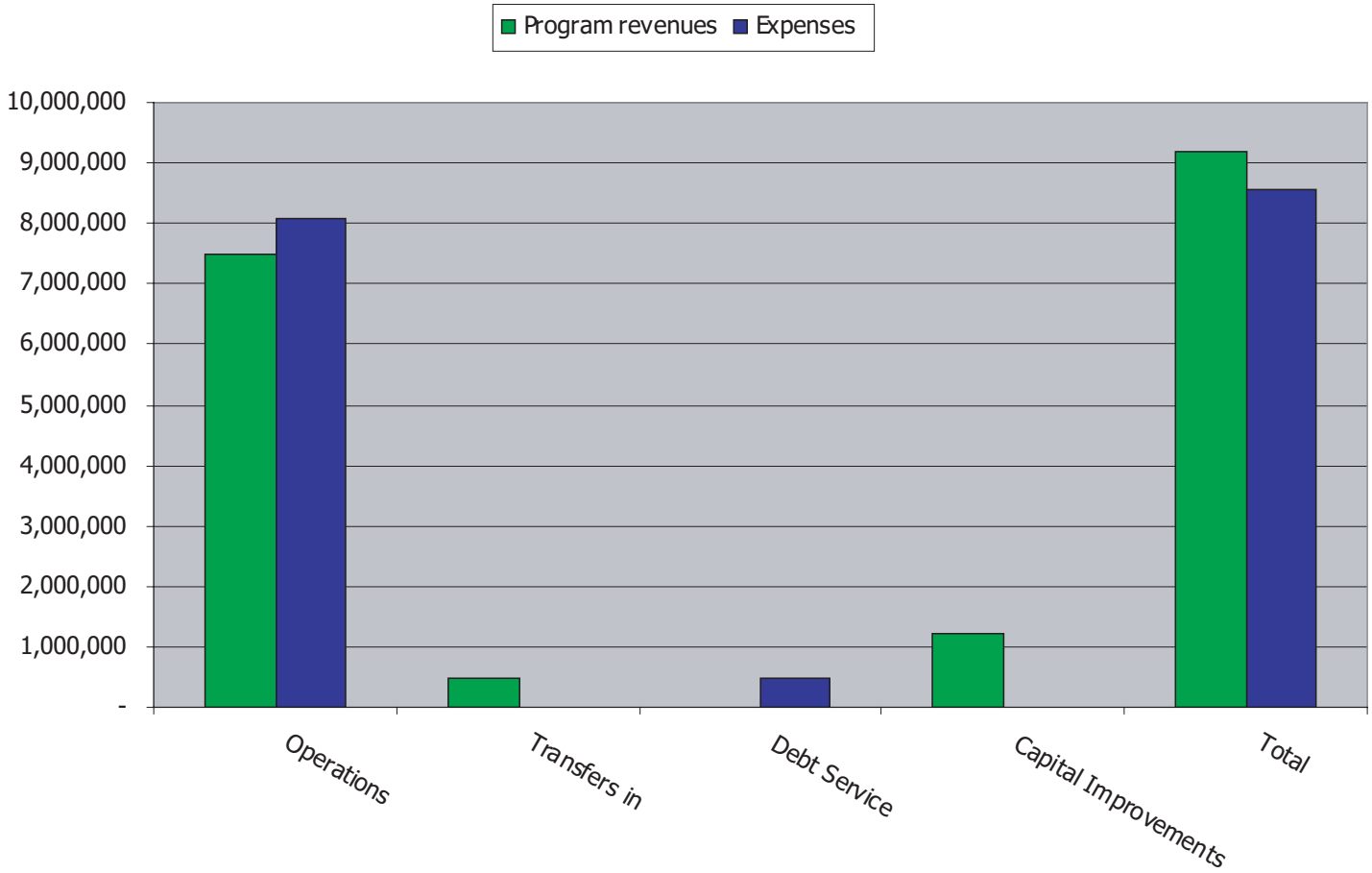
Program Revenues v. Expenses



**Expenses and Program Revenues – Business-type Activities**

Business-type activities increased the City’s net assets by \$1,259,295. The general fund transferred \$485,120 to the water and sewer operating fund to cover debt service payments. The general fund was budgeted to cover debt service payments in fiscal year 2004 and 2005. After 2005, the enterprise fund is budgeted to pay its related debt service without any additional transfers in from the general fund. Water and sewer impact fees and storm drainage utility fees enabled the enterprise fund to repay the \$1,220,909 advance from the general fund from previous fiscal years. The following charts provides a graphic representation of The City’s business-type expenditures and any directly related revenues by source.

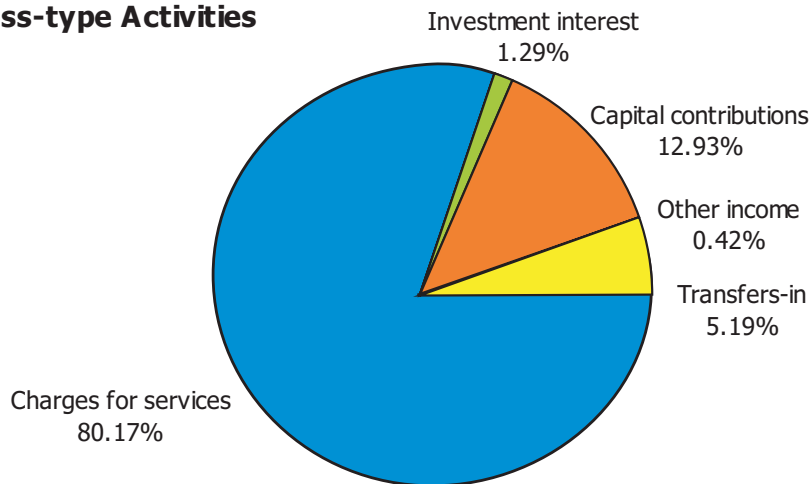
### Program Revenues v. Expenses



### Revenues by Source - Business-type Activities

Water and sewer charges account for 80 percent of the revenue. The remaining 20 percent is made up of tap and service fees, penalties and reconnect fees, inspections, garbage, impact fees and the transfer in from the general fund to pay debt service.

### Revenues by Source- Business-type Activities



**Capital assets.** The City of Corinth's investment in capital assets for its governmental and business type activities as of September 30, 2005, amounts to \$29,590,725 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. 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, 2005. GASB34 inventory and valuation of historical infrastructure is ongoing.

**TABLE III  
CAPITAL ASSETS AT YEAR-END**

	Governmental Activities		Business-Type Activities		TOTAL	
	2005	2004	2005	2004	2005	2004
Land	\$ 184,251	\$ 184,251	\$ 300,273	\$ 300,274	\$ 484,524	\$ 484,525
Buildings	4,579,638	4,696,491	158,888	166,257	4,738,526	4,862,748
Infrastructure	1,238,357	1,108,773	10,491,653	10,810,532	11,730,010	11,919,305
Construction in progress	6,747,886	6,795,898	4,463,551	4,238,651	11,211,437	11,034,549
Automobiles and machinery	1,289,693	869,853	136,535	221,690	1,426,228	1,091,543
Total capital assets	<u>\$ 14,039,825</u>	<u>\$ 13,655,266</u>	<u>\$ 15,550,900</u>	<u>\$ 15,737,404</u>	<u>\$ 29,590,725</u>	<u>\$ 29,392,670</u>

**Long-term debt.** At the end of the current fiscal year, The City had total bonded debt outstanding of \$17,850,000 consisting of General Obligation Bonds, Certificates of Obligation and Tax Notes. \$1,200,000 in new debt was issued in the 2005 fiscal year in the form of a Tax Note. All debt payments were made when due. Outstanding debt decreased in fiscal year 2005 by \$555,000. See Note III.E.

The City of Corinth's ratings on its outstanding debt is "A" from Standard & Poor's and "A2" from Moody's. Additional information on The City's long-term debt can be found in this report in the notes to the financial statements.

**TABLE IV  
OUTSTANDING DEBT AT YEAR-END**

	Governmental Activities		Business-Type Activities		TOTAL	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$13,121,000	\$13,796,000	\$2,889,000	\$3,024,000	\$16,010,000	\$16,820,000
Certificates of Obligation and Tax Notes	1,640,000	1,200,000	200,000	385,000	1,840,000	1,585,000
Total outstanding debt	<u>\$14,761,000</u>	<u>\$14,996,000</u>	<u>\$3,089,000</u>	<u>\$3,409,000</u>	<u>\$17,850,000</u>	<u>\$18,405,000</u>

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

In spite of the economic slowdown, the City continued to experience moderate growth in the collection of sales and use tax and in the property tax base. Net taxable values grew \$76.18 million or 6.9 percent.

