OFFICIAL STATEMENT
Dated December 7, 2005

Ratings:
Moody's: "Aaa"
S&P: "AAA"
CIFG Insured See ("Bond Insurance" and "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 BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$5,080,000
CITY OF CORINTH, TEXAS
(Denton County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2005

Dated Date: December 1, 2005 **Due: February 15, as shown on page 2**

PAYMENT TERMS. . . Interest on the $5,080,000 City of Corinth, Texas, General Obligation Refunding Bonds, Series 2005 (the "Bonds") will accrue from December 1, 2005 (the "Dated Date") and will be payable August 15 and February 15 of each year, commencing August 15, 2006, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DUTCH") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A., Jacksonville, Florida (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).

INSURANCE . . . The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by CIFG Assurance North America, Inc. ("CIFG"). See "Bond Insurance" herein.

CIFG
IXIS FINANCIAL GUARANTY

CUSIP PREFIX: 21885A

MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

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 (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Winstead Sechrest & Minick P.C., Dallas, Texas, Counsel to the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on December 28, 2005.

COASTAL SECURITIES

CUSIP Prefix: 21885A[1]

MATURITY SCHEDULE

Amount	Maturity (Feb. 15)	Rate	Price or Yield	CUSIP Suffix[1]	Amount	Maturity (Feb. 15)	Rate	Price or Yield	CUSIP Suffix[1]
$ 25,000	2007	4.00%	3.45%	GB(3)	515,000	2013	4.00%	3.73%	GH(0)
55,000	2008	4.00%	3.50%	GC(1)	$ 525,000	2014	4.00%	3.78%	GJ(6)
170,000	2009	4.00%	3.53%	GD(9)	550,000	2015	4.00%	3.83%	GK(3)
215,000	2010	4.00%	3.58%	GE(7)	560,000	2016	4.00%	3.88% [2]	GL(1)
475,000	2011	4.00%	3.63%	GF(4)	555,000	2017	4.25%	3.93% [2]	GM(9)
500,000	2012	4.00%	3.68%	GG(2)	580,000	2018	4.25%	3.98% [2]	GN(7)

$355,000 4.25% Term Bond due February 15, 2020, priced to yield 4.03%[2], CUSIP: GP(2)

(Accrued Interest from December 1, 2005 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.

(2) The yields for the Bonds maturing in the years 2016 through 2018 and 2020 have been calculated based on the assumption that such Bonds will be called by the City on February 15, 2015, the first optional redemption date for the Bonds.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2016, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2015 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . The Bond maturing on February 15, 2020 (the "Term Bond") is subject to mandatory sinking fund redemption in the amounts and at a price of par plus accrued interest to the redemption date on February 15 in the following years:

Bond Maturing 15-Feb-20	
Year	Amount
2019	$ 175,000
2020 [1]	180,000

(1) Maturity.

The particular Term Bond to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Bond required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of said Term Bond of the respective maturity which, at least 45 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement (see "The Bonds – Mandatory Sinking Fund Redemption").

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

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

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

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

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. ***Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking 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.

NEITHER THE CITY NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY- ONLY SYSTEM OR THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG") OR ITS POLICY AS DESCRIBED UNDER "BOND INSURANCE" HEREIN, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND CIFG, RESPECTIVELY. 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. NEITHER THE CITY NOR THE UNDERWRITERS SHALL 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 Official Statement.

OFFICIAL STATEMENT SUMMARY

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

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 8.5 square miles (see "Introduction – Description of City").
THE BONDS	The $5,080,000 City of Corinth, Texas, General Obligation Refunding Bonds, Series 2005 are offered as serial bonds maturing on February 15 in each of the years 2007 through 2018 and as a term bond maturing February 15, 2020 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 December 1, 2005, and is payable August 15, 2006 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 **has** 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, 2016, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption"). In addition, the Bonds maturing on February 15, 2020, are subject to mandatory sinking fund redemption (see "The Bonds - Mandatory Sinking Fund 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 have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P") by virtue of an insurance policy to be issued by CIFG Assurance North America, Inc. upon delivery of the Bonds to the Underwriter. The presently outstanding tax supported debt of the City is rated "A2" by Moody's and "A" S&P without regard to ccredit enhancement. 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").
BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "The Bonds - Book-Entry-Only System").

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[1]	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
2002	15,800	$ 950,457,676	60,156	$ 20,565,000	1,302	2.16%	100.30%
2003	16,919	1,033,646,090	61,094	19,515,000	1,153	1.89%	106.02%
2004	17,592	1,100,327,801	62,547	18,415,000	1,047	1.67%	105.69%
2005	17,800	1,176,507,082	66,096	17,850,000	1,003	1.52%	102.99% [2]
2006	18,500	1,185,660,729	64,090	16,260,000	879	1.37%	0.00%

(1) Source: North Central Texas Council of Governments.
(2) Collections through September 30, 2005.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2005[1]	2004	2003	2002	2001
Beginning Balance	$ 2,906,781	$ 1,580,277 [2]	$ 3,254,610	$ 4,554,602	$ 3,260,842
Total Revenue	10,500,763	10,355,034	8,525,792	7,521,250	8,366,386
Total Expenditures	9,533,576	9,028,530	9,595,403	8,481,630	7,602,326
Net Transfers	-	-	787,500	(339,612)	529,700
Net Funds Available	967,187	1,326,504	(282,111)	(1,299,992)	1,293,760
Ending Balance	$ 3,873,968	$ 2,906,781	$ 2,972,499	$ 3,254,610	$ 4,554,602

(1) Unaudited.
(2) Restated (see Table 12).

For additional information regarding the City, please contact:

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

or

W. Boyd London, Jr.
First Southwest Company
1700 Pacific Avenue
Suite 500
Dallas, Texas 75201
(214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Vic Burgess Mayor	2.5 years	May 2007	Owner Burgess & Associates Real Estate
Robert Scott Mayor Pro Tem	1.5 years	May 2006	Car Sales James Wood Auto
Lynn Mayfield Councilmember	2.5 years	May 2007	Retired
Randy Monden Deputy Mayor Pro Tem	3.5 years	May 2006	Cost Accountant Morrison Milling
Terri Ponder Councilmember	1.5 years	May 2006	IBM
Shannon Bryan Councilmember	6 months	May 2007	Roy Bryan, CPA

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City
Olen Petty	Interm City Manager	5 months
Kim Pence	City Secretary	6 years
Michael Fairfield	Director of Public Works	19 years
Kathy DuBose	Finance Director	2 months

CONSULTANTS AND ADVISORS

Auditors .... Gregg & Company
Certified Public Accounts
Tom Bean, Texas

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

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

OFFICIAL STATEMENT

RELATING TO

$5,080,000
CITY OF CORINTH, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2005

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Corinth, Texas (the "City") of $5,080,000 General Obligation Refunding Bonds, Series 2005 (the "Bonds"). Capitalized terms used in this Official Statement 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 Official Statement 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 2006 population is 18,500. The City covers approximately 8.5 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 The Bank of New York Trust Company, N.A., Jacksonville, Florida (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	$ 5,080,000.00
Transfers from Prior Issue Debt Service Funds	131,434.80
Reoffering Premium	83,411.30
Accrued Interest from 12/1/05 to 12/28/05	15,519.38
Total Sources	$ 5,310,365.48
Uses of Funds	
Deposit to Net Cash Escrow Fund	$ 5,161,196.11
Undersriter's Discount	36,908.58
Costs of Issuance(1)	96,741.41
Depoit to Debt Service Fund	15,519.38
Total Uses	$ 5,310,365.48

(1) Includes Rounding Amount and Insurance Premium.

BOND INSURANCE

THE BOND INSURER AND THE FINANCIAL GUARANTY INSURANCE POLICY

CIFG Assurance North America, Inc.

The information set forth in the following paragraphs has been provided by CIFG Assurance North America, Inc., referred to in this Official Statement as the Insurer or CIFG, for inclusion in this Official Statement.

General

CIFG Assurance North America, Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York (the "Insurer"). The address of the principal executive offices of the Insurer is 825 Third Avenue, Sixth Floor, New York, New York 10022; its toll-free telephone number is (866) CIFG-212 and its general telephone number is (212) 909-3939.

The Insurer is a member of the CIFG Group of financial guaranty companies, which also includes CIFG Europe, a French insurance company licensed to do business in the European Union, and CIFG Guaranty, a dedicated French reinsurance corporation. In addition to its capital and surplus as set forth below, the Insurer is supported by a net worth maintenance agreement from CIFG Guaranty, which provides that CIFG Guaranty will maintain the Insurer's New York statutory capital and surplus at no less than $80 million, and may cede a substantial portion (not to exceed 90%) of its exposure on each transaction to CIFG Guaranty through a facultative reinsurance agreement.

Each of the Insurer, CIFG Europe and CIFG Guaranty has received an insurer financial strength rating of "AAA" from Fitch, an insurer financial strength rating of "Aaa" from Moody's, and an insurer financial enhancement rating of "AAA" from Standard and Poor's, the highest rating assigned by each rating agency. Each such rating should be evaluated independently. The ratings reflect the respective rating agency's current assessment of each company's capacity to pay claims on a timely basis and are not recommendations to buy, sell or hold the Bonds. Such ratings may be subject to revision or withdrawal at any time.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in 44 jurisdictions. The Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that such insurers maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for such insurers, and limits the size of individual transactions and the volume of transactions that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

Capitalization. The following tables set forth the capitalization of the Insurer on the basis of accounting principles generally accepted in the United States ("US GAAP") and statutory accounting practices prescribed or permitted by the New York State Insurance Department, respectively.

	US GAAP **December 31, 2004** **(in thousands of US dollars)**
Total Assets	$ 246,767
Total Liabilities	$ 117,368
Shareholder's Equity	$ 129,399
	Statutory Accounting Practices **December 31, 2004** **(in thousands of US dollars)**
Admitted Assets	$ 152,361
Liabilities	$ 38,733
Capital and Surplus	$ 113,628

The following table sets forth the capitalization of CIFG Guaranty on the basis of US GAAP.

	US GAAP **December 31, 2004**	
	(in thousands of euros)	(in thousands of US dollars) (1)
Assets	€ 621,431	$ 847,632
Liabilities	€ 107,816	$ 147,061
Shareholder's Equity	€ 513,615	$ 700,571

(1) The translation of euros into dollars is presented solely for the convenience of the reader, using the observed exchange rate at December 31, 2004 of $1.364 to €1.00.

For further information concerning the Insurer and CIFG Guaranty, see the audited financial statements of both companies, including the respective notes thereto, prepared in accordance with US GAAP as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, and the unaudited interim financial statements of the Insurer as of September 30, 2005 and for the nine-month period ended September 30, 2005, which are available on the CIFG Group's website at www.cifg.com. Copies of the most recent audited annual and unaudited interim financial statements of the Insurer prepared in accordance with accounting principles prescribed or permitted by the New York State Insurance Department, are also available on the website and may be obtained, without charge, upon request to the Insurer at its address above, Attention: Finance Department.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated December 1, 2005, 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, 2006. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

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, 2016, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2015, 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 (or DTC (hereinafter defined) while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . The Bond maturing on February 15, 2020 (The "Term Bond") is subject to mandatory sinking fund redemption in the amounts and at a price of par plus accrued interest to the redemption date on February 15 in the following years:

Bond Maturing 15-Feb-20		
Year		Amount
2019		$ 175,000
2020	(1)	180,000

(1) Maturity.

The particular Term Bond to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Bond required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of said Term Bond of the respective maturity which, at least 45 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . 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.

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

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A., Jacksonville, Florida. 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 respective series of 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.

In the event the Book-Entry-Only System should be discontinued, 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 . . . In the event the Book-Entry-Only System should be discontinued, printed 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 registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate designated amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the 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 close of business on the last business day of the month preceding such interest payment.

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.