The City's population grew only slightly in 2005, estimates increased from 17,592 in 2004 to 17,800 as of January 1, 2005. The City's estimated unemployment rate at September 2005 was 4.2 percent.

All of these factors were considered in preparing The City's budget for the 2006 fiscal year. The operating budget for the 2006 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 2006 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 2006 budgeted use of fund balance will maintain the City Council's goal of a 20 percent reserve in the general fund.



The 2004-05 adopted budget also authorized the use of current year's revenues as well as available fund balance to fund 2004-05 expenditures. Actual numbers for 2004-05 show just the opposite; an increase to fund balance of \$1,106,045 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.

The City Council approved reducing the overall ad valorem rate from \$.5606 to \$.55698 for fiscal year 2006. General operations will receive \$.43239 of the total and the remaining \$.12459 will be set aside for funding long-term debt.

### **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 \$8,109,355 an increase of \$1,056,975, due to:

- 1) a net increase in the general fund balance of \$1,106,045
- 2) a net decrease in the debt service fund of \$595,299
- 3) a net increase in the capital projects fund of \$270,487
- 4) a net increase in the recreation fund of \$1,447
- 5) a net decrease in the Public Improvement District #1 (PID) fund of \$30,542
- 6) the addition of the .25 cent Street Maintenance Sales Tax accounted for a fund balance in the street maintenance sales tax fund of \$162,049
- 7) a net increase in special revenue fund balances of \$142,788

Of the combined total governmental fund balances of \$8,109,355, \$4,012,828 reflects the general fund unreserved fund balance. Twenty percent of the general fund balance, \$1,621,871, represents the minimum fund balance policy of the City. Other funds are reserved to indicate that they are not available for new spending because they have already been committed for one of the following reasons:

- 1) to liquidate contracts and purchase orders (encumbrances) of the prior period, \$60,234
- 2) to pay debt service in future periods, 1,801,160
- 3) to pay for the construction of capital projects, \$1,220,018
- 4) to pay for specific uses, \$241,581
- 5) to pay for P.I.D. debt service, \$2,959

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 \$4,012,828, while total fund balance reached \$4,073,062. 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. Unreserved fund balance represents 43.4 percent of total general fund budgeted expenditures, while total fund balance represents 44.0 percent of that same amount.

The fund balance of the City's general fund increased by \$1,106,045 during the current fiscal year. Key factors in this increase are as follows:

- 1) Miscellaneous revenues exceeded budget by \$88,643, due in part to an unbudgeted settlement payment of \$19,911 from TXU
- 2) Property tax revenue exceeded budget by \$192,241
- 3) Sales tax exceeded budget by \$149,897, in part because of a change in accounting method used for accruals (See Note I.D.)
- 4) Fee and permit revenue exceeded budget by \$604,394
- 5) Actual expenditures were less than budget by \$748,991

## **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 \$1,801,160, all of which is reserved for the payment of debt service. The net decrease in fund balance was a budgeted draw-down of fund balance which represents the debt service payment on the 2004 Tax Note.

## **Proprietary fund**

The City of Corinth's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Water and Sewer fund assets of \$18,784,427 exceeded liabilities of \$4,159,309, leaving total net assets of \$14,625,118.

Total net assets increased \$1,259,295 during fiscal year 2005. A net loss from operations of \$420,242 follows a prior year net loss from operations of \$1,405,412. Water and sewer revenues increased over prior years; on November 11, 2004, the City Council approved rate increases that were anticipated to recoup 38% more revenue. Additionally, current year water consumption was up considerably from the prior year, due to a significant decrease in the amount of rainfall during the spring and summer.

Total net non-operating revenues (expenses) were (\$14,287), which included debt service interest of \$157,865 and interest income which was considerably higher than expected at \$120,742 for the year.

Total capital contributions were \$1,693,824. Water and sewer impact fees contributed \$913,106 and storm water utility fees were \$295,598. A prior period adjustment of \$226,067 to remove an outstanding liability which had been expensed in prior periods represents an increase to net assets (see Note I.E.) and the transfer in from the general debt service fund of \$485,120 is also treated as contributed capital and is a part of the overall increase in net assets in the enterprise fund.

Unrestricted net assets for the Water and Sewer Fund increased from a deficit of (\$1,055,443) in fiscal year 2004 to \$799,118 for fiscal year 2005.

## **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 City Secretary, 3300 Corinth Parkway, City of Corinth, Texas, 76208.



# **Basic Financial Statements**

**City Of Corinth**  
**Statement of Net Assets**  
**September 30, 2005**

	<b>Primary Government</b>			<b>Component Units</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>4(B) Econ. Dev. Corp.</b>	<b>Crime Cntrl. &amp; Prevent. SPD</b>	<b>Total</b>
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 4,210,638	\$ 195,946	\$ 4,406,584	\$ 857,153	\$ (12,437)	\$ 844,716
Accounts Receivable (net of allowance for uncollectibles)	905,081	1,187,943	2,093,024	94,403	32,908	127,311
Receivables - special assessments	55,298	-	55,298	-	-	-
Inventories	25,696	120,239	145,935	-	-	-
Prepaid expenses	76,619	-	76,619	-	-	-
Deferred charges	-	33,889	33,889	-	-	-
Restricted assets						
Restricted cash and cash equivalents	4,033,334	1,364,100	5,397,434	-	-	-
Customer meter deposits	-	331,410	331,410	-	-	-
Non-current assets						
Land	184,251	300,273	484,524	-	-	-
Building and improvements	5,087,037	230,818	5,317,855	-	-	-
Machinery and equipment	2,579,132	1,069,567	3,648,699	-	-	-
Infrastructure	1,397,153	14,153,609	15,550,762	-	-	-
Accumulated depreciation	(1,955,634)	(4,666,918)	(6,622,552)	-	-	-
Construction in progress	6,747,886	4,463,551	11,211,437	-	-	-
<b>Total assets</b>	<b>23,346,491</b>	<b>18,784,427</b>	<b>42,130,918</b>	<b>951,556</b>	<b>20,471</b>	<b>972,027</b>
<b>LIABILITIES</b>						
Current liabilities						
Accounts Payable	640,052	593,980	1,234,032	6,264	-	6,264
Accrued interest payable	276,206	16,663	292,869	-	-	-
Municipal court bonds	48,442	-	48,442	-	-	-
Current portion of long term debt	1,437,500	357,500	1,795,000	-	-	-
Current portion of compensated absences	60,000	60,065	120,065	-	-	-
Other liabilities	83,759	67,150	150,909	-	-	-
Payable from restricted assets						
Customer meter deposits	-	331,410	331,410	-	-	-
Non-current liabilities						
Compensated absences	169,487	1,041	170,528	-	-	-
Long term debt	13,323,500	2,731,500	16,055,000	-	-	-
<b>Total liabilities</b>	<b>16,038,946</b>	<b>4,159,309</b>	<b>20,198,255</b>	<b>6,264</b>	<b>-</b>	<b>6,264</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	(721,175)	12,461,900	11,740,725	-	-	-
Restricted for Capital Projects	977,579	1,256,794	2,234,373	-	-	-
Restricted for Crime Cntrl & Prevention	-	-	-	-	20,471	20,471
Restricted for Debt Service	1,801,160	-	1,801,160	-	-	-
Restricted for Economic Dev. 4B	-	-	-	945,292	-	945,292
Restricted for Highways and Streets	789,367	-	789,367	-	-	-
Restricted for Recreation	33,820	-	33,820	-	-	-
Restricted for Specific Uses	269,359	-	269,359	-	-	-
Restricted for Storm Water Utility	-	107,306	107,306	-	-	-
Restricted for Street Maintenance	162,049	-	162,049	-	-	-
Unrestricted	3,995,386	799,118	4,794,504	-	-	-
<b>Total net assets</b>	<b>\$ 7,307,545</b>	<b>\$ 14,625,118</b>	<b>\$ 21,932,663</b>	<b>\$ 945,292</b>	<b>\$ 20,471</b>	<b>\$ 965,763</b>

See accompanying notes to basic financial statements

**City Of Corinth**  
**Statement of Activities**  
**For the Year Ended September 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government:</b>				
Governmental activities:				
Community Development	\$ (350,040)	\$ -	\$ -	\$ -
Culture - recreation	(1,173,264)	130,454	123,254	5,786
Debt service	(749,545)	-	-	-
Economic development & assist.	(206,577)	-	-	-
General government	(1,792,164)	1,147,641	-	-
Highways and streets	(945,628)	-	-	-
Intergovernmental expenditures	(1,475,376)	-	-	-
Public safety	(2,378,172)	712,908	36,028	-
Total governmental activities	<u>(9,070,766)</u>	<u>1,991,003</u>	<u>159,282</u>	<u>5,786</u>
Business-type Activities:				
Storm Water Utility	(109,092)	-	-	295,598
Water & Sewer Capital Improvement	(196,155)	-	-	-
Water & Sewer Impact Fees	-	-	-	913,106
Water & Sewer Operating	<u>(7,765,605)</u>	<u>7,492,745</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>(8,070,852)</u>	<u>7,492,745</u>	<u>-</u>	<u>1,208,704</u>
Total primary government	<u>\$ (17,141,618)</u>	<u>\$ 9,483,748</u>	<u>\$ 159,282</u>	<u>\$ 1,214,490</u>
<b>Component units:</b>				
Crime Cntrl & Prevention	100,000	-	-	-
Eco. Dev. 4(B) Corporation	106,766	2,100	-	-
Total Component Units	<u>\$ 206,766</u>	<u>\$ 2,100</u>	<u>\$ -</u>	<u>\$ -</u>

**General revenues:**

Property taxes  
Franchise taxes  
Sales taxes  
Other taxes  
Interest income  
Miscellaneous  
Gain (loss) on sale of capital assets  
Transfers in (out)  
Total general revenues  
Change in net assets

Net assets - beginning, as restated (see Note I.E.)

Net assets - ending

**Net(Expense) Revenue and  
Changes in Net Assets**

<b>Primary Government</b>						
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>4(B) Econ. Dev. Corp.</b>	<b>4(B) Econ. Dev. Corp.</b>	<b>Crime Cntrl. &amp; Prevent. SPD</b>	<b>Total</b>
\$ (350,040)	\$ -	\$ (350,040)	\$ -	\$ -	\$ -	\$ -
(913,770)	-	(913,770)	-	-	-	-
(749,545)	-	(749,545)	-	-	-	-
(206,577)	-	(206,577)	-	-	-	-
(644,523)	-	(644,523)	-	-	-	-
(945,628)	-	(945,628)	-	-	-	-
(1,475,376)	-	(1,475,376)	-	-	-	-
(1,629,236)	-	(1,629,236)	-	-	-	-
<u>(6,914,695)</u>	<u>-</u>	<u>(6,914,695)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	186,506	186,506	-	-	-	-
-	(196,155)	(196,155)	-	-	-	-
-	913,106	913,106	-	-	-	-
-	(272,860)	(272,860)	-	-	-	-
<u>-</u>	<u>630,597</u>	<u>630,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(6,914,695)</u>	<u>630,597</u>	<u>(6,284,098)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	(100,000)	(100,000)
-	-	-	(104,666)	(104,666)	-	(104,666)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (104,666)</u>	<u>\$ (104,666)</u>	<u>\$ (100,000)</u>	<u>\$ (204,666)</u>
6,827,391	-	6,827,391	-	-	-	-
733,510	-	733,510	-	-	-	-
1,114,945	-	1,114,945	474,024	474,024	120,471	594,495
4,169	-	4,169	-	-	-	-
114,676	120,742	235,418	16,487	16,487	-	16,487
336,593	3,286	339,879	-	-	-	-
(100,430)	19,550	(80,880)	-	-	-	-
(486,669)	485,120	(1,549)	1,549	1,549	-	1,549
<u>8,544,185</u>	<u>628,698</u>	<u>9,172,883</u>	<u>492,060</u>	<u>492,060</u>	<u>120,471</u>	<u>612,531</u>
1,629,490	1,259,295	2,888,785	387,394	387,394	20,471	407,865
<u>5,678,055</u>	<u>13,365,823</u>	<u>19,043,878</u>	<u>557,898</u>	<u>557,898</u>	<u>-</u>	<u>557,898</u>
<u>\$ 7,307,545</u>	<u>\$ 14,625,118</u>	<u>\$ 21,932,663</u>	<u>\$ 945,292</u>	<u>\$ 945,292</u>	<u>\$ 20,471</u>	<u>\$ 965,763</u>

**City Of Corinth  
Balance Sheet  
Governmental Funds  
September 30, 2005**

	GENERAL FUND	DEBT SERVICE	P.I.D. #1	CAPITAL PROJECTS	RECREATION FUND	ST MAINT SALES TAX	SPECIAL REVENUE	Total Governmental Funds
<b>ASSETS</b>								
Current assets:								
Cash and investments	\$ 3,846,966	\$ -	\$ 4,575	\$ 4,424	\$ 39,026	\$ 114,845	\$ 9,173	\$ 4,019,009
Accounts receivable	814,889	30,770	55,298	12,217	-	47,204	-	960,378
Inventory, at cost	25,696	-	-	-	-	-	-	25,696
Prepaid expenses	55,051	-	-	-	-	-	21,568	76,619
Deferred bond insurance costs, net	-	-	-	-	-	-	-	-
Restricted cash and equivalents	60,234	1,801,160	2,959	1,766,945	-	-	241,581	3,872,879
Total assets	<u>4,802,836</u>	<u>1,831,930</u>	<u>62,832</u>	<u>1,783,586</u>	<u>39,026</u>	<u>162,049</u>	<u>272,322</u>	<u>8,954,581</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Current liabilities:								
Accounts payable	410,511	-	-	16,641	5,206	-	2,962	435,320
Municipal court bonds	48,442	-	-	-	-	-	-	48,442
Unearned revenue	270,821	30,770	59,873	-	-	-	-	361,464
Total liabilities	<u>729,774</u>	<u>30,770</u>	<u>59,873</u>	<u>16,641</u>	<u>5,206</u>	<u>-</u>	<u>2,962</u>	<u>845,226</u>
Fund balances:								
Reserved for:								
Child Safety fines	-	-	-	-	-	-	20,572	20,572
Community Park	-	-	-	47,288	-	-	-	47,288
Employee Fundraising	-	-	-	-	-	-	908	908
Encumbered for Planning	8,928	-	-	-	-	-	-	8,928
Encumbered for <input type="checkbox"/> Highways <input type="checkbox"/> Street	51,306	-	-	-	-	-	-	51,306
Debt Service	-	1,801,160	2,959	-	-	-	-	1,804,119
Keep Corinth Beautiful	-	-	-	-	-	-	2,752	2,752
Law Enforcement	-	-	-	-	-	-	953	953
Law Enforcement Education	-	-	-	-	-	-	6,801	6,801
Municipal Court Security	-	-	-	-	-	-	32,791	32,791
Municipal Court Technology	-	-	-	-	-	-	51,990	51,990
Music Festival	-	-	-	-	-	-	1,000	1,000
Parks Donations	-	-	-	-	-	-	123,265	123,265
Pave the Plaza	-	-	-	-	-	-	190	190
Police K-9 Donations	-	-	-	-	-	-	359	359
Streets Escrow	-	-	-	789,367	-	-	-	789,367
Unreserved, designated for:								
2004 Tax Note capital expenditures	-	-	-	383,363	-	-	-	383,363
Unreserved, undesignated, reported in:								
Capital Projects	-	-	-	546,927	-	-	-	546,927
General Fund	4,012,828	-	-	-	-	-	-	4,012,828
Recreation Fund	-	-	-	-	33,820	-	-	33,820
Street Maintenance Sales Tax Fund	-	-	-	-	-	162,049	-	162,049
Special Revenue	-	-	-	-	-	-	27,779	27,779
Total fund balances	<u>4,073,062</u>	<u>1,801,160</u>	<u>2,959</u>	<u>1,766,945</u>	<u>33,820</u>	<u>162,049</u>	<u>269,360</u>	<u>8,109,355</u>
Total liabilities and fund balance	\$ <u>4,802,836</u>	\$ <u>1,831,930</u>	\$ <u>62,832</u>	\$ <u>1,783,586</u>	\$ <u>39,026</u>	\$ <u>162,049</u>	\$ <u>272,322</u>	\$ <u>8,954,581</u>

See accompanying notes to basic financial statements

**City of Corinth**  
**Reconciliation of the Balance Sheet**  
**To the Statement of Net Assets**  
**September 30, 2005**

Fund balances of governmental funds		\$ 8,109,355
Amounts reported for governmental activities in the statement of net assets are different because:		
Convert capital outlay from functional activities and capital projects to capital assets		
Capital assets purchased prior to September 30, 2002		9,216,466
Capital assets purchased after October 1, 2002		3,727,184
Capital assets purchased after October 1, 2003		1,327,838
Capital assets purchased after October 1, 2004		893,841
Disposal of fully-depreciated capital assets		
Capital assets disposed		(141,999)
Recognize depreciation		
Accumulated depreciation		(983,505)
Consolidate internal service fund into government-wide accounts		147,550
Liabilities not normally liquidated with current financial resources. Earned but unavailable revenue for property taxes and special revenue for PID assessments.		(195,498)
Reverse prior year adjustment, recognize Municipal Court revenue and estimated payable to the State of Texas, adjust prior year net assets for PID assessments.		136,800
Long-term liabilities not due and payable in the current period and therefore not reported in the governmental funds:		
Long-term portion of compensated absences		(169,487)
Long-term debt		(14,761,000)
Net assets of governmental activities		\$ 7,307,545