INSURER'S RIGHTS UNDER THE ORDINANCE . . . Notwithstanding the discussion of holder rights under the caption AThe Bonds - Bondholders' Remedies,@ so long as the insurance policy of CIFG Assurance North America, Inc. ("CIFG") that secures the Bonds are in force, and CIFG is not in default under the insurance policy, CIFG shall be entitled to control and direct the enforcement of all rights and remedies the holders of the Bonds are entitled to take upon the occurrence and continuation of a default by the City. Also, Ambac=s consent is required for the removal of the Paying Agent and Registrar and selection and appointment of any successor paying

BONDHOLDERS' REMEDIES . . . The Bond Ordinance does not establish specific events of default with respect to the Bonds. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Bond Ordinance. Although a registered owner of Bond could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Bond Ordinance does not provide for the appointment of a trustee to represent the interests of the owners of the Bonds upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition, and some recent Texas lower court decisions have held that statutory language authorizing cities to plead and be impleaded is insufficient to waive a home-rule city's sovereign immunity to suit. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. 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 bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any remedies under the Bond Ordinance 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 Bond Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the 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 60th 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.

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 $10,000; the disabled under the age of 65 are granted an exemption of $10,000;

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

2005/2006 Market Valuation Established by Denton Central Appraisal District		$ 1,205,473,724
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	$ 1,123,584	
Over 65	2,040,767	
Disabled Persons	250,000	
Disabled Veterans Exemptions	791,500	
House Bill 366	2,842	
Pollution Control	48,695	
Agriculural Land Use Reductions	15,555,607	19,812,995
2005/2006 Taxable Assessed Valuation		$ 1,185,660,729
City Funded Debt Payable from Ad Valorem Taxes (as of 10/31/05)		
Outstanding General Obligation Debt(1)		$ 12,890,000
The Bonds		5,080,000
		17,970,000
General Obligation Interest and Sinking Fund (as of 10/31/05)		$ 2,402,900
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.09%

2006 Estimated Population - 18,500
Per Capita Taxable Assessed Valuation - $64,090
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $971

(1) Excludes the Refunded Obligations.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Vaue for Fiscal Year Ended September 30,					
	2006		2005		2004	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 989,325,758	82.07%	$ 950,825,935	79.42%	$ 860,487,953	76.74%
Real, Residential, Multi-Family	-	0.00%	-	0.00%	14,379,526	1.28%
Real, Vacant Lots/Tracts	27,340,760	2.27%	33,028,007	2.76%	34,607,237	3.09%
Real, Acreage (Land Only)	33,328,332	2.76%	33,461,761	2.79%	31,800,553	2.84%
Real, Farm and Ranch Improvements	7,085,637	0.59%	6,574,603	0.55%	6,201,268	0.55%
Real, Commercial and Industrial	69,879,975	5.80%	73,881,832	6.17%	68,392,908	6.10%
Real and Tangible Personal, Utilities	22,309,846	1.85%	24,928,669	2.08%	22,936,153	2.05%
Tangible Personal, Business	27,631,431	2.29%	47,258,316	3.95%	51,094,989	4.56%
Tangilble Personal, Other	6,880	0.00%	7,117	0.00%	6,897	0.00%
Real Inventory	12,726,706	1.06%	11,942,844	1.00%	16,898,352	1.51%
Special Inventory	15,838,399	1.31%	15,294,004	1.28%	14,564,082	1.30%
Total Appraised Value Before Exemptions	$ 1,205,473,724	100.00%	$ 1,197,203,088	100.00%	$ 1,121,369,918	100.00%
Less: Total Exemptions/Reductions	19,812,995		20,696,006		21,042,117	
Taxable Assessed Value	$ 1,185,660,729		$ 1,176,507,082		$ 1,100,327,801	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2003		2002	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 785,327,653	74.46%	$ 688,514,498	71.08%
Real, Residential, Multi-Family	15,102,080	1.43%	12,343,628	1.27%
Real, Vacant Lots/Tracts	26,280,717	2.49%	52,756,012	5.45%
Real, Acreage (Land Only)	29,286,371	2.78%	29,102,153	3.00%
Real, Farm and Ranch Improvements	5,835,674	0.55%	5,353,747	0.55%
Real, Commercial and Industrial	66,073,995	6.27%	68,306,239	7.05%
Real and Tangible Personal, Utilities	22,303,010	2.11%	21,177,356	2.19%
Tangible Personal, Commercial	-	0.00%	77,350,637	7.99%
Tangible Personal, Mobile Homes	-	0.00%	6,843	0.00%
Tangible Personal, Business	58,444,706	5.54%	-	0.00%
Tangible Personal, Other	7,073	0.00%	-	0.00%
Real Inventory	32,695,174	3.10%	13,693,469	1.41%
Special Inventory	13,270,123.00	1.26%	-	0.00%
Total Appraised Value Before Exemptions	$ 1,054,626,576	100.00%	$ 968,604,582	100.00%
Less: Total Exemptions/Reductions	20,980,486		18,146,906	
Taxable Assessed Value	$ 1,033,646,090		$ 950,457,676	

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2002	15,335	$ 950,457,676	$ 61,980	$ 20,565,000	2.16%	$ 1,341
2003	15,800	1,033,646,090	65,421	19,515,000	1.89%	1,235
2004	16,919	1,100,327,801	65,035	19,605,000	1.78%	1,159
2005	17,800	1,176,507,082	66,096	17,850,000	1.52%	1,003
2006	18,500	1,185,660,729	64,090	16,175,000 [(3)]	1.36% [(3)]	874 [(3)]

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

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
2002	$ 0.5260	$ 0.31801	$ 0.20799	$ 4,999,407	99.03%	100.30%
2003	0.5260	0.34039	0.18561	5,436,978	98.80%	106.02%
2004	0.5498	0.36762	0.18213	6,049,602	104.71%	105.69%
2005	0.5606	0.39328	0.16734	6,595,734	100.72%	102.99%
2006	0.5570	0.43239	0.12459	6,603,893	In Process of Collection	

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2005/2006 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
TXU Electric Delivery Co.	Electric Utility	$ 13,599,050	1.15%
Labinal - Corinth Inc	Electronics Manufacturer	11,324,948	0.96%
Boeing Defense & Space	Electronics Manufacturer	7,087,474	0.60%
Upsilon Corp	Electronics Manufacturer	6,201,810	0.52%
Kensington Square LP P/S	Real Estate	5,952,301	0.50%
Denton County Elec Coop	Electric Utility	5,873,616	0.50%
Albertsons Inc.	Retail Grocery	5,765,880	0.49%
Utter, Bill	Real Estate	5,674,970	0.48%
Utter Properties LLC	Real Estate	5,280,466	0.45%
CMC Land Inc	Real Estate	4,256,394	0.36%
		$ 71,016,909	5.99%

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 - 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	2005/06 Taxable Assessed Value	2005/06 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	Direct and Overlapping Funded Debt As Of 10/31/2005	Authorized But Unissued Debt As Of 10/31/2005
City of Corinth	$ 1,185,660,729	$0.55698	$ 17,970,000 (1)	100.00%	$ 17,970,000	$ 2,030,000
Corinth MUD #1	72,840,012	0.31000	925,000	100.00%	925,000	1,550,000
Denton County	1,053,334,156	0.24648	171,407,571	3.36%	5,759,294	198,259,373
Denton ISD	6,612,085,108	1.86400	426,227,579	4.09%	17,432,708	91,614,713
Lake Dallas ISD	1,016,013,702	1.86000	91,764,453	41.27%	37,871,190	13,000,000
Total Direct and Overlapping Funded Debt					$ 79,958,192	

Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation 6.74%

Per Capita Direct and Overlapping Funded Debt . . . . $ 4,322

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

TABLE 7 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service [1]			The Bonds[2]			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2006	$ 1,795,000	$ 570,378	$ 2,365,378	$ -	$ 145,997	$ 145,997	$ 2,511,375	
2007	940,000	502,870	1,442,870	25,000	206,425	231,425	1,674,295	
2008	975,000	455,441	1,430,441	55,000	204,825	259,825	1,690,266	
2009	900,000	411,896	1,311,896	170,000	200,325	370,325	1,682,221	
2010	890,000	371,385	1,261,385	215,000	192,625	407,625	1,669,010	33.19%
2011	675,000	335,858	1,010,858	475,000	178,825	653,825	1,664,683	
2012	710,000	304,394	1,014,394	500,000	159,325	659,325	1,673,719	
2013	745,000	271,033	1,016,033	515,000	139,025	654,025	1,670,058	
2014	770,000	235,770	1,005,770	525,000	118,225	643,225	1,648,995	
2015	810,000	198,355	1,008,355	550,000	96,725	646,725	1,655,080	68.11%
2016	855,000	158,436	1,013,436	560,000	74,525	634,525	1,647,961	
2017	890,000	116,234	1,006,234	555,000	51,531	606,531	1,612,765	
2018	940,000	71,653	1,011,653	580,000	27,413	607,413	1,619,065	
2019	685,000	32,085	717,085	175,000	11,369	186,369	903,454	
2020	150,000	11,750	161,750	180,000	3,825	183,825	345,575	99.11%
2021	160,000	4,000	164,000	-	-	0	164,000	100.00%
	$ 12,890,000	$ 4,051,536	$ 16,941,536	$ 5,080,000	$ 1,810,985	$ 6,890,985	$ 23,832,521	

(1) Includes Self-supporting debt. Excludes lease/purchase obligations. Excludes Refunded Obligations.
(2) Average life of the issue is 8.689 years.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Purpose Debt Service Requirements, Fiscal Year Ending 9/30/06		$ 2,511,375
Interest and Sinking Fund Balance, Fiscal Year Ending 9/30/05	$ 2,396,459	
2005/06 Budgeted Interest and Sinking Fund Tax Revenues	1,513,826	
Delinquent Taxes/Penalty/Interest	45,500	
Budgeted Interest Income	9,750	3,965,535
Estimated Balance, Fiscal Year Ending 9/30/06		$ 1,454,160

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Building Const & Impr	10/24/1970	$ 30,000	$ -	$ -	$ 30,000
Streets	11/3/1998	8,500,000	6,500,000	-	2,000,000
		$ 8,530,000	$ 6,500,000	$ -	$ 2,030,000

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT. . . The City does not anticipate the issuance of additional general obligation debt within the next six months.

TABLE 10 – OTHER OBLIGATIONS

The City has no unfunded debt outstanding as of October 31, 2005.

PENSION FUND. . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report (Unaudited)" - Note IV-B.)

FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2005[1]	2004	2003	2002	2001
Revenues:					
Property Taxes	$ 4,762,241	$ 4,306,483	$ 3,689,016	$ 3,077,928	$ 2,605,287
Franchise Taxes	733,510	832,345	645,301	637,470	507,748
Sales Taxes	833,269	824,038	855,211	592,638	1,051,527
Other Taxes	3,245		3,586	2,819	1,959
Fees and Permits	916,394	909,512	1,108,403	1,243,710	1,729,410
Fine and Forfeitures	614,561	645,562	401,998	348,166	423,609
Charges for Services	263,707	206,161	87,905	42,465	39,120
Grant	82,316	14,500			
Interest	91,574	27,843	47,424	75,210	180,836
Park Donations	-	6,756	431	725	98,381
Fire Department Reimbursement	2,174,360	2,049,990	1,662,344	1,356,033	1,114,996
Miscellaneous	25,586	531,844	24,173	144,086	613,513
Total Revenues	$ 10,500,763	$ 10,355,034	$ 8,525,792	$ 7,521,250	$ 8,366,386
Expenditures:					
General Government	$ 639,147	$ 1,291,154	$ 1,133,017	$ 527,087	$ 417,172
Public Safety	5,472,410	5,412,949	4,835,841	4,062,977	3,312,361
Highways and Street	797,100	688,873	1,744,846	1,192,125	1,201,901
Municipal Court	399,074	-	-	253,655	270,017
Community Development	351,280	394,067	444,553	534,481	651,610
Health and Welfare	-	-	-	-	-
City Administrator	433,199	-	-	426,396	386,095
Economic Development	205,191	246,323	314,892		
Fleet Maintenance	116,192	-		125,319	98,326
Parks and Recreation	936,766	952,130	948,754	1,070,709	759,170
Animal Control	63,906	-	-	48,812	61,480
City Hall Expense	119,311				
Capital Outlay	-	43,033	173,499	240,069	444,194
Debt Service	-	-	-	-	-
Total Expenditures	$ 9,533,576	$ 9,028,530	$ 9,595,403	$ 8,481,630	$ 7,602,326
Excess (Deficiency) of Revenues Over Expenditures	$ 967,186	$ 1,326,505	$ (1,069,611)	$ (960,380)	$ 764,060
Other Sources (Uses)			787,500		529,700
Other Miscellaneous Adjustments	-	-		(339,612)	-
Beginning Fund Balance	$ 2,906,781	$ 1,580,277 [2]	$ 3,254,610	$ 4,554,602	$ 3,260,842
Ending Fund Balance	$ 3,873,967	$ 2,906,781	$ 2,972,499	$ 3,254,610	$ 4,554,602

(1) Unaudited.
(2) The City has added the Special Revenue Fund to account for specific revenues that are legally restricted to expenditure for particular purposes. This fund was previously accounted for and reported as part of the General Fund. As a result, in the fiscal year ended September 30, 2004, $602,856 of the beginning fund balance of the General Fund was transferred to the Special Revenue Fund. Also, funds contributed to the City by developers for specific street construction projects of $789,367 were transferred from the General Fund to the Capital Projects Fund.