See accompanying notes to basic financial statements



**City Of Corinth**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2005**

	GENERAL FUND	DEBT SERVICE	P.I.D. #1	CAPITAL PROJECTS	RECREATION FUND	ST MAINT SALES TAX	SPECIAL REVENUE	Total Governmental Funds
<b>REVENUES</b>								
Property taxes	\$ 4,762,241	\$ 2,030,463	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,792,704
Franchise taxes	733,510	-	-	-	-	-	-	733,510
Sales taxes	952,897	-	-	-	-	162,049	-	1,114,946
Fees and permits	916,794	-	-	-	-	-	-	916,794
Fines and forfeitures	614,242	-	-	-	-	-	-	614,242
Charges for services	292,845	-	-	-	130,454	-	-	423,299
Interest from investments	91,574	-	-	-	-	-	-	91,574
Park donations	-	-	-	-	-	-	129,040	129,040
Special assessment	-	-	4,168	-	-	-	-	4,168
Grant	36,028	-	-	-	-	-	-	36,028
Miscellaneous	93,643	-	-	-	-	-	908	94,551
Interest income	-	6,803	2,390	12,433	-	-	1,475	23,101
Child Safety Fines	-	-	-	-	-	-	9,701	9,701
Muni. Court Security	-	-	-	-	-	-	11,863	11,863
Muni. Court Technology	-	-	-	-	-	-	15,105	15,105
Total revenues	<u>8,493,774</u>	<u>2,037,266</u>	<u>6,558</u>	<u>12,433</u>	<u>130,454</u>	<u>162,049</u>	<u>168,092</u>	<u>11,010,626</u>
<b>EXPENDITURES</b>								
Current:								
Community Development	346,985	-	-	-	-	-	-	346,985
Culture - recreation	937,081	-	-	-	129,007	-	7,672	1,073,760
Economic development & assist.	206,577	-	-	-	-	-	-	206,577
General government	1,310,186	-	-	-	-	-	-	1,310,186
Highways and streets	821,183	-	-	-	-	-	-	821,183
Intergovernmental expenditures	1,475,376	-	-	-	-	-	-	1,475,376
Public safety	2,277,921	-	-	-	-	-	28,503	2,306,424
Capital outlay:								
Culture - recreation	-	-	-	5,493	-	-	-	5,493
General government	-	-	-	849,687	-	-	-	849,687
Highways and streets	-	-	-	66,539	-	-	-	66,539
Debt service:								
Administrative charges	-	4,038	-	-	-	-	-	4,038
Interest	-	728,407	17,100	-	-	-	-	745,507
Principal retirement	-	1,415,000	20,000	-	-	-	-	1,435,000
Total expenditures	<u>7,375,309</u>	<u>2,147,445</u>	<u>37,100</u>	<u>921,719</u>	<u>129,007</u>	<u>-</u>	<u>36,175</u>	<u>10,646,755</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,118,465</u>	<u>(110,179)</u>	<u>(30,542)</u>	<u>(909,286)</u>	<u>1,447</u>	<u>162,049</u>	<u>131,917</u>	<u>363,871</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Issuance of new debt	-	-	-	1,200,000	-	-	-	1,200,000
Bond agent fees	-	-	-	(20,227)	-	-	-	(20,227)
Transfers in	-	-	-	-	-	-	-	-
Transfers out	(12,420)	(485,120)	-	-	-	-	10,871	(486,669)
Total other financing sources (uses)	<u>(12,420)</u>	<u>(485,120)</u>	<u>-</u>	<u>1,179,773</u>	<u>-</u>	<u>-</u>	<u>10,871</u>	<u>693,105</u>
Net change in fund balances	1,106,045	(595,299)	(30,542)	270,487	1,447	162,049	142,788	1,056,975
Fund balances -- beginning, as restated (see note I.E.)	<u>2,967,017</u>	<u>2,396,459</u>	<u>33,501</u>	<u>1,496,458</u>	<u>32,373</u>	<u>-</u>	<u>126,572</u>	<u>7,052,380</u>
Fund balances -- ending	<u>\$ 4,073,062</u>	<u>\$ 1,801,160</u>	<u>\$ 2,959</u>	<u>\$ 1,766,945</u>	<u>\$ 33,820</u>	<u>\$ 162,049</u>	<u>\$ 269,360</u>	<u>\$ 8,109,355</u>

See accompanying notes to basic financial statements

City Of Corinth  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$ 1,056,975
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures; however, in the government-wide statements, the cost of those assets is allocated over their useful lives as depreciation expense	893,861
Depreciation expense and disposal of fully depreciated capital assets do not require the use of current financial resources and therefore are not reported in the governmental funds	(413,310)
Repayment of principal on long-term debt is reported in governmental funds but has no effect on net assets	1,435,000
Funds from issuance of long-term debt are reported as revenue in governmental funds but have no effect on net assets	(1,200,000)
Consolidate internal service fund into government-wide accounts	(18,389)
Liabilities not normally liquidated with current financial resources:	
Accrued interest expense on long-term debt is reported in the government-wide financial statements but is not included in governmental funds	(93,933)
Current period change in accrued compensated absences, reported in government-wide statements; no effect on current financial resources	(2,060)
Current period change in accrued property taxes, reported in government-wide statements; no effect on current financial resources	(28,654)
Change in net assets of governmental activities	\$ 1,629,490
See accompanying notes to basic financial statements	

**City Of Corinth**  
**GENERAL FUND**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 4,570,000	\$ 4,570,000	\$ 4,762,241	\$ 192,241
Franchise taxes	754,600	754,600	733,510	(21,090)
Sales taxes	803,000	803,000	952,897	149,897
Fees and permits	312,400	312,400	916,794	604,394
Fines and forfeitures	614,200	614,200	614,242	42
Charges for services	219,300	219,300	292,845	73,545
Interest from investments	20,000	20,000	91,574	71,574
Grant	39,500	39,500	36,028	(3,472)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>93,643</u>	<u>88,643</u>
Total revenues	<u>7,338,000</u>	<u>7,338,000</u>	<u>8,493,774</u>	<u>1,155,774</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	438,300	438,300	346,985	91,315
Culture - recreation	1,040,600	1,040,600	937,081	103,519
Economic development & assist.	308,100	308,100	206,577	101,523
General government	1,451,800	1,501,800	1,310,186	191,614
Highways and streets	897,900	897,900	821,183	76,717
Intergovernmental expenditures	1,480,500	1,480,500	1,475,376	5,124
Public safety	<u>2,457,100</u>	<u>2,457,100</u>	<u>2,277,921</u>	<u>179,179</u>
Total current:	<u>8,074,300</u>	<u>8,124,300</u>	<u>7,375,309</u>	<u>748,991</u>
Total expenditures	<u>8,074,300</u>	<u>8,124,300</u>	<u>7,375,309</u>	<u>748,991</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(736,300)</u>	<u>(786,300)</u>	<u>1,118,465</u>	<u>1,904,765</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(12,420)</u>	<u>(12,420)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(12,420)</u>	<u>(12,420)</u>
Net change in fund balances	(736,300)	(786,300)	1,106,045	1,892,345
Fund balances -- beginning	<u>2,967,017</u>	<u>2,967,017</u>	<u>2,967,017</u>	<u>-</u>
Fund balances -- ending	<u>\$ 2,230,717</u>	<u>\$ 2,180,717</u>	<u>\$ 4,073,062</u>	<u>\$ 1,892,345</u>

See accompanying notes to basic financial statements

**City Of Corinth**  
**P.I.D. #1**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Special assessment	\$ 5,000	\$ 5,000	\$ 4,168	\$ (832)
Interest income	2,300	2,300	2,390	90
Total revenues	<u>7,300</u>	<u>7,300</u>	<u>6,558</u>	<u>(742)</u>
<b>EXPENDITURES</b>				
Current:				
General government	100	100	-	100
Total current:	<u>100</u>	<u>100</u>	<u>-</u>	<u>100</u>
Debt service:				
Interest	17,100	17,100	17,100	-
Principal Retirement	20,000	20,000	20,000	-
Total debt service:	<u>37,100</u>	<u>37,100</u>	<u>37,100</u>	<u>-</u>
Total expenditures	<u>37,200</u>	<u>37,200</u>	<u>37,100</u>	<u>100</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,900)</u>	<u>(29,900)</u>	<u>(30,542)</u>	<u>(642)</u>
Net change in fund balances	<u>(29,900)</u>	<u>(29,900)</u>	<u>(30,542)</u>	<u>(642)</u>
Fund balances -- beginning	33,501	33,501	33,501	-
Fund balances -- ending	<u>\$ 3,601</u>	<u>\$ 3,601</u>	<u>\$ 2,959</u>	<u>(\$ 642)</u>

**City Of Corinth**  
**RECREATION FUND**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 155,000	\$ 155,000	\$ 130,454	\$ (24,546)
Total revenues	<u>155,000</u>	<u>155,000</u>	<u>130,454</u>	<u>(24,546)</u>
<b>EXPENDITURES</b>				
Current:				
Culture - recreation	151,548	151,548	129,007	22,541
Total current:	<u>151,548</u>	<u>151,548</u>	<u>129,007</u>	<u>22,541</u>
Total expenditures	<u>151,548</u>	<u>151,548</u>	<u>129,007</u>	<u>22,541</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,452</u>	<u>3,452</u>	<u>1,447</u>	<u>(2,005)</u>
Net change in fund balances	<u>3,452</u>	<u>3,452</u>	<u>1,447</u>	<u>(2,005)</u>
Fund balances -- beginning	32,373	32,373	32,373	-
Fund balances -- ending	<u>\$ 35,825</u>	<u>\$ 35,825</u>	<u>\$ 33,820</u>	<u>(\$ 2,005)</u>

See accompanying notes to basic financial statements

**City Of Corinth**  
**Debt Service Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Tax Revenue	\$ 1,885,600	\$ 1,885,600	\$ 1,982,913	\$ 97,313
Delinquent taxes, penalties and interest	16,400	16,400	42,322	25,922
Interest Income	8,700	8,700	12,031	3,331
Total revenues	1,910,700	1,910,700	2,037,266	126,566
<b>EXPENDITURES</b>				
Current:				
Bond Agent Fees	4,100	4,100	4,038	62
Total current:	4,100	4,100	4,038	62
Debt service:				
Interest	893,600	893,600	728,407	165,193
Principal Retirement	1,735,000	1,735,000	1,415,000	320,000
Total debt service:	2,628,600	2,628,600	2,143,407	485,193
Transfers out				
Total interfund expenditures	-	-	485,120	(485,120)
Total expenditures	2,632,700	2,632,700	2,632,565	135
Excess (deficiency) of revenues over (under) expenditures	(722,000)	(722,000)	(595,299)	126,701
Net change in fund balances	(722,000)	(722,000)	(595,299)	126,701
Fund balances -- beginning	2,396,459	2,396,459	2,396,459	
Fund balances -- ending	\$ 1,674,459	\$ 1,674,459	\$ 1,801,160	\$ 126,701

**City Of Corinth**  
**Street Maintenance Sales Tax Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Tax Revenue	\$ -	\$ -	\$ 162,049	\$ 162,049
Total revenues	-	-	162,049	162,049
<b>EXPENDITURES</b>				
Current:				
Street Maintenance	-	-	-	-
Total current:	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	162,049	162,049
Net change in fund balances	-	-	162,049	162,049
Fund balances -- beginning	-	-	-	
Fund balances -- ending	\$ -	\$ -	\$ 162,049	\$ 162,049

See accompanying notes to basic financial statements

**City Of Corinth**  
**Capital Projects Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Other Financing Sources - New bonds	\$ 2,000,000	\$ 2,000,000	\$ -	\$ (2,000,000)
Other Financing Sources - 2004 Tax Note	-	-	1,200,000	1,200,000
Interest Income, new bond issue	20,000	20,000	-	(20,000)
Interest Income	2,900	2,900	12,433	9,533
Total revenues	<u>2,022,900</u>	<u>2,022,900</u>	<u>1,212,433</u>	<u>(810,467)</u>
<b>EXPENDITURES</b>				
Current:				
Bond Agent Fees	-	-	20,227	(20,227)
Total current:	-	-	20,227	(20,227)
Capital Outlay:				
Capital purchases, 2004 Tax Note	2,062,000	2,062,000	921,719	1,140,281
Total capital outlay:	<u>2,062,000</u>	<u>2,062,000</u>	<u>921,719</u>	<u>1,140,281</u>
Total expenditures	<u>2,062,000</u>	<u>2,062,000</u>	<u>941,946</u>	<u>1,120,054</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,100)</u>	<u>(39,100)</u>	<u>270,487</u>	<u>309,587</u>
Net change in fund balances	(39,100)	(39,100)	270,487	309,587
Fund balances -- beginning	1,496,458	1,496,458	1,496,458	-
Fund balances -- ending	<u>\$ 1,457,358</u>	<u>\$ 1,457,358</u>	<u>\$ 1,766,945</u>	<u>\$ 309,587</u>

See accompanying notes to basic financial statements

**City Of Corinth**  
**Corinth Economic Development Corporation (4B)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales taxes	\$ 410,000	\$ 410,000	\$ 474,024	\$ 64,024
Interest income	3,400	3,400	16,487	13,087
Charges for services	-	-	2,100	2,100
Transfers in	-	-	1,549	1,549
Total revenues	<u>413,400</u>	<u>413,400</u>	<u>494,160</u>	<u>80,760</u>
<b>EXPENDITURES</b>				
Current:				
Economic development	353,675	353,675	106,766	246,909
Total current:	<u>353,675</u>	<u>353,675</u>	<u>106,766</u>	<u>246,909</u>
Total expenditures	<u>353,675</u>	<u>353,675</u>	<u>106,766</u>	<u>246,909</u>
Excess (deficiency) of revenues over (under) expenditures	<u>59,725</u>	<u>59,725</u>	<u>387,394</u>	<u>327,669</u>
Net change in fund balances	59,725	59,725	387,394	327,669
Fund balances -- beginning	557,898	557,898	557,898	-
Fund balances -- ending	<u>\$ 617,623</u>	<u>\$ 617,623</u>	<u>\$ 945,292</u>	<u>\$ 327,669</u>

**City Of Corinth**  
**Corinth Crime Control and Prevention District (Special Purpose District)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**For the Year Ended September 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales taxes	\$ 110,000	\$ 110,000	\$ 120,471	\$ 10,471
Total revenues	<u>110,000</u>	<u>110,000</u>	<u>120,471</u>	<u>10,471</u>
<b>EXPENDITURES</b>				
Current:				
Crime Control and Prevention	8,050	8,050	-	8,050
Capital outlay	100,000	100,000	100,000	-
Total current:	<u>108,050</u>	<u>108,050</u>	<u>100,000</u>	<u>8,050</u>
Total expenditures	<u>108,050</u>	<u>108,050</u>	<u>100,000</u>	<u>8,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,950</u>	<u>1,950</u>	<u>20,471</u>	<u>18,521</u>
Net change in fund balances	1,950	1,950	20,471	18,521
Fund balances -- beginning	-	-	-	-
Fund balances -- ending	<u>\$ 1,950</u>	<u>\$ 1,950</u>	<u>\$ 20,471</u>	<u>\$ 18,521</u>

See accompanying notes to basic financial statements

**City Of Corinth**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2005**

	Business-type Activities - Enterprise Funds	
	Water, Storm Water and Sewer Funds	Gov. Activities Internal Service Funds
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 195,946	\$ 352,083
Accounts receivable	1,187,943	-
Inventory, at cost	120,239	-
Restricted assets:		
Customer meter deposits	331,410	-
Restricted cash and equivalents	1,364,100	-
Total current and restricted assets	3,199,638	352,083
Noncurrent assets:		
Def bond insurance costs, net	33,889	-
Land	300,273	-
Property, plant, & equip, net	10,787,076	-
Construction in progress	4,463,551	-
Total non-current assets	15,584,789	-
Total assets	18,784,427	352,083
<b>LIABILITIES AND FUND BALANCES</b>		
Current liabilities:		
Accounts payable	593,980	153,903
Accrued interest payable	16,663	-
Other liabilities	67,150	50,630
Customer meter deposits	331,410	-
Compensated absences	60,065	-
Current portion of long term debt	357,500	-
Total current liabilities	1,426,768	204,533
Non current liabilities:		
Compensated absences	1,041	-
Long term debt	2,731,500	-
Total non-current liabilities	2,732,541	-
Total liabilities	4,159,309	204,533
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,461,900	-
Restricted for Capital Projects	1,256,794	-
Restricted for Storm Water Utility	107,306	-
Unrestricted	799,118	147,550
Total net assets	\$ 14,625,118	\$ 147,550