TABLE 12 - CHANGE IN NET ASSETS HISTORY[1]

	Fiscal Year Ended September 30,	
Revenues	2005[2]	2004
Program revenues:		
Charges for services	$ 1,745,955	$ 1,889,801
Operation grants and contributions	2,205,863	2,075,707
Capital grants and contributions	54,081	36,796
General revenues:		
Property taxes	6,799,416	6,515,600
Sales taxes	874,080	824,038
Franchise taxes	733,510	832,345
Other taxes	3,245	18,297
Judgement proceeds	614,561	490,000
Interest on investments	283,728	86,918
Miscellaneous	53,276	41,844
Total revenues	$ 13,367,715	$ 12,811,346
Expenditures		
Community Development	345,095	398,922
Culture-recreation	652,820	1,241,220
Interest on Long-term debt	748,150	870,298
Economic development	205,191	246,323
General government	1,534,599	1,555,275
Highways and streets	797,100	956,504
Intergovernmental expenditures	2,174,360	2,049,990
Public safety	1,818,037	3,428,042
Total expenses	$ 8,275,352	$ 10,746,574
Increase (Decrease) in net assets before transfers		
Transfers	1,086,464	2,064,772
Net transfers	-	(559,938)
Increase (decrease in net assets)	1,086,464	1,504,834
Net assets - beginning	5,617,821	4,112,987
Net assets - ending	$ 6,704,285	$ 5,617,821

(1) The City's Water and Sewer Fund has operated for the past several fiscal years at a substantial deficit, supported by transfers from the General Fund. Unaudited figures for the Water and Sewer Fund for the fiscal year ended September 30, 2005 show that the Water and Sewer Fund operated at a small surplus, due to increased revenues from the relatively dry summer months. The City budget projects a Water and Sewer Fund deficit of approximately $1.8 million for the current fiscal year. The City recently approved a 38% increase in its water and sewer rates and is considering additional rate increases in the future that City Management believes will over time return the Water and Sewer Fund to consistent break-even operation.

(2) Unaudited.

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the 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[1]
2002	$ 726,519	14.53%	$ 0.0764	$ 53.08
2003	802,536	14.76%	0.0776	50.79
2004	750,973	12.41%	0.0682	44.39
2005	759,244 [2]	11.51%	0.0645	42.65
2006	72,024 [3]	1.09%	0.0061	3.89

(1) Based on population estimates by the City.
(2) Unaudited.
(3) Partial Collections through October 31, 2005.

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%
Total	8.25%

FINANCIAL POLICIES

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

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, 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 10% 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, revenue sharing or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . . The fiscal year of the City is the twelve-month period beginning October 1. The departments submit to the City Administrator a budget of estimated expenditures for the ensuring fiscal year by the first of July. The City 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.

Effective September 1, 2003, a political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 14 - Current Investments

As of September 30, 2005, the City's investable funds were invested in the following categories:

Description	Percent of Investments	Market Value
State Investment Pools	100.00%	$ 11,082,807
	100.00%	$ 11,082,807

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 and beneficial owners 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 Official Statement 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 2005.

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 information and operating data which is customarily prepared by the City 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 ("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 either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

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 in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the respective series of Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the 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 prevent an underwriter from lawfully purchasing or selling Bonds in the 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 became obligated, in an offering that took place in 1997, to make annual disclosure of certain financial information by filing with the SID and each NRMSIR. Due to an administrative oversight, the fiscal year end 2000 audited financial statement was not timely filed with the SID and each NRMSIR. All financial information has since been filed. The City has implemented procedures to ensure timely filing of all future financial information.

OTHER INFORMATION

RATINGS

The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P") by virtue of an insurance policy to be issued by CIFG Assurance North America, Inc. upon delivery of the Bonds to the Underwriter. The presently outstanding tax supported debt of the City is rated "A2" by Moody's and "A" by S&P without regard to credit enhancement. 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 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. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "Plan of Financing" (exclusive of the subcaption "Sources and Uses of Proceeds"), "The Bonds" (exclusive of the subcaptions "Tax Rate Limitation," "Book-Entry-Only System" and "Bondholders' Remedies"), "Tax Matters" and "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Other Information - Legal Opinions" and "Other Information - Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Winstead Sechrest & Minick P.C., Dallas, Texas, Counsel to the Underwriter. The legal fee to be paid to Counsel fo the Underwriter 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 Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of $36,908.58. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

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 Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

Mayor
City of Corinth , Texas

ATTEST:

City Secretary
City of Corinth, Texas

General Obligation Bonds, Series 2000

Origianl Dated Date	Maturity Date	Interest Rate	Principal Amount
1/15/00	2/15/09	5.200%	$ 115,000
	2/15/10	5.200%	120,000
	2/15/11	5.250%	125,000
	2/15/12	5.300%	135,000
	2/15/13	5.350%	140,000
	2/15/14	5.400%	150,000
	2/15/15	5.500%	155,000
	2/15/16	5.600%	165,000
	2/15/17	5.700%	175,000
	2/15/20 (1)	5.800%	585,000
			$ 1,865,000

The 2009-2017 and 2020 Maturities will be redeemed prior to original maturity on February 15, 2008 at par.

(1) Represents a Term Bond having a sinking fund payment due in 2018 and 2019 and a final maturity in 2020.

Schedule I

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax & Revenue Certificates of Obligation, Series 1995

Origianl Dated Date	Maturity Date	Interest Rate	Principal Amount
11/15/95	2/15/08	5.300%	$ 25,000
	2/15/09	5.400%	25,000
	2/15/10	5.500%	25,000
	2/15/11	5.500%	25,000
	2/15/12	5.700%	30,000
	2/15/13	5.750%	30,000
	2/15/14	5.750%	30,000
	2/15/15	5.750%	35,000
	2/15/16	5.750%	35,000
			$ 260,000

The 2008-2016 maturities will be redeemed prior to original maturity on January 30, 2006 at par.

General Obligation Refunding & Improvement Bonds, Series 1997

Origianl Dated Date	Maturity Date	Interest Rate	Principal Amount
11/15/97	2/15/11	5.000%	$ 255,000
	2/15/12	5.000%	270,000
	2/15/13	5.000%	280,000
	2/15/14	5.100%	285,000
	2/15/15	5.100%	295,000
	2/15/16	5.150%	310,000
	2/15/17	5.150%	330,000
	2/15/18	5.150%	345,000
			$ 2,370,000

The 2011-2018 maturities will be redeemed prior to original maturity on February 15, 2007 at par.

Combination Tax & Revenue Certificates of Obligation, Series 1998

Origianl Dated Date	Maturity Date	Interest Rate	Principal Amount
7/15/98	2/15/12	5.000%	130,000
	2/15/14 (1)	5.000%	100,000
	2/15/16 (2)	5.100%	110,000
	2/15/18 (3)	5.150%	125,000
			$ 465,000

The 2012-2018 maturities will be redeemed prior to original maturity on February 15, 2008 at par.

(1) Represents a Term Bond having a sinking fund payment due in 2013 and a final maturity in 2014.
(2) Represents a Term Bond having a sinking fund payment due in 2015 and a final maturity in 2016.
(3) Represents a Term Bond having a sinking fund payment due in 2017 and a final maturity in 2018.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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 Mayor/Council form of government.

The City is approximately 8.5 square miles in area and has 81 full time employees. The City has 4,173 single-family residences and contains approximately 55.4 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 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 facility available to the residents of the City is the Lewisville Lake for boating, fishing and swimming and the Lewisville Lake Park on Lake Lewisville immediately to the east of the City. This 570 acre park contains boat storage, boat rental and supplies, boat launching ramps, fishing barge, picnic and camping facilities and 3,000 square foot covered pavilion. Lake Grapevine is located approximately 12 miles away to the southwest of the City. In addition, a 116 acre park is being developed in the northeast part of the City. It includes two football fields, four baseball fields, four soccer fields, three softball fields, a covered basketball court, walking and jogging trails and a 19 acre nature area with a pond.

Professional football, baseball, basketball and soccer teams and golf tournaments are approximately 30 miles away by interstate in the Fort Worth-Dallas metroplex.

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

BUILDING PERMITS

Year Ended 9/30	Commercial Number	Commercial Amount	Residential Number	Residential Amount	Grand Total
2001	14	$ 28,396,095	493	$ 85,087,077	$ 113,483,172
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 (1)	19	4,370,373	198	43,033,360	47,403,733

(1) Unaudited.

MAJOR BUSINESSES

Major Businesses	Type of Business	Number of Employees
Labinal	Defense	600
CoServ	Electric Provider	220
N. Central Texas College	Education	150
City of Corinth	Municipality	145
Albertsons	Grocery	130
Bill Utter Ford	Auto Dealer	125
Huffines Dodge	Auto Dealer	60
McClains RV	RV Sales	55
State Farm	Insurance Claims Center	47
Metroplex Cabintes	Cabinet Manufacturer	40
TXU	Electric Provider	28

EMPLOYMENT

Employment statistics for Denton County are as follows:

Denton County	Average Annual 2005(1)	2004	2003	2002	2001
Civilian Labor Force	302,497	296,034	292,338	285,386	277,218
Total Employed	288,637	282,939	277,699	271,662	267,593
Total Unemployed	13,860	13,095	14,639	13,724	9,625
Unemployment Rate	4.6%	4.4%	5.0%	4.8%	3.5%

(1) Figures through September, 2005

Source: Texas Employment Commission, Austin, Texas.

APPENDIX B

EXCERPTS FROM THE

CITY OF CORINTH, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2004

The information contained in this Appendix consists of excerpts from the City of Corinth, Texas Annual Financial Report for the Year Ended September 30, 2004, 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.

GREGG & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
118 COTTONBELT ROAD
P.O. BOX 619
TOM BEAN, TEXAS 75489-0619
VOICE (903) 546-6975 FAX (903) 546-6017
http://www.greggandcompany.com/

MEMBER
TEXAS SOCIETY OF CPAs

MEMBER
AMERICAN INSTITUTE OF CPAs

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Corinth, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Corinth, Texas, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Corinth, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2005, on our consideration of the City of Corinth, Texas'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corinth, Texas basic financial statements. The introductory section on pages 1 through 8, the management's discussion and analysis on pages 10 through 20, and the Statistical Section on pages 66 to 81 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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.

Gregg & Company CPAs

Tom Bean, Texas
January 28, 2005

City of Corinth, Texas

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, 2004. 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 September 30, 2004 by $18,757,576 (*net assets*). Of this amount, $1,650,805 may be used to meet the government's ongoing obligations to citizens and creditors *(unrestricted net assets).*

• The City's total net assets increased by $1,336,618 in comparison with the prior year. Judgment proceeds accounted for $490,000 or 36.66 percent. The remaining increase represents the degree to which revenues have exceeded expenses.

• As of the close of fiscal year 2004, the City's governmental funds reported combined ending fund balances of $6,992,145 a decrease of $105,668 in comparison with the prior year. Of the combined ending balances, $3,521,904 or 50.4 percent is available for spending within the City's guidelines *(unreserved fund balance).*

• The City's unreserved fund balance for the general fund was $2,835,785 or 31.4 percent of total general fund expenditures.