See accompanying notes to basic financial statements



**City Of Corinth**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2005**

	Business-type Activities - Enterprise Funds	
	Water, Storm Water and Sewer Funds	Gov. Activities Internal Service Funds
<b>Operating revenues</b>		
Water sales	\$ 3,829,639	\$ -
Sewer disposal revenue	2,471,792	-
Garbage charges	773,878	-
Penalties and reconnect fees	186,838	-
Tap and service fees	227,110	-
Inspections	3,488	-
Insurance deductions	-	230,273
Total operating revenues	7,492,745	230,273
<b>Operating expenses</b>		
Amortization	77,307	-
Gen gov't (administrative)	199,000	-
Fleet maintenance	19,274	-
Capital outlay	34,514	-
Water purchases	2,563,602	-
Sewer treatment fees	1,811,349	-
Garbage contract fees	734,963	-
Salaries and benefits	1,163,349	-
Maintenance and supplies	444,211	-
Administration	342,618	-
Depreciation	462,708	-
Health insurance pmts	-	253,746
Other	40,561	-
Training	8,467	-
Printing and advertising	182	-
Equipment rental	10,882	-
Total operating expenses	7,912,987	253,746
<b>Operating income (loss)</b>	(420,242)	(23,473)
<b>Non-operating revenues (expenses)</b>		
Interest income	120,742	5,084
Miscellaneous revenue	3,286	-
Gain (loss) on sale of capital assets	19,550	-
Debt service-interest	(157,865)	-
Total non-operating revenues (expenses)	(14,287)	5,084
<b>Income (loss) before contributions and transfers</b>	(434,529)	(18,389)
Special assessment - storm water utility fees	295,598	-
Special assessment - water and sewer impact fees	913,106	-
Transfers in	485,120	-
Change in net assets	1,259,295	(18,389)
Total net assets -- beginning, as restated (see Note I.E.)	13,365,823	165,939
Total net assets -- ending	\$ 14,625,118	\$ 147,550

See accompanying notes to basic financial statements

**City Of Corinth**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2005**

	Business-type Activities	
	Water, Storm Water and Sewer Funds	Gov. Activities Internal Service Funds
<b>Operating activities</b>		
Operating Income	\$ (420,242)	\$ (23,473)
Adjustments:		
Depreciation	124,502	-
Change in accounts receivable	(385,530)	-
Change in prepaid accounts	13,842	-
Change in customer deposits	8,414	-
Change in accounts payable	267,507	25,275
Change in other liabilities	(417,838)	-
Total cash from operations	(809,345)	1,802
<b>Capital and related financing activities</b>		
Principal payments on long-term debt	(320,000)	-
Interest paid on long-term debt	(157,865)	-
Amortization of bond issuance cost	33,889	-
Reduction of accumulated depreciation due to asset disposal	338,203	-
Water and sewer impact fees	913,106	-
Storm drainage utility fees	295,598	-
Gain (loss) on sale of capital assets	19,550	-
Total cash from capital and related financing activities	1,122,481	-
<b>Non-capital financing activities</b>		
Miscellaneous revenue	3,286	-
Transfers from general fund	485,120	-
Repayment of advance from general fund	(1,220,619)	-
Total cash from non-capital financing activities	(732,213)	-
<b>Investing activities</b>		
Investment interest received	120,742	5,084
Total cash from investing activities	120,742	5,084
Change in cash	(298,335)	6,886
Cash, beginning of year	2,189,791	345,197
Cash, end of year*	\$ 1,891,456	\$ 352,083

\*Cash includes \$1,256,794 restricted for capital projects, \$107,306 restricted for storm water utility and \$331,410 restricted for customer meter deposits

See accompanying notes to basic financial statements



**CITY OF CORINTH**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**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 (GASB). 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.

**Discretely Presented Component Units:**

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.F. Other Information- Component Unit Information.

The CEDC is governed by a board of directors which is appointed by and serves 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 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 (1/4) 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 which is appointed by and serves 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.

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," GASB Statement No. 37, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." There was no effect on fund balance as a result of implementing these statements.

GASB 34 creates new basic financial statements for reporting the City's financial activities. The financial statements now include government-wide statements prepared on an accrual basis of accounting and fund financial statements that present information for individual major funds rather than by fund type.

As a part of GASB 34, there is a new reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.) with required implementation for fiscal years ending after June 15, 2007. Due to the ongoing inventory and valuation of historic infrastructure (acquired and/ or constructed prior to fiscal years

2004 and 2005), the City has elected not to implement historic infrastructure reporting for the year ended September 30, 2005.

### **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 City and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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 instead 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, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore 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. Sales tax revenue is a General Fund revenue which is collected by the State and remitted to the City. Effective September 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." The City began recognizing sales tax revenue in the period in which it becomes susceptible to accrual, 60 days before collection. Prior to this date the City had been using a 30 day accrual. The change in accrual effected thirteen months of collections for fiscal year 2005. The \$105,324 additional revenue is shown in the general fund as well as \$52,662 in the Corinth Economic Development Corporation. The Street Maintenance Sales Tax and the Corinth Crime Control and Prevention District Sales Tax accruals were not affected because those taxes were levied as of January 1, 2005, which was within the current fiscal year.

**The City reports the following major governmental funds:**

**General Fund** - accounts 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** - 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** - is used to account for the acquisition and construction of major capital infrastructure and facilities other than those financed by proprietary funds and trust funds.

**Recreation Fund** – is used to account for the recreation and leisure activities the City provides for its citizens.

**Street Maintenance Sales Tax Fund** – is used to account for the collection of the Street Maintenance Sales Tax, a one-quarter ( $\frac{1}{4}$ ) of one percent sales tax levied as of January 1, 2005 and related expenditures.

**Special Revenue Fund** – is used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**Public Improvement District #1 (PID) Fund** – the PID fund accounts for the collection of special assessment funds for Public Improvement District #1.

**The City reports the following proprietary funds:**

**Water and Sewer Fund** — is used to account for operations of the water and sewer system which 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.

**Internal Service Fund** - accounts for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

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 are charges between the City's water, sewer, sanitation, recreation and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services 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. Investments are stated at fair value and carry maturity dates of longer than three months, but not more than one year.

**Receivables and payables**

All trade and property tax 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. The property tax receivable allowance is based on a factor using the historical collection rate of delinquent taxes.

Ad valorem taxes are levied from valuations assessed as of January 1 and 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. Penalties and interest on unpaid taxes are calculated according to the table below:

Penalties and Interest on unpaid taxes are calculated at the following rates:

IF TAX IS PAID IN	ADD			TOTAL
	PENALTY		INTEREST	
FEB	6%	+	1%	= 7%
MAR	7%	+	2%	= 9%
APR	8%	+	3%	= 11%
MAY	9%	+	4%	= 13%
JUN	10%	+	5%	= 15%
JUL	12%	+	6%	= 18%

**Inventories and prepaid items**

All inventories are valued at first-in first-out cost and consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are accounted for under the consumption method.

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 (i.e. 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:

Assets	Years
Buildings	50
Building Improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles and heavy equipment	5-10
Office equipment	5-7

## Accumulated 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, governmental 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 use. Designations of fund balance represent tentative management plans that are subject to change.



**Government-wide statement adjustments** – A prior period adjustment to remove an outstanding liability in the Water and Sewer Enterprise Fund increased beginning net assets by \$226,067. The adjustment was made to remove an outstanding payable. The payable was expensed in prior fiscal years; however, the liability remained on the books. To remove the liability, fund balance was credited for the outstanding amount.

	<u>Water and Sewer Enterprise Fund</u>
Fund balance at September 30, 2004, as previously reported	\$13,139,756
Entry to remove outstanding accounts payable liability	<u>226,067</u>
Adjusted fund balance at September 30, 2004	\$13,365,823

Additionally an adjustment was made to the general fund beginning net assets to the account for encumbered funds that were previously reported as liabilities.

	<u>General Government Fund</u>
Net assets at September 30, 2004, as previously stated	\$5,617,820
Entry to reclass encumbrances as reserved equity	<u>60,235</u>
Adjusted net assets at September 30, 2004	\$5,678,055

**Fund level statement adjustments** – The above adjustments to the Water and Sewer Fund and to the General Fund were the only fund level adjustments made in fiscal year 2005.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary information

The following procedures are used in establishing the budgetary data reflected in the financial statements:

- a. 60 days prior to the start of the new fiscal year, the City Manager submits to the Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain taxpayer comments concerning the proposed budget.
- c. Prior to September 15, the budget is legally enacted by the City Council through passage of an ordinance.
- d. Formal budgetary integration is employed as a management control device during the year for the General and Debt Service Funds and the Water and Sewer System Fund.
- e. Budgets for the General and Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the Water and Sewer System Fund is 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. All annual appropriations lapse at fiscal year-end unless encumbered. Budget to Actual for General Government and Component Units can be found in the Basic Financial Statements.

The City Council is required to approve all budget amendments that alter department or operating appropriations. There was one budget amendment in fiscal year 2004-2005 which allocated \$50,000 of unreserved general fund balance to the City Administration Contract Labor Account. The City Council did not approve a budget for the new Street Maintenance Sales Tax Fund in 2005; the \$162,049 in sales tax collected is utilized in the 2005-2006 budget. The Special Revenue Fund is not included in the annual budget process; special projects are addressed on an individual basis by management and the Council.