• The City's long term liabilities of $17,466,869 decreased $1,094,103 or 5.9 percent during fiscal year 2004. There was no long-term debt issued during fiscal year 2004.

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 as a component unit for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 31-33 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 five 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, capital projects fund, recreation fund, and special revenue fund, all of which are considered to be major funds. Data from the non-major governmental fund, Public Improvement District (PID fund), is provided in the other governmental funds column in this report.

The City of Corinth adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 34-40 of this report.

Proprietary funds. The City of Corinth maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities in* the government-wide financial statements. The City of Corinth uses enterprise funds to account for its water and sewer utility 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 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 a major fund 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. The notes to the financial statements can be found on pages 45-64 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $18,757,576 at the close of the most recent fiscal year.

At the end of the current fiscal year, The City reported positive net asset balances in total as well as for the individual governmental and business-type activities. A negative net assets value of $1,340,734 for investment in capital assets, net of related debt is reported in the governmental activities due to debt service in excess of capitalized assets. Governmental Accounting Standards Board (GASB) acknowledges this situation may occur during the implementation period of GASB reporting. This situation happens because the entire capital infrastructure (for streets) is not capitalized and all of the debt service is reported. The City has contracted with an engineering firm that will provide a data base to be used in the capitalization of the infrastructure. This project is targeted for completion by the end of fiscal year 2005.

Table I below is a summary of the City's net assets at year end compared to the prior year:

TABLE I
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 8,161,181	$ 9,922,959	$ 3,237,504	$ 2,565,001	$ 11,398,685	$ 13,160,463
Capital assets	13,655,266	12,703,153	15,737,404	15,858,632	29,392,670	28,440,557
Total assets	21,816,447	22,626,112	18,974,908	18,423,633	40,791,355	41,601,020
Long-term liabilities outstanding	15,178,273	15,879,906	1,890,988	3,746,167	17,069,261	19,626,073
Other liabilities	1,020,354	2,564,065	2,402,234	1,338,702	3,422,588	3,902,767
Total liabilities	16,198,627	18,443,971	4,293,222	5,084,869	20,491,849	23,528,840
Net assets:						
Invested in capital assets, net of related debt	(1,340,734)	(3,176,754)	12,328,403	12,112,465	10,987,669	8,935,711
Restricted	4,252,306	5,604,567	1,866,796	1,683,050	6,119,102	7,287,617
Unrestricted	2,706,248	1,754,328	(1,055,443)	(456,751)	1,650,805	1,297,577
Total net assets	$ 5,617,820	$ 4,182,141	$ 13,139,756	$ 13,338,764	$ 18,757,576	$ 17,520,905

A portion of the City's net assets totaling $6,119,102 or 32.6% 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.

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

In fiscal year 2004, the City's net assets increased by $1,236,671, ($1,336,618 net of a prior period adjustment decrease of $99,947, see Notes to the Financial Statements, Footnote 1.E). As previously mentioned, $490,000 or 40% of the increase is attributable to judgment proceeds. The remaining increase represents the degree to which revenues have exceeded expenses.

Governmental activities. Governmental activities increased net assets by $1,504,833, thereby accounting for 126% of the 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	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues						
Charges for services	$ 1,889,801	$ 1,619,206	$ 5,622,897	$ 5,829,380	$ 7,512,698	$ 7,448,586
Operating grants and contributions	2,075,707	1,664,820	-	-	2,075,707	1,664,820
Capital grants and contributions	36,796	-	886,106	1,143,570	922,902	1,143,570
General revenues					-	-
Property taxes	6,515,600	5,694,737	-	-	6,515,600	5,694,737
Franchise taxes	832,345	676,333	-	-	832,345	676,333
Sales taxes	824,038	855,211	-	-	824,038	855,211
Other taxes	18,297	3,586	-	-	18,297	3,586
Judgment proceeds	490,000	-	-	-	490,000	-
Investment interest	86,918	47,337	51,133	67,317	138,051	114,654
Miscellaneous	41,844	421,315	-	-	41,844	421,315
Total Revenues	12,811,346	10,982,545	6,560,136	7,040,267	19,371,482	18,022,812
Expenses:						
Community development	398,922	444,553	-	-	398,922	444,553
Culture - recreation	1,241,220	1,329,416	-	-	1,241,220	1,329,416
Interest on long-term debt	870,298	1,582,717	182,672	197,366	1,052,970	1,780,083
Economic development	246,323	314,892	-	-	246,323	314,892
General government	1,555,275	128,508	-	-	1,555,275	128,508
Highways and streets	956,504	2,666,921	-	-	956,504	2,666,921
Intergovernmental expenditures	2,049,990	1,662,344	-	-	2,049,990	1,662,344
Public safety	3,428,042	3,257,992	-	-	3,428,042	3,257,992
Recreation	-	95,236	-	-	-	95,236
Water and sewer	-	-	7,105,617	6,835,823	7,105,617	6,835,823
Total expenses	10,746,574	11,482,579	7,288,289	7,033,189	18,034,863	18,515,768
Increase (decrease) in net assets before transfers	2,064,772	(500,034)	(728,153)	7,078	1,336,618	(492,956)
Net transfers	(559,938)	780,000	559,938	(680,000)	-	100,000
Increase (decrease) in net assets	1,504,833	279,966	(168,215)	(672,922)	1,336,618	(392,956)
Net assets - beginning	4,112,987	3,932,968	13,307,971	13,980,893	17,420,958	17,913,861
Net assets - ending	$ 5,617,820	$ 4,212,934	$ 13,139,756	$ 13,307,971	$ 18,757,576	$ 17,520,905

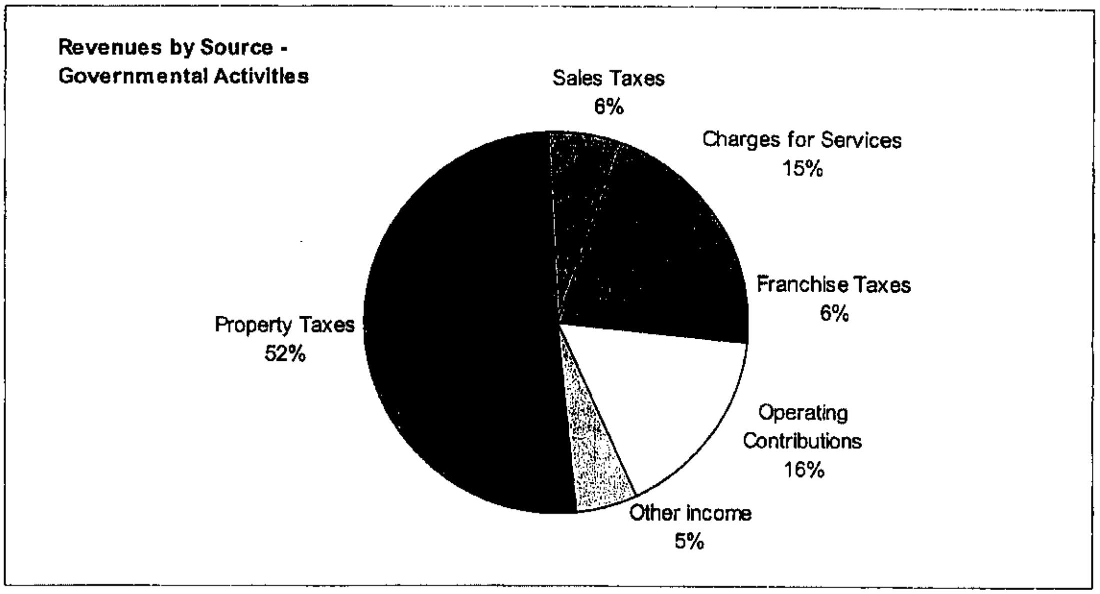
NOTE: Certain items in 2003 have been reclassified to be consistent with current year's presentation.

City of Corinth's Changes in Net Assets

Property taxes increased by $820,863 (14.4%) over last year. Most of this increase is the product of new construction and increased property values. The primary increase in net assets for the City is represented by the degree to which ongoing revenues have exceeded expenses.

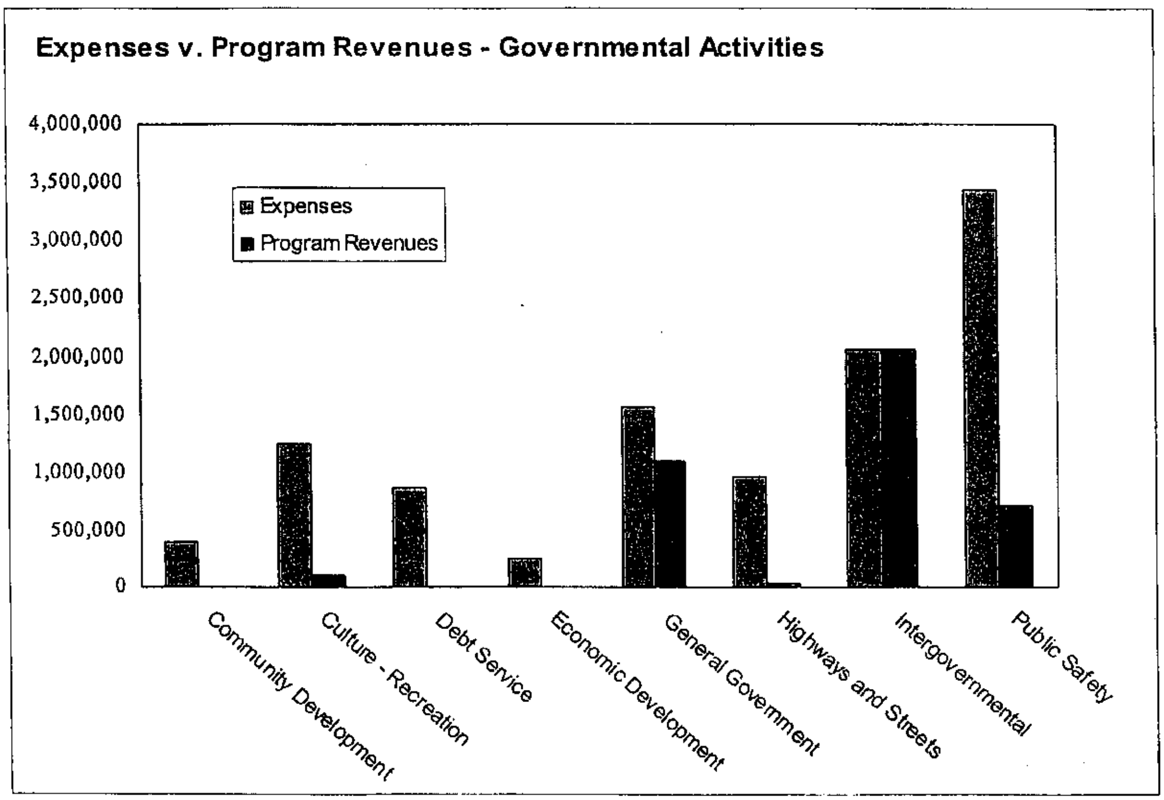
Revenues by Source – Governmental Activities

Property taxes, charges for services, sales taxes and franchise taxes provide 79% of the revenues for the governmental activities. This chart provides a graphic representation of the City's revenues by source.



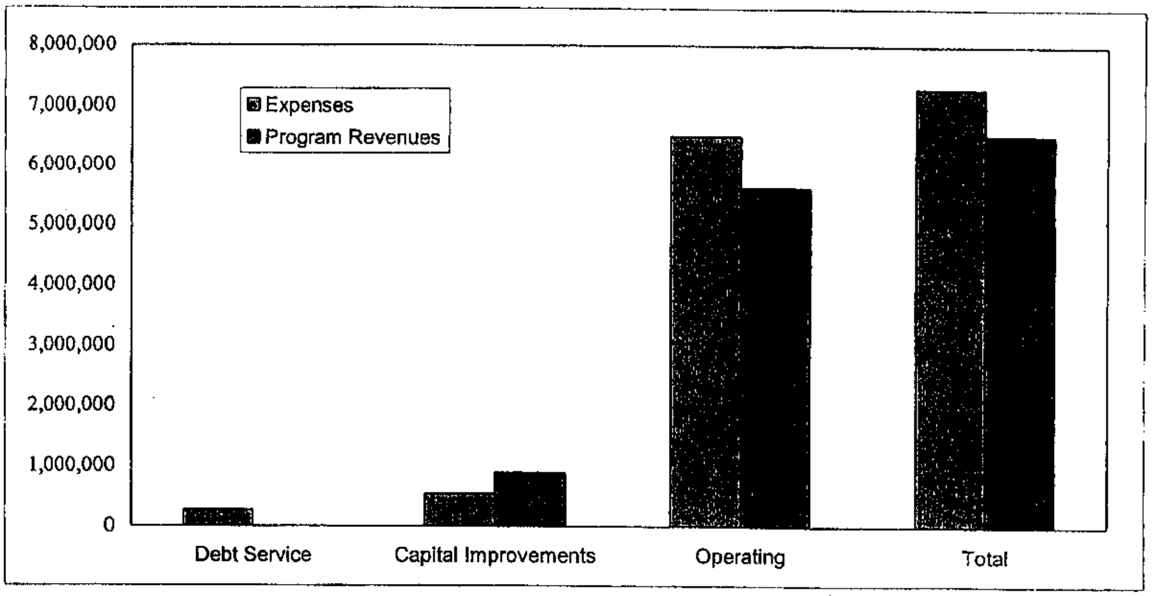
Expenses and Program Revenues –Governmental Activities

Public safety, highways and streets, general government, culture and recreation, and interest on debt make up 75% of the expenditures for the governmental activities. The chart below provides a graphic representation of the City's expenditures and any directly related revenues by source. Intergovernmental expenditures represent salaries and benefits for the Lake Cities Fire Department and are offset 100% by operating contributions from the Lake Cities Fire Department.



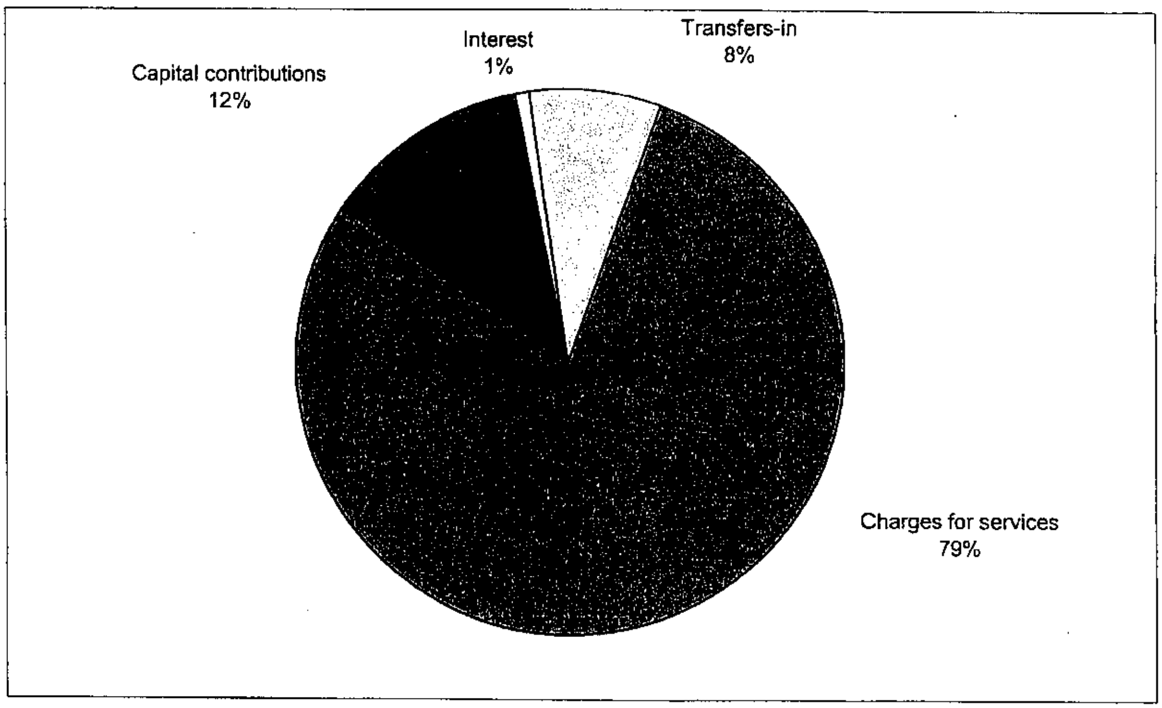
Expenses and Program Revenues – Business-type Activities

Business-type activities decreased the City's net assets by $168,215. The Water and Sewer Fund expenses, net of program revenues deficit of $779,286 was decreased by an unbudgeted administrative transfer of $559,938 from the General Fund and interest income of $51,133. The chart below provides a graphic representation of the City's business-type expenditures and any directly related revenues by source.



Revenues by Source - Business-type Activities

Water and sewer charges account for 79% of the revenue. The remaining 21% is made up of capital contributions, interest income and transfers in from General Fund.



Capital Asset and Debt Administration

Capital assets. The City of Corinth's investment in capital assets for its governmental and business type activities as of September 30, 2004, amounts to $29,392,671 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. Completion of the new City Hall is reflected in the decrease in Governmental construction in progress (of $3.376 million) to $6.796 million. The total change in the City's investment in total capital assets for the current fiscal year represents purchases, retirements and construction in progress for infrastructure as of September 30, 2004. Completion of GASB34 inventory and valuation of historical infrastructure has a targeted completion date of September 30, 2005.

TABLE III
CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-Type Activities		TOTAL	
	2004	2003	2004	2003	2004	2003
Land	$ 184,251	$ 184,251	$ 300,274	$ 300,274	$ 484,525	$ 484,525
Buildings	4,696,491	672,223	166,257	173,705	4,862,748	845,928
Infrastructure	1,108,773	731,300	10,810,534	9,155,992	11,919,307	9,887,292
Construction in progress	6,795,898	10,171,481	4,238,651	5,916,954	11,034,549	16,088,435
Automobiles and machinery	869,853	943,898	221,690	311,706	1,091,543	1,255,604
Total capital assets	$ 13,655,266	$ 12,703,153	$ 15,737,406	$ 15,858,631	$ 29,392,671	$ 28,561,784

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $18,405,000 consisting of General Obligation Bonds, Certificates of Obligation and Tax Notes. No new debt was issued during the year and payments on debt were made when due. Consequently, outstanding debt decreased by $1,110,000.

TABLE IV
OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		TOTAL	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	$ 13,796,000	$ 14,437,750	$ 3,024,000	$ 3,152,250	$ 16,820,000	$ 17,590,000
Certificates of Obligation and Tax Notes	1,200,000	1,355,000	385,000	570,000	1,585,000	1,925,000
Total outstanding debt	$ 14,996,000	$ 15,792,750	$ 3,409,000	$ 3,722,250	$ 18,405,000	$ 19,515,000

The City of Corinth's ratings on its outstanding debt is "AAA" from Standard & Poor's and "Aaa" 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.

Economic Factors and Next Year's Budgets and Rates

In spite of the historical economic slowdown, the City continued to experience moderate growth in the collection of franchise fees and in the property tax base. Franchise fee collections for the year exceeded budget by $142,645 due primarily to an unbudgeted collection for previous years. Net taxable values grew $55.5 million or 4.9% during the fiscal year. Throughout the year, the City's sales tax revenue struggled to keep pace with projections and ended the year just short ($28,762) of budget.

The City's estimated population at January 1, 2004 grew by approximately 4% to 17,592 from the prior year estimated population of 16,919. In addition, the City's unemployment rate of 3.5% at December 2004 was lower than the unemployment rate for the nation, state, and the Dallas metropolitan area.

All of these factors were considered in preparing the City's budget for the 2004-2005 fiscal year. The operating budget for the 2004 fiscal year that was developed by City management and approved by the City's elected officials focused on using the City's available financial resources. In addition to using available financial resources the budget will also be reducing fund balance reserves. The reserve in the Debt Service Fund is contributing $200,000 to buy down the debt service tax rate and the reserve in the General Fund will contribute to the needs of general government and enterprise operations. An improving economy, economic development and additional sales tax revenues from a new street maintenance sales tax and a new Crime Control and Prevention District sales tax are expected to negate deficit spending for general government activities. Completion and implementation of a water and sewer rate study are expected to provide a plan of recovery for the utility enterprise activities.

On September 23, 2004, the City Council approved a $.56062 property tax rate for next year. General operations will receive $.39328 of the total and the remaining $.16734 will be set aside for funding debt service.

For the year ended September 30, 2004, the general fund balance of $2,906,782 is $1,326,505 greater than the budgeted breakeven balance of $1,580,277. Next year, 2004–2005, the budgeted expenditures of $8,074,300 reflect a strong commitment expressed by the City Council of improving the commercial tax base through economic development initiatives; sustaining the delivery level of quality public service by retaining and/or recruiting a quality workforce by maintaining a competitive benefits program for city employees; continuing with maintenance of the City's streets and parks; improving the City's water distribution system and extending sanitary sewers; and plans for upgrading capital equipment by issuing two year tax notes of $1.2 million to fund needed capital purchases.

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 $6,992,145 a decrease of $105,668 due to:

1) a net increase in the general fund balance of $1,326,505,
2) a net increase in the debt service fund of $60,152,
3) a net decrease in the capital projects fund of $991,554 resulting from capital expenditures of $1,507,641, reimbursement from the street escrow fund of $510,209, and $5,878 of interest earnings,
4) a net increase in the recreation fund of $1,580,
5) a net decrease in the special revenue fund of $476,284 due to a transfer to the capital project fund of $510,209 for related street escrow projects, and current year net revenues over expenditures of $33,925, and
6) a net decrease in the Public Improvement District #1(PID) fund of $26,067.

Of the combined total governmental fund balances of $6,992,145, $2,835,785 (40.6%) comes from the general fund unreserved fund balance which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for one of the following reasons:

1) to liquidate contracts and purchase orders (encumbrances) of the prior period, $70,996,
2) to pay debt service in future periods, $2,396,459,
3) to pay for the construction of capital projects, $1,496,459,
4) to pay for specific uses, $126,572, and
5) to pay for PID debt service, $33,501.

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 $2,835,785, while total fund balance reached $3,634,501. 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 fund expenditures. Unreserved fund balance represents 31.4% of total general fund expenditures, while total fund balance represents 32.2% of that same amount.

The fund balance of the City's general fund increased by $1,326,505 during the current fiscal year. Key factors in this decrease are as follows:

1) miscellaneous revenues exceeding budget by $527,975 due primarily to receiving an unbudgeted judgment of $490,000 as settlement in a park lawsuit,
2) property tax revenues exceeding budget by $203,083 (4.9%),
3) franchise fee revenues exceeding budget by $142,645 (20.7%), and
4) actual expenditures were less than budget by $313,804 (3.4%).

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 $2,429,207, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was $60,152. This increase in fund balance is due to modest growth and settlement by the appraisal district of disputed property values.

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 $18,974,908 exceeded liabilities of $5,835,152 leaving $13,139,756 in total net assets.

Total net assets decreased $168,215 this year, down from last years ending balance of $13,307,971. The factors which determine the change in net assets, operating income/(loss) and net non-operating revenue/(expense) must be considered when evaluating the decrease in net assets.

A net loss from operations for the current year of $1,405,412 follows a prior year net loss from operations of $1,006,444. Current year water consumption was less than last year because of record-setting rainfall during the spring and summer, resulting in a decrease in water and sewer revenues of $241,358. Total water and sewer sales of $4,424,177 less total contractual water and sewer costs of $3,945,427 leaves a gross margin of $478,750 (10.8%) which was not adequate to cover general and administrative expenses, capital outlay, and debt service.

Total non-operating revenue for the current year of $1,237,197 follows prior year net revenue from non-operating activities of $1,013,522. This increase in non-operating revenue of $223,675 is a result of a decrease in impact fees collected of $257,464 and a transfer in from the general fund of $559,938 to cover payments for debt service.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to a deficit of $1,055,443. The decrease in net assets total $168,215.