The Capital Projects Fund budget included a general obligation bond issue for 2005 that the City did not issue in fiscal year 2005. The 2004 Tax Note was not included in the budget; however, it was accounted for in the capital projects fund. The Debt Service fund shows variances in expenditures due to the transfer to the Water and Sewer Fund for debt service payments. The budget was adopted with those payments made directly from the Debt Service Fund; however, to accurately match the bond payments with the fund that received the proceeds, a transfer was made to the Water and Sewer Fund and the debt service payments were made from that fund.

**B. Excess of expenditures over appropriations**

The City experienced revenues in excess of expenditures in the amount of \$1,056,975. The city had budgeted to use \$736,300 in reserves for fiscal year 2005. In the general fund, revenues exceeded expectations by a total of \$1,155,774 due to higher than expected property tax revenues, fees and permits and investment interest. Expenditures were less than budget by \$748,991 due to offsetting departmental budgeted variances and city-wide vacancy savings. See the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for a line item variance analysis.

The Lake Cities Fire Department (LCFD) reimburses the City for payroll costs on a biweekly basis. The total reimbursement for these costs was \$2,174,360. This revenue and expenditure are eliminated in the financials; the intergovernmental expenditure of \$1,475,376 shown is the contracted cost of operations for the LCFD allocated to the City of Corinth. Previously the payroll expenditure and the related revenue were not eliminated, both the revenue and expense were reported in public safety, as well as the intergovernmental payment for services.

**C. Deficit fund equity**

All City funds finished the fiscal year with a surplus in total fund equity at the fund level.

**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, 2005, the City's total account balance of demand deposits was \$4,184,068.

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 Corporation or Moody's, and repurchase agreements. The City did not engage in repurchase nor reverse repurchase agreement transactions during the year. At year end, the City's investment balances were in the following public funds investment pools:

<u>Public Funds Investment Pool:</u>	<u>9/30/2005 Reported Amount/ Fair Value</u>
TexPool	\$3,474,577.47
TexSTAR	3,566,470.13
	<hr/>
Total	\$7,041,047.60

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.

*Interest rate risk.* The City manages its interest rate risk by investing in the public funds investment pools listed above, which have specified maximum weighted average maturities for their investment portfolios. The maximum average weighted maturity 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.

*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 to it. 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. The CCD does not have a collateralization agreement with the depository bank. The taxes collected by the CCD are deposited into the City's general fund bank account where they are currently held. The CCD plans to open an account with one of the local government investment pools (LGIP), thereafter, on a monthly basis, the funds collected for the CCD will be transferred monthly from the general fund account to the LGIP.

## B. Receivables

Receivables as of the year ended September 30, 2005 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	Debt Service		Capital Projects		St. Maint. Sales	Water & Sewer	Total
	General Fund	Fund	PID #1 Fund	Fund	Tax Fund	Fund	
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	258,691	30,770	-	-	47,204	-	336,665
Accounts	165,769	-	-	-	-	1,224,920	1,390,689
Warrants	1,280,635	-	-	-	-	-	1,280,635
Grants	-	-	-	12,217	-	-	12,217
Special assessments	-	-	55,298	-	-	-	55,298
Intergovernmental	222,513	-	-	-	-	-	222,513
Restricted intergovernmental	-	-	-	-	-	-	-
Gross Receivables	1,927,608	30,770	55,298	12,217	47,204	1,224,920	3,298,017
LESS: Allowance for uncollectibles	(1,112,719)	-	-	-	-	(36,977)	(1,149,696)
Net total receivables	\$ 814,889	\$ 30,770	\$ 55,298	\$ 12,217	\$ 47,204	\$ 1,187,943	\$ 2,148,321

The only receivable not anticipated to be collected in full within one year is the P.I.D. #1 special assessment receivable, which is collected monthly, quarterly, semi-annually and annually, depending on the original agreement with the homeowner in the P.I.D. Approximately \$49,000 of the receivable will carry over into subsequent fiscal years.

## C. Capital assets

Capital asset additions, disposals, and depreciation for governmental activities and business-type activities for the year ended September 30, 2005 was as follows:

<b>Governmental activities:</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 184,251	\$ -	\$ -	\$ 184,251
Construction in progress	6,795,898	70,302	(118,314)	6,747,886
Totals, capital assets not being depreciated	6,980,149	70,302	(118,314)	6,932,137
Capital assets, being depreciated:				
Automobile & machinery	2,041,563	682,568	(144,999)	2,579,132
Infrastructure	1,203,346	193,807	-	1,397,153
Building and improvements	5,069,550	17,487	-	5,087,037
Totals, capital assets being depreciated	8,314,459	893,862	(144,999)	9,063,322
Less: accumulated depreciation for:				
Automobile & machinery	(1,171,710)	(259,728)	141,999	(1,289,439)
Infrastructure	(94,573)	(64,223)	-	(158,796)
Building and improvements	(373,059)	(134,340)	-	(507,399)
Total accumulated depreciation	(1,639,342)	(458,291)	141,999	(1,955,634)
Total capital assets, being depreciated, net	6,675,117	435,571	(3,000)	7,107,688
City capital assets, net	\$ 13,655,266	\$ 505,873	\$ (121,314)	\$ 14,039,825

<b>Business-type activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 300,273	\$ -	\$ -	\$ 300,273
Construction in progress	4,238,651	224,900	-	4,463,551
Total capital assets not being depreciated	<u>4,538,924</u>	<u>224,900</u>	<u>-</u>	<u>4,763,824</u>
Capital assets, being depreciated:				
Automobile & machinery	981,254	-	(56,733)	924,521
Office equipment	145,046	-	-	145,046
Water distribution system	9,639,152	57,132	-	9,696,284
Sewage disposal system	4,744,623	-	(287,298)	4,457,325
Building and improvements	230,818	-	-	230,818
Total capital assets being depreciated	<u>15,740,893</u>	<u>57,132</u>	<u>(344,031)</u>	<u>15,453,994</u>
Less: accumulated depreciation for:				
Automobile & machinery	(779,849)	(69,278)	50,906	(798,221)
Office equipment	(124,761)	(10,050)	-	(134,811)
Water distribution system	(1,816,517)	(259,734)	-	(2,076,251)
Sewage disposal system	(1,756,724)	(116,277)	287,296	(1,585,705)
Building and improvements	(64,561)	(7,369)	-	(71,930)
Total accumulated depreciation	<u>(4,542,412)</u>	<u>(462,708)</u>	<u>338,202</u>	<u>(4,666,918)</u>
Total capital assets, being depreciated, net	<u>11,198,481</u>	<u>(405,576)</u>	<u>(5,829)</u>	<u>10,787,076</u>
Capital assets, net	<u>\$ 15,737,405</u>	<u>\$ (180,676)</u>	<u>\$ (5,829)</u>	<u>\$ 15,550,900</u>

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

<b>Governmental activities:</b>	
General government	\$ 161,270
Community development	3,055
Culture - recreation	94,011
Highways and streets	128,208
Public safety	71,747
<b>Total depreciation expense - Governmental activities:</b>	<u>\$ 458,291</u>
<b>Business-type activities:</b>	
Water	\$ 346,431
Sewer	116,277
<b>Total depreciation expense - Business-type activities:</b>	<u>\$ 462,708</u>

#### D. Leases

The City leases copy machines and a postage mailing system that account for on-going operating expenditures of \$45,135 annually.

#### E. Long-term debt

General long-term debt of the City governmental activities consists of three general obligation bond series, two certificates of obligation, tax notes, and accrued compensated absences. General obligation bond retirement is provided from ad valorem tax while the note is serviced by the General Fund. 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 a portion of one general obligation bond series, one certificates of obligation series, and accrued compensated absences, with interest rates ranging from 4.65% to 6.3%. Business-type activities long-term debt is serviced by revenue from the water and sewer system.