A water and sewer rate study was completed after fiscal year end and City Council adopted a new rate structure that will increase budgeted revenues 38% over last year. Consideration was also given to passing on contractual rate increases as they occur and providing sufficient revenues to correct the net asset deficit within the next few years.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CORINTH

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City Of Corinth, Texas
Statement of Net Assets
September 30, 2004

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	$ 2,075,118	$ -	$ 2,075,118	$ 530,439
Accounts receivable (net of allowance for uncollectibles)	681,811	802,435	1,484,246	28,684
Due from other funds	1,220,619	-	1,220,619	-
Inventories	25,696	120,239	145,935	-
Prepaids	131,162	13,843	145,005	-
Deferred charges	-	111,196	111,196	-
Restricted cash and cash equivalents	4,026,775	2,189,791	6,216,566	-
Land	184,251	300,273	484,524	-
Building and improvements	5,069,550	230,818	5,300,368	-
Machinery and equipment	2,041,563	1,126,300	3,167,863	-
Infrastructure	1,203,346	14,383,775	15,587,121	-
Accumulated depreciation	(1,639,342)	(4,542,413)	(6,181,755)	-
Construction in progress	6,795,898	4,238,651	11,034,549	-
Total assets	21,816,447	18,974,908	40,791,355	559,123
LIABILITIES				
Accounts Payable	488,475	326,452	814,927	-
Accrued interest payable	182,273	23,917	206,190	-
Municipal court bonds	45,045	-	45,045	-
Current portion of long term debt	840,000	320,000	1,160,000	-
Current portion of compensated absences	60,000	-	60,000	-
Due to other funds	-	1,220,619	1,220,619	-
Deferred revenue	73,237	-	73,237	-
Other liabilities	186,171	477,726	663,897	1,225
Customer meter deposits	-	322,995	322,995	-
Compensated absences	167,426	54,443	221,869	-
Long term debt	14,156,000	3,089,000	17,245,000	-
Total liabilities	16,198,627	5,835,152	22,033,779	1,225
NET ASSETS				
Invested in capital assets, net of related debt	(1,340,734)	12,328,403	10,987,669	-
Restricted for:				
Capital projects	707,092	1,866,796	2,573,888	-
Debt service	2,396,459	-	2,396,459	-
Highways and streets	789,367	-	789,367	-
Internal services	165,939	-	165,939	-
Public Improvement District	33,501	-	33,501	-
Recreation	32,373	-	32,373	-
Specific uses	127,575	-	127,575	-
Economic Development (CEDC)	-	-	-	557,898
Unrestricted	2,706,248	(1,055,443)	1,650,805	-
Total net assets	$ 5,617,820	$ 13,139,756	$ 18,757,576	$ 557,898

See accompanying notes to basic financial statements.

City Of Corinth, Texas
Statement of Activites
For the Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Community Development	$ 398,922	$ -	$ -	$ -
Culture - recreation	1,241,221	97,960	7,157	-
Debt service	870,298	-	-	-
Economic development & assistance	246,323	-	-	-
General government	1,555,275	1,099,768	-	-
Highways and streets	956,504	-	-	36,796
Intergovernmental expenditures	2,049,990	-	2,049,990	-
Public safety	3,428,042	692,074	18,559	-
Total governmental activities	10,746,575	1,889,802	2,075,706	36,796
Business-type Activities:				
Water & Sewer - Debt Service	259,980	-	-	-
Water & Sewer - Capital Improvements	535,208	-	-	886,106
Water & Sewer - Operating	6,493,101	5,622,897	-	-
Total business-type activities	7,288,289	5,622,897	-	886,106
Total primary government	$ 18,034,864	$ 7,512,699	$ 2,075,706	$ 922,902
Component unit:				
Community Economic Development Corp.	20,998	-	-	-
Total Component Units	$ 20,998	$ -	$ -	$ -

General revenues:
Property taxes
Franchise taxes
Sales taxes
Other taxes
Interest income
Judgement proceeds
Miscellaneous
Transfers in (out)
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

See accompanying notes to basic financial statements.

(Continued)

	Net(Expense) Revenue and Changes In Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
	$ (398,922)	$ -	$ (398,922)	$ -
	(1,136,104)	-	(1,136,104)	-
	(870,298)	-	(870,298)	-
	(246,323)	-	(246,323)	-
	(455,507)	-	(455,507)	-
	(919,708)	-	(919,708)	-
	-	-	-	-
	(2,717,409)	-	(2,717,409)	-
	(6,744,271)	-	(6,744,271)	-
	-	(259,980)	(259,980)	-
	-	350,898	350,898	-
	-	(870,204)	(870,204)	-
	-	(779,286)	(779,286)	-
	(6,744,271)	(779,286)	(7,523,557)	-
	-	-	-	(20,998)
	-	-	-	(20,998)
	$ 6,515,600	$ -	$ 6,515,600	$ -
	832,345	-	832,345	-
	824,038	-	824,038	409,879
	18,297	-	18,297	-
	86,918	51,133	138,051	3,915
	490,000	-	490,000	-
	41,844	-	41,844	-
	(559,938)	559,938	-	-
	8,249,104	611,071	8,860,175	413,795
	1,504,833	(168,215)	1,336,618	392,797
	4,112,987	13,307,971	17,420,958	165,101
	$ 5,617,820	$ 13,139,756	$ 18,757,576	$ 557,898

(Concluded)

City Of Corinth, Texas
Balance Sheet
Governmental Funds
September 30, 2004

	General Fund	Debt Service	Capital Projects	Recreation Fund
ASSETS				
Cash and investments	$ 1,696,110	$ 2,391,230	$ 1,496,919	$ 33,810
Accounts receivable (net of uncollectibles)	582,192	37,977	-	-
Due from other funds	1,220,909	-	-	-
Inventory, at cost	25,696	-	-	-
Prepaid assets	109,594	-	-	-
Restricted cash and investments	-	-	-	-
Total assets	3,634,501	2,429,207	1,496,919	33,810
LIABILITIES AND FUND BALANCES				
Accounts payable	$ 307,490	$ -	$ 460	$ 1,147
Municipal court bonds	45,045	-	-	-
Due to other funds	-	-	-	290
Deferred revenue	272,972	32,748	-	-
Other liabilities	102,213	-	-	-
Total liabilities	727,720	32,748	460	1,437
Fund balances:				
Reserved for:				
Community park	-	-	52,343	-
Debt service	-	2,396,459	-	-
Encumbrances	70,996	-	-	-
Law enforcement	-	-	-	-
Law enforcement education	-	-	-	-
Municipal court security	-	-	-	-
Municipal court technology	-	-	-	-
Parks	-	-	-	-
Police K-9	-	-	-	-
Public improvements	-	-	-	-
Street escrow	-	-	789,367	-
Unreserved, reported in				
General Fund	2,835,785	-	-	-
Capital Projects Fund	-	-	654,749	-
Recreation Fund	-	-	-	32,373
Special Revenue Fund	-	-	-	-
Total fund balances	2,906,781	2,396,459	1,496,459	32,373
Total liabilities and fund balances	$ 3,634,501	$ 2,429,207	$ 1,496,919	$ 33,810

See accompanying notes to basic financial statements.

(Continued)

Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ 33,501	$ 5,651,570
-	61,642	681,811
-	-	1,220,909
-	-	25,696
21,568	-	131,162
105,124	-	105,124
126,692	95,143	7,816,272
$ 120	$ -	$ 309,217
-	-	45,045
	-	290
-	61,642	367,362
-	-	102,213
120	61,642	824,127
-	-	52,343
-	-	2,396,459
-	-	70,996
953	-	953
6,788	-	6,788
54,214	-	54,214
62,353	-	62,353
2,902	-	2,902
365	-	365
-	33,501	33,501
-	-	789,367
-	-	2,835,785
-	-	654,749
-	-	32,373
(1,003)	-	(1,003)
126,572	33,501	6,992,145
$ 126,692	$ 95,143	$ 7,816,272

(Concluded)

City Of Corinth
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004

Total fund balance - governmental funds	$ 6,992,145
Amounts reported for *governmental activities* in the statement of net assets are different because:	
Capital assets used in governmental acitivities are not financial resources and therefore are not reported in the governemental funds balance sheet:	
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 disposed	(98,000)
Accumulated depreciation	(518,219)
Current liabilities that do not require current financial resources and are not reported as a liability in governmental funds balance sheet:	
Interest payable on long-term debt	(182,272)
Current portion of compensated absences payable	(60,000)
Other liabilities	(83,957)
Property taxes, Municipal Court warrants, and Public Improvement District revenues that are not collectible within 60 days are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	294,124
Internal service fund is used by management to charge cost of employee health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the government-wide statement of net assets.	165,939
Long term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Long term portion of compensated absences	(167,428)
Long term debt	(14,996,000)
Net assets of governmental activities	$ 5,617,820

See accompanying notes to basic financial statements.

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City Of Corinth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	General	Debt Service	Capital Projects
REVENUES:			
Property taxes	4,306,483	2,144,750	-
Franchise taxes	832,345	-	-
Sales taxes	824,038	-	-
Fees and permits	909,512	-	-
Fines and forfeitures	645,562	-	-
Charges for services	206,161	-	-
Park donations	-	-	-
Special assessment	-	-	-
Grant	14,500	-	-
Fire dept reimbursement	2,049,990	-	-
Miscellaneous	531,844	-	-
Recreation	6,756	-	-
Interest income	27,843	9,201	5,878
Other revenue	-	-	-
Total revenues	10,355,034	2,153,951	5,878
EXPENDITURES			
Current:			
Community Development	394,067	-	-
Culture - recreation	952,130	-	-
Economic development & assistance	246,323	-	-
General government	1,291,154	-	-
Highways and streets	688,873	-	-
Public safety	5,412,949	-	-
Debt service:			
Administrative charges	-	5,050	-
Interest	-	752,061	-
Principal Retirement	-	776,750	-
Capital outlay:			
Culture - recreation	-	-	41,629
General government	23,173	-	863,990
Highways and streets	9,679	-	602,022
Public safety	10,181	-	-
Total expenditures	9,028,529	1,533,861	1,507,641
Excess (deficiency) of revenues over expenditures	1,326,505	620,090	(1,501,763)
OTHER FINANCING SOURCES (USES)			
Transfers out	-	(559,938)	-
Transfers in	-	-	510,209
Total other financing sources and uses	-	(559,938)	510,209
Net changes in fund balances	1,326,505	60,152	(991,554)
Fund balances -- beginning	1,580,277	2,336,307	2,488,012
Fund balances -- ending	$ 2,906,782	$ 2,396,459	$ 1,496,458

See accompanying notes to basic financial statements.

(Continued)

Recreation	Special Revenue	Other Governmental Funds	Total Governmental Funds
-	-	-	6,451,233
-	-	-	832,345
-	-	-	824,038
-	-	-	909,512
-	30,605	-	676,167
97,960	-	-	304,121
-	401	-	401
-	-	9,297	9,297
-	2,434	-	16,934
-	-	-	2,049,990
-	-	-	531,844
-	-	-	6,756
-	40,207	3,790	86,919
-	38,422	-	38,422
97,960	112,069	13,087	12,737,979
-	-	-	394,067
96,380	61,631	-	1,110,141
-	-	-	246,323
-	-	1,084	1,292,238
-	-	-	688,873
-	16,513	-	5,429,462
-	-	-	5,050
-	-	18,070	770,131
-	-	20,000	796,750
-	-	-	41,629
-	-	-	887,163
-	-	-	611,701
-	-	-	10,181
96,380	78,144	39,154	12,283,709
1,580	33,925	(26,067)	454,270
-	(510,209)	-	(1,070,147)
-	-	-	510,209
-	(510,209)	-	(559,938)
1,580	(476,284)	(26,067)	(105,668)
30,793	602,856	59,568	7,097,813
$ 32,373	$ 126,572	$ 33,501	$ 6,992,145

(Concluded)

City Of Corinth
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds
For the Year Ended September 30, 2004

Net change in fund balances --total governmental funds	($ 105,668)
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in government-wide statement of net assets in current period.	1,327,838
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(375,723)
While the repayment of the principal of long term debt consumes current financial resources of governmental funds, it has no effect on net assets.	796,750
Internal service fund is used by management to charge the cost of employee health insurance to individual funds. The net expense of the internal service fund is reported with governmental activities.	(105,160)
Accrued interest expense on long term debt is reported in the government-wide financial statements but is not included in governmental funds as it does not require the use of current financial resources.	(95,117)
Compensated absences are accrued on the government-wide statement of net assets, but do not require the use of current financial resources. The current period change in compensated absences is reported in the government-wide statement of activities and changes in net assets.	(11,455)
Property tax revenues are accrued on the government-wide statement of net assets, but do not provide current financial resources. The current period change in deferred property tax revenue is reported in the government-wide statement of activities and changes in net assets.	73,368
Change in net assets of governmental activities	$ 1,504,833

See accompanying notes to basic financial statements.

City Of Corinth, Texas
GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2004

	Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Property taxes	4,103,400	4,306,483	203,083
Franchise taxes	689,700	832,345	142,645
Sales taxes	852,800	824,038	(28,762)
Fees and permits	953,700	909,512	(44,188)
Fines and forfeitures	571,700	645,562	73,864
Charges for services	201,500	206,161	(970)
Grant	50,000	14,500	(35,500)
Fire dept reimbursement	1,877,000	2,049,990	172,990
Miscellaneous	9,500	531,844	527,975
Recreation	6,200	6,756	556
Interest income	30,000	27,843	(2,157)
Total revenues	9,345,500	10,355,034	1,009,534
EXPENDITURES			
Current:			
Community Development	463,000	394,067	68,933
Culture - recreation	1,009,600	952,130	57,470
Economic development & assist.	311,000	246,323	64,677
General government	1,158,000	1,291,154	(133,154)
Highways and streets	877,500	688,873	188,627
Public safety	5,480,200	5,412,949	67,251
	9,299,300	8,985,496	313,804
Capital Outlay:			
General government	30,600	23,173	7,427
Highways and streets	7,500	9,679	(2,179)
Public safety	8,100	10,181	(2,081)
	46,200	43,033	3,167
Total expenditures	9,345,500	9,028,529	316,971
Excess (deficiency) of revenues over (under) expenditures	-	1,326,505	1,326,505
Net change in fund balances	-	1,326,505	1,326,505
Fund balances -- beginning	1,580,277	1,580,277	-
Fund balances -- ending	$ 1,580,277	$ 2,906,782	$ 1,326,505

See accompanying notes to basic financial statements.

City Of Corinth, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2004

	Business-type Activities - Enterprise Fund	Governmental Activities
	Water and Sewer Fund	Internal Service Fund
ASSETS		
Cash and investments	$ -	$ 345,197
Accounts receivable (net of uncollectibles)	802,435	-
Inventory, at cost	120,239	-
Prepaid assets	13,843	-
Deferred bond issurance costs, net	111,196	-
Restricted cash and investments	2,189,791	-
Land	300,273	-
Property, plant, & equipment, net	11,198,480	-
Construction in progress	4,238,651	-
Total assets	18,974,908	345,197
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable	326,452	179,258
Accrued interest payable	23,917	-
Current portion of long term debt	320,000	-
Due to other funds	1,220,619	-
Other liabilities	477,726	-
Customer meter deposits	322,995	-
Compensated absences	54,443	-
Total current liabilities:	2,746,152	179,258
Non current liabilities:		
Long term debt	3,089,000	-
Total non current liabilities:	3,089,000	-
Total liabilities	5,835,152	179,258
NET ASSETS		
Invested in capital assets, net of related debt	12,328,403	-
Restricted for capital projects	1,866,796	-
Unrestricted	(1,055,443)	165,939
Total net assets	13,139,756	165,939

See accompanying notes to basic financial statements.

City Of Corinth, Texas
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004

	Business-type Activities - Enterprise Fund	
	Water and Sewer Fund	Governmental Activities - Internal Service Fund
Operating revenues:		
Water Sales	2,741,785	-
Sewer charges	1,682,392	-
Garbage services	765,408	-
Penalties and reconnect fees	132,911	-
Tap and service fees	242,103	-
Inspections	49,628	-
Miscellaneous	8,670	-
Insurance deductions	-	1,131,094
Total Operating	5,622,897	1,131,094
Operating expenses:		
Water purchases	2,166,999	-
Sewer treatment fees	1,778,428	-
Garbage contract fees	677,467	-
Salaries and benefits	1,119,779	-
Maintenance and supplies	344,248	-
Administration	494,667	-
Depreciation	446,721	-
Health insurance payments	-	1,242,871
Total operating expenses	7,028,309	1,242,871
Operating Income (loss)	(1,405,412)	(111,777)
Non-operating revenues (expenses):		
Capital contribution - impact fees	886,105	-
Interest income	51,133	6,617
Transfers in	559,938	-
Amortization	(77,307)	-
Interest expense	(182,672)	-
Total non operating revenue/(expenses)	1,237,197	6,617
Change in net assets	(168,215)	(105,160)
Total net assets -- beginning	13,307,971	271,099
Total net assets -- ending	$ 13,139,756	$ 165,939

See accompanying notes to basic financial statements.

City Of Corinth, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

		Business-type Activities - Enterprise Fund
		Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$	5,616,517
Receipts from interfund		1,564,882
Other cash receipts		340,119
Payments to employees		(1,110,957)
Payments to suppliers		(5,721,080)
Net cash provided by operating activities		689,481
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(337,251)
Disposition of capital assets		11,758
Capital contributions - Impact fees		886,107
Interest paid on long-term debt		(182,672)
Principal paid on bonds and CO's		(313,250)
Net cash flow from capital and related financing activities		64,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received		51,133
Net cash provided by investing activities		51,133
Net increase in cash and cash equivalents		805,306
Cash and cash equivalents - October 1, 2003		1,384,485
Cash and cash equivalents - September 30, 2004 (includes restricted cash of $2,189,791 reported in restricted cash and investments)	$	2,189,791

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating loss	$	(1,405,412)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		446,721
Changes in assets and liabilities:		
Customer Receivables		7,463
Inventory		27,258
Other operating receivables		(13,843)
Accounts Payable - Interfund		1,754,883
Accounts Payable - Other		369,759
Accounts Payable - Supplier		(514,630)
Compensated absences		8,115
Salaries & Benefits Payable		9,167
Net Cash provided by operating activities	$	689,481

See accompanying notes to basic financial statements.

CITY OF CORINTH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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 4.F. Other Information – Component Unit Information.

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

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. Non-major funds are presented in total in one column.

As a part of this statement, 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 pending inventory and valuation of historic infrastructure (acquired and/ or constructed prior to fiscal year 2004), the City has elected not to implement historic infrastructure reporting for the year ended September 30, 2004.

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 so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - 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 facilities other than those financed by proprietary funds and trust funds.

Recreation Fund – this major fund is used to account for the recreation and leisure activities the City provides for its citizens. This fund was previously reported as an enterprise fund.

Special Revenue Fund – this major fund is used to account for specific revenues that are legally restricted to expenditure for particular purposes. This fund was previously reported as part of the General Fund.

The City reports the following proprietary fund:

Water and Sewer Fund — this major enterprise 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.

Additionally, the City reports the following fund types:

Other Governmental Fund – accounts for the collection and disbursement of special assessment funds for Public Improvement District #1 (PID).

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 connections 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

Activities between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

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 at the rate of 1.5% per month of delinquency.

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

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

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

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

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 annually 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 - In the government-wide statement of activities, the "Net assets – beginning" has been restated due to the re-categorization of the Recreation Fund from a proprietary fund to a governmental fund, special revenue-type (major) and due to prior period adjustments in the General Fund.

Recreation Fund revenue does not meet the criteria for a proprietary fund and, therefore, was re-categorized from an enterprise-type fund to a governmental, special revenue-type fund.

The General Fund prior period adjustment is due to a change in fiscal year 2003 estimate of collectibility of Municipal Court Warrants.

Following is a reconciliation of the restatement:

	Governmental activities	Business-type activities	Total
Net assets – beginning –as previously reported	$ 4,182,141	$13,338,764	$17,520,905
Re-categorize Recreation Fund	30,793	(30,793)	-0-
Prior period adjustment	(99,947)	-0-	(99,947)
Net assets – beginning	$ 4,112,987	$13,307,971	$17,420,958

Fund level statement adjustments - The City has added the Special Revenue Fund to account for specific revenues that are legally restricted to expenditure for particular purposes. This fund was previously accounted for and reported as part of the General Fund. As a result, $602,856 of the beginning fund balance of the General Fund has been transferred to the Special Revenue Fund. Also, funds contributed to the City by developers for specific street construction projects of $789,367 have been transferred from the General Fund to the Capital Projects Fund. Following is a reconciliation of the beginning Fund Balances of the three governmental funds affected by these changes:

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
Fund balance at September 30, 2003, as previously reported	$2,972,500	$ -0-	$1,698,645	$7,067,020
Transfer to Special Revenue Fund	(602,856)	602,856	-0-	-0-
Transfer to Capital Projects Fund	(789,367)	-0-	789,367	-0-
Re-categorize Recreation Fund	-0-	-0-	-0-	30,793
Adjusted fund balance at September 30, 2003	$1,580,277	$602,856	$2,488,012	$7,097,813

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

a. Prior to September 1, 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 October 1, 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.

The City Council is required to approve all budget amendments that alter department or operating appropriations. The City has not established a legal level of control for budget variances.

B. Excess of expenditures over appropriations

The City experienced revenues in excess of expenditures in the amount of $1,326,505. Revenues exceeded expectations by a total of $1,009,534 due to the settlement of a lawsuit in the City's favor of $490,000, as well as higher than expected property tax revenues and franchise fee revenues. Expenditures were less than budget by $316,971 due to offsetting departmental budgeted variances. 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 reimburses the City for payroll costs on a biweekly basis. The total reimbursement for these costs was $2,049,990. This revenue and expenditure was not eliminated in the financials.

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 depositories to be FDIC-insured institutions and must fully collateralize all deposits in excess of FDIC insurance limits.

Deposits - At September 30, 2004, the City's carrying amount of demand deposits and certificates of deposit was $2,128,066 and the bank balance was $3,519,948. Although the City has no current collateral agreement with its depository bank, a Banking Services Request For Proposal (RFP) is being issued to ensure the entire amount of the bank balance is covered by federal depository insurance or by collateral held by the pledging bank's trust department in the City's name.

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:

Public Funds Investment Pool:	9/30/2004 Reported Amount/ Fair Value
TexPool	$2,687,234
TexSTAR	$3,476,147
Total	$6,163,381

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 AAA by Standard & Poors and Aaa by Moody's. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poors, 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 AAA by Standard and Poor's.