A summary of changes in the long-term debt for the fiscal year follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
<b>Governmental activities:</b>					
General Obligation Bonds	\$ 13,796,000	\$ -	\$ (675,000)	\$ 13,121,000	\$ 657,500
Certificates of Obligation and Tax Notes	1,200,000	1,200,000	(760,000)	1,640,000	780,000
Compensated absences	227,426	218,466	(216,405)	229,487	60,000
<b>Total governmental activities:</b>	<u>15,223,426</u>	<u>1,418,466</u>	<u>(1,651,405)</u>	<u>14,990,487</u>	<u>1,497,500</u>
<b>Business-type activities:</b>					
General Obligation Bonds	3,024,000	-	(135,000)	2,889,000	157,500
Certificates of Obligation and Tax Notes	385,000	-	(185,000)	200,000	200,000
Compensated absences	54,443	72,779	(66,116)	61,106	60,065
<b>Total business-type activities:</b>	<u>\$ 3,463,443</u>	<u>\$ 72,779</u>	<u>\$ (386,116)</u>	<u>\$ 3,150,106</u>	<u>\$ 417,565</u>

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

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

	Governmental Activities Amount Outstanding	Business-type Activities Amount Outstanding
General Obligation Bonds:		
\$850,000, General Obligation Bonds, Series 1985A serial bonds due in annual installments of \$45,000 to \$65,000 through July, 2005; interest at 8.20%	\$ -	\$ -
\$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%.	3,531,000	2,889,000
\$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%.	5,625,000	-
\$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%.	2,170,000	-
\$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%.	1,795,000	-
<b>Total General Obligation Bonds</b>	<b>13,121,000</b>	<b>2,889,000</b>
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%.	-	200,000
\$430,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, serial obligations due in annual inatallments of \$15,000 to \$35,000 through February, 2016; interest at 5.75% to 6.80%.	300,000	-
\$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%.	615,000	-
<b>Total Certificates of Obligation</b>	<b>915,000</b>	<b>200,000</b>
Limited Tax Notes:		
\$530,000 Limited Tax Note, Series 2001, due in annual installments of \$90,000 to \$120,000 through February, 2006; interest at 5.70%.	120,000	-
\$1,200,000 Limited Tax Note, Series 2004, due in annual installments of \$595,000 to \$605,000 through February, 2006; interest at 2.60%.	605,000	-
<b>Total Limited Tax Notes</b>	<b>725,000</b>	<b>-</b>
<b>Grand Total Outstanding □ebt</b>	<b>\$ 14,761,000</b>	<b>\$ 3,089,000</b>

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

General Obligation Bonds:

Year Ended September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 657,500.00	\$ 625,247.00	\$ 157,500.00	\$ 139,971.00
2007	707,250.00	589,219.00	177,750.00	132,177.00
2008	748,250.00	552,631.00	186,750.00	123,656.00
2009	779,250.00	517,074.00	195,750.00	114,618.00
2010	807,500.00	202,500.00	480,981.88	105,058.13
2011-2022	9,421,250.00	1,968,750.00	2,330,605.12	425,365.87

Certificates of Obligation:

Year Ended September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 55,000.00	\$ 46,066.00	\$ 200,000.00	\$ 6,300.00
2007	55,000.00	43,386.00	-	-
2008	65,000.00	40,405.00	-	-
2009	65,000.00	37,128.00	-	-
2010	65,000.00	33,795.00	-	-
2011-2022	610,000.00	126,469.00	-	-

Limited Tax Notes:

Year Ended September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 725,000.00	\$ 14,705.00	\$ -	\$ -
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011-2022	-	-	-	-

**Defeased debt:** the City of Corinth legally defeased portions of the original \$4,660,000 Combination Tax & Revenue Certificates of Obligation, Series 1994 by placing a portion of the proceeds from the \$8,245,000 General Obligation Refunding & Improvement Bonds, Series 1997 in an irrevocable trust to provide for all future debt service payments of the old Series 1994 Certificates. Accordingly, the trust and legally defeased Certificates were not included in the City's financial statements. The remaining outstanding balance of legally defeased certificates was paid off in their entirety on February 15, 2005.



## Deferred bond issuance costs:

<b>Deferred bond issuance costs:</b>	<u>Costs</u>
Bond issuance costs incurred in fiscal year 1994 in connection with the \$4,660,000 certificates of obligation issue	\$ 105,109
Loss on refunding incurred in fiscal year 1998 in connection with the business-type portion of the \$8,245,000 general obligation issue	174,473
Bond issuance costs incurred in fiscal year 1998 in connection with the business-type portion of the \$8,245,000 general obligation issue	104,491
LESS: amortization through September 30, 2005	(324,573)
Deferred bond issuance costs, net	<u>\$ 59,500</u>

## 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 non-traditional, joint contributory, hybrid-defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 802 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 a percent (100%, 150%, or 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. This 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:

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, 2004 valuation is effective for rates beginning January 2006).

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>
Actuarial Value of Assets	\$ 5,200,450	\$ 4,135,143	\$ 2,425,948
Actuarial Accrued Liability	6,448,306	5,215,888	3,155,136
Percentage Funded	80.65%	79.30%	76.90%
Unfunded Actuarial Accrued Liability (UAAL)	1,247,856	1,080,745	729,188
Annual Covered Payroll	5,525,187	4,903,503	4,402,317
UAAL as a % of Covered Payroll	22.58%	22.00%	16.60%
Net Pension Obligation (NPO) at the Beginning of the Period	-	-	-
Annual Pension Cost	-	-	-
Annual Required Contribution (ARC)	501,120	441,389	426,836
Contributions Made	501,120	441,389	426,836
Increase in NPO	-	-	-
NPO at the End of the Period	-	-	-

Note: Trend data presented is audited information as of December 31 of the previous year, which is the fiscal year of the Texas Municipal Retirement System.

**C. Restricted assets – Water and Sewer Fund**

Restricted assets in the Water and Sewer Fund, held for specific purposes in accordance with bond covenants or legal restrictions, at September 30, 2005, are comprised of the following:

Capital projects	\$ 1,256,794
Meter deposits	331,410
Total	<u>\$ 1,588,204</u>

**D. 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.

**E. Self insurance**

Prior to October 1, 2004, the City operated under a partially self-insured medical plan and a dental self-insurance plan for City employees and their covered dependents. Beginning in fiscal year 1998, the City established an Internal Service Fund to account for these activities to facilitate accountability and management control. The fund balance remaining after October 1, 2004 was reserved to cover claims incurred but not submitted. For the 2005-2006 budget, a portion of the remaining funds was allocated to help offset increasing health care costs for the City.

**F. 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, amphitheatres, 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 closing balance as of the end of September 30, 2004, was \$557,898. The CEDC's fund balance grew to \$945,292 as of September 30, 2005 due to slightly increased sales tax collections and considerable vacancy savings during the year.

### **Corinth Crime Control and Prevention District**

#### Background

A Special Purpose District (SPD) is defined by the Texas State Comptroller as a specific geographic area in which a tax may be levied to raise revenue to support the function for which it was created. The SPD provides specialized service only to those people who live within the district. The Corinth Crime Control and Prevention District was organized as a Special Purpose District under Chapter 363, Texas Local Government Code. The special election to levy an additional sales tax for the District took place on September 11, 2004. The Comptroller's office notified area merchants to begin collecting the additional one-quarter (¼) cent sales tax on January 1, 2005 and the City began receiving revenue from the tax in March, 2005. Each month, the Comptroller's office issues a payment for the SPD sales tax separate from the general city sales tax.

#### Current Year

For the nine months of fiscal year 2005 during which the SPD sales tax was levied, collections totaled \$120,471. \$100,000 was allocated toward the purchase of four new police cruisers for the City, leaving a fund balance of \$20,471 as of September 30, 2005.

### **G. Non-major other governmental funds, component units, and internal service funds**

GAAP require the presentation of financial statements to be comprehensive. To be truly comprehensive, the financial statements must provide information on each individual fund and component unit. As a rule, the basic financial statements provide detailed information only on major individual governmental funds, major individual enterprise funds, and major individual component units. Accordingly, it is the role of the combining and individual fund presentations to provide the needed level of detail for non-major governmental funds, non-major enterprise funds, individual internal service funds, fiduciary funds, and non-major individual discretely presented component units.

The financial statements should include a combining statement to support each column in the basic financial statements that aggregates data from more than one fund or discretely presented component unit. However, combining statements are not necessary in situations where there is only one individual fund in any of these categories. Therefore, since there is only one of each of the following, no combining statements are presented for the Governmental Public Improvement District (PID) Fund or the Internal Service Fund. The Corinth Economic Development Corporation (CEDC) and the Corinth Crime Control and Prevention District, though both component units, are presented separately on the face of the Government-wide financial statements. Budgetary comparisons immediately follow the governmental financial statements in the Basic Financial Statements.

#### H. **Contingent liabilities**

During fiscal year 2004, a housing discrimination lawsuit that alleged violations of federal and state Fair Housing Acts, as well as federal and state takings allegations and related claims was brought against the City by a developer. The City disputed the allegations. Based on the information available at September 30, 2004, it was not possible to make a reliable evaluation or estimate of the amount or range of possible loss, if any. The City and the developer reached a settlement on March 24, 2005 (amended July 14, 2005). No material adverse effect on the financial condition of the government is anticipated in association with the settlement. There were no other contingent liabilities as of September 30, 2005.

#### V. **SUBSEQUENT EVENTS**

##### A. **Advance and current refundings**

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.

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