B. Receivables

Receivables as of the year ended September 30, 2004 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:

	General	Debt Service	Water and Sewer Fund	Nonmajor and Other Funds	Total
Receivables:					
Interest	$ -	$ -	$ -	$ -	$ -
Taxes	367,490	37,977	-	-	405,467
Accounts	1,206,007	-	842,130	61,642	2,109,779
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Intergovernmental Restricted	-	-	-	-	-
Gross Receivables	1,573,497	37,977	842,130	61,642	2,515,246
Less: Allowance for Uncollectibles	(991,305)	-	(39,695)	-	(1,031,000)
Net total receivables	$ 582,192	$ 37,977	$ 802,435	$ 61,642	$ 1,484,246

C. Capital assets

Capital asset additions, disposals, and depreciation for governmental activities and business-type activities for the year ended September 30, 2004 was as follows:

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 184,251	$ -	$ -	$ 184,251
Construction in progress	10,171,481	147,200	(3,522,783)	6,795,898
Totals, capital assets not being depreciated	10,355,732	147,200	(3,522,783)	6,980,149
Capital assets, being depreciated:				
Automobile & machinery	2,031,144	108,419	(98,000)	2,041,563
Infrastructure	749,523	453,823	-	1,203,346
Building and improvements	928,372	4,141,178	-	5,069,550
Totals, capital assets being depreciated	3,709,039	4,703,420	(98,000)	8,314,459
Less: accumulated depreciation for:				
Automobile & machinery	(1,087,247)	(182,463)	98,000	(1,171,710)
Infrastructure	(18,223)	(76,350)	-	(94,573)
Building and improvements	(256,149)	(116,910)	-	(373,059)
Total accumulated depreciation	(1,361,619)	(375,723)	98,000	(1,639,342)
Total capital assets, being depreciated, net	2,347,420	4,327,697	-	6,675,117
City capital assets, net	$ 12,703,152	$ 4,474,897	$ (3,522,783)	$ 13,655,266

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 300,273	$ -	$ -	$ 300,273
Construction in progress	5,929,471	-	(1,690,820)	4,238,651
Totals, capital assets not being depreciated	6,229,744	-	(1,690,820)	4,538,924
Capital assets, being depreciated:				
Automobile & machinery	989,154	13,561	(21,461)	981,254
Office equipment	145,046	-	-	145,046
Water distribution system	9,409,669	229,483	-	9,639,152
Sewage disposal system	2,959,597	1,785,026	-	4,744,623
Building and improvements	230,818	-	-	230,818
Totals, capital assets being depreciated	13,734,284	2,028,070	(21,461)	15,740,893
Less: accumulated depreciation for:				
Automobile & machinery	(709,640)	(79,912)	9,703	(779,849)
Office equipment	(112,854)	(11,907)	-	(124,761)
Water distribution system	(1,564,191)	(252,326)	-	(1,816,517)
Sewage disposal system	(1,661,597)	(95,127)	-	(1,756,724)
Building and improvements	(57,113)	(7,448)	-	(64,561)
Total accumulated depreciation	(4,105,396)	(446,720)	9,703	(4,542,413)
Total capital assets, being depreciated, net	9,628,888	1,581,350	(11,758)	11,198,480
Capital assets, net	$ 15,858,632	$ 1,581,350	$ (1,702,578)	$ 15,737,404

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

Governmental activities:	
General government	$ 123,249
Community development	4,855
Culture - recreation	89,452
Highways and streets	109,753
Public safety	48,414
Total depreciation expense - Governmental activities:	$ 375,723

Business-type activities:	
Water	$ 324,415
Sewer	122,305
Total depreciation expense - Business-type activities:	$ 446,720

D. Leases

The City leases a postage mailing system and off-site storage facilities that account for on-going operating expenditures of $6,273.

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 3.5% to 9.25%.

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 3.5% to 7%. 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:

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year
General obligation bonds	$ 14,437,750	$ -	$ (641,750)	$ 13,796,000	$ 675,000
Certificates of Obligation and Tax Notes	1,355,000	-	(155,000)	1,200,000	165,000
Compensated absences	215,971	11,455	-	227,426	-
Total governmental activities:	$ 16,008,721	$ 11,455	$ (796,750)	$ 15,223,426	$ 840,000
Business-type activities:					
General obligation bonds	3,152,250	-	(128,250)	3,024,000	152,729
Certificates of obligation	570,000	-	(185,000)	385,000	185,000
Compensated absences	46,329	8,114	-	54,443	-
Total business-type activities:	$ 3,768,579	$ 8,114	$ (313,250)	$ 3,463,443	$ 337,729

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 10, 2005; interest at 8.20%.	$ 65,000	$ -
$8,245,000, Geneal Obligation Refunding and Improvement Bonds, Series1997, serial bonds due in annual installments of $125,000 to $350,000 through February 15, 2018, interest at 4.00 to 5.15%	3,696,000	3,024,000
$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 3.5 to 4.80%.	5,910,000	-
$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 5.2 to 6.70%.	2,260,000	-
$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%.	1,865,000	-
Total General Obligation Bonds	$ 13,796,000	$ 3,024,000
Certificates of Obligation:		
$4,660,000 Combination Tax and Revenue Certificates 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%.	$ -	$ 385,000
$430,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, serial obligations due in annual installments of $15,000 to $35,000 through February, 2016; interest at 5.75 to 6.80%.	320,000	-
$800,000 Combination Tax and Revenue Certificates of Obligation, Series 1998, serial obligations due in annual installments of $20,000 to $65,000 through February 15, 2018; interest at 5.00 to 7.75%.	645,000	-
Total Certificates of Obligation	$ 965,000	$ 385,000
Limited Tax Notes:		
$530,000 Limited Tax Note, Series 2001, due in annual installments of $90,000 to $120,000 through February 15, 2006; interest at 5.70%.	$ 235,000	$ -
Grand Total Outstanding Debt	$ 14,996,000	$ 3,409,000

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 Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2005	$ 675,000	$ 664,077	$ 135,000	$ 146,738
2006	657,500	625,247	157,500	139,971
2007	707,250	589,219	177,750	132,177
2008	748,250	552,631	186,750	123,656
2009	779,250	517,074	195,750	114,618
2010-2022	10,228,750	2,811,587	2,171,250	530,424

Certificates of Obligation:

Year ended September 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2005	$ 50,000	$ 48,600	$ 185,000	$ 18,381
2006	55,000	46,066	200,000	6,300
2007	55,000	43,386	-	-
2008	65,000	40,405	-	-
2009	65,000	37,128		
2010-2022	675,000	160,264	-	-

Limited Tax Notes:

Year ended September 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2005	$ 115,000	$ 13,395	$ -	$ -
2006	120,000	6,840	-	-
2007	-	-	-	-
2008	-	-	-	-
2009	-	-	-	-
2010-2022	-	-	-	-

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 are not included in the City's financial statements.

As of September 30, 2004, the remaining outstanding balance of legally defeased certificates is $3,190,000. These certificates are due to be paid off in their entirety on February 15, 2005.

Deferred bond issuance costs:

The costs associated with debt issuance and refunding were recorded as deferred expense the year they were incurred. These costs are amortized over the period during which the related debt is outstanding as summarized below:

		Issuance Costs
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, 2004		(272,877)
Deferred bond issuance costs, net	$	111,196

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 includes, among other things, a commitment by the City to 2.0 million gallons of water per day (MGD) demand. In June, 1994, the City began purchasing its water from UTRWD and at September 30, 2004 is committed to 7.5 millions gallons of water per day. 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.

B. Employee retirement systems and pension plans

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 794 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 which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

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, 2003 valuation is effective for rates beginning January 2005).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/03	12/31/02	12/31/01
Actuarial Value of Assets	$ 4,135,143	$ 3,253,521	$ 2,425,948
Actuarial Accrued Liability	5,215,888	4,193,662	3,155,136
Percentage Funded	79.3%	77.6%	76.9%
Unfunded Actuarial Accrued Liability(UAAL)	1,080,745	940,141	729,188
Annual Covered Payroll	4,903,503	4,757,941	4,402,317
UAAL as a % of Covered Payroll	22.0%	19.8%	16.6%
Net Pension Obligation(NPO) at the Beginning of the Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual Required Contribution(ARC)	441,389	426,836	325,456
Contributions Made	441,389	426,836	325,456
Increase in NPO	-0-	-0-	-0-
NPO at the End of the Period	-0-	-0-	-0-

Note: Trend data presented is audited information as of December 31st 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, 2004, are comprised of the following:

Capital projects	1,866,796
Meter deposits	322,995
Total	2,189,791

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. Internal Service Fund

The City has operated under a partially self-insured medical plan and a dental self-insurance plan for City employees and their covered dependents in order to minimize the total cost of medical health insurance. The City accounts for this activity in an Internal Service Fund to facilitate accountability and management control.

The City purchased commercial insurance for claims in excess of coverage provided by the plan. This coverage for unanticipated catastrophic individual or aggregate loss by stop-loss is through a policy with GE Group Life Assurance Company. Stop-loss coverage was in effect for individual claims exceeding $50,000 and for an aggregate attachment point of $959,030.

All departments of the City participate in the program and make payments to the Insurance Plan Fund. For medical claims, payments are based on the attachment factor/unit cost agreed to in the stop-loss coverage. For dental claims, payments are based on estimates of the amounts needed to pay dental claims.

Effective October 1, 2004, the City has elected to utilize a fully-insured medical and dental plan. For the partially self-insured medical plan and the self-insured dental plan, the entire balance of the fund has been reserved to cover claims incurred but not yet submitted.

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, amphitheaters, concert halls, parks and open space improvements, museums, exhibition facilities; related store, restaurant, concession, parking and transportation facilities; related street, water and sewer facilities; and to create or retain "primary jobs," including: public safety facilities, recycling facilities, streets and roads, drainage and related improvements, demolition of existing structures; and maintenance and operating costs associated with projects.

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

On November 5, 2002, Corinth held a 4B Sales Tax Election and the citizens voted to approve the collection of an additional one-half of one percent sales tax for economic development. On June 19, 2003 the City Council approved the Articles of Incorporation officially establishing the Corinth Economic Development Corporation ("CEDC") and naming its seven-member board of directors. The Articles of Incorporation were approved by the Secretary of State at the end of June, 2003. The corporation directors then appointed officers of the corporation and adopted their bylaws in September 2003. The bylaws were forwarded to the City Council for their approval on October 23, 2003.

The Comptroller's office notified area merchants to begin collecting the new tax rate on April 1, 2003 and the City began receiving revenue from the tax in June 2003. Each month, the Comptroller's office issues a payment for the total city sales tax. Upon receipt, the 4B funds are transferred into a separate, interest-bearing account at the City's depository bank. The Corporation's closing fund balance on September 30, 2003, was $165,101 and had grown to $557,898 on September 30, 2004.

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, the Internal Service Fund, or the Community Economic Development Corporation (CEDC) Component Unit.

H. Contingent Liabilities

During the year, a housing discrimination suit that alleges 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 disputes the allegation and is responding to the litigation by vigorously contesting it, and will continue to pursue dismissal if necessary.

Based on the information available at September 30, 2004, it is not possible to make a reliable evaluation of, or an estimate of, the amount or range of potential loss, if any, particularly as precise damages have not been substantiated to date.

V. SUBSEQUENT EVENTS

A. Issuance of Tax Note

On September 2, 2004 the City Council considered and adopted an ordinance authorizing the issuance and sale of the City's Tax Note, Series 2004; levying an annual ad valorem tax and providing for the security for and payment of said note: and enacting other provisions relating to the subject.

The ordinance stated the City Council's finding and determination that it is necessary, useful and appropriate for the City's public purposes to authorize and provide for the issuance and sale of a note of the City for the purposes set forth in the ordinance. The proceeds of the note are to be used to acquire computers, communications and technology equipment and software, audio/visual equipment, vehicles, furniture and equipment for City offices and departments, law enforcement equipment including equipment for law enforcement vehicles, public works department equipment including trucks, loader and street sweeper, and equipment for parks department; construction and installation of renovations and improvements to City Hall, including landscaping; install carpet for police building; install lighting for public works building; construct and equip park improvements; construct or inquire a storage building; and professional services for comprehensive plan and needs assessment study.

Proceeds from the $1.2 million issuance of Tax Notes were received 10/01/04. After paying bond issuance costs and legal fees, $1,178,000 was available for purchasing the approved items.

Issuance of the Tax Note was a consideration for City Staff and Council while working together in preparing the budget for fiscal year 2004 - 2005. By packaging needed capital items together in a Tax Note purchase, the items were not included in expenditures for next years budget. The benefit of this action allows the City to acquire needed assets without an increase in ad valorem taxes. The surplus in the Debt Service Fund, which will be used to fund the debt service payments for the City, keeps the ad valorem tax rate as low as possible and still allows the City to address pressing capital outlay needs. All of this is possible because of the $2.4 million surplus in the Debt Service Fund will be used to supplement future debt service payments for the City's outstanding debt.

B. Internal Service Fund

The Internal Service Fund was established in 1998 to account for the partially self-insured medical plan and the fully insured dental plan for City employees and their covered dependents. (See item IV. E. Internal Service Fund for more background information.)

This year, the City of Corinth Benefit Committee engaged the marketplace to evaluate the medical, dental, and group life coverage for City of Corinth employees and their dependants. The result of the review was a recommendation to move to a fully insured medical and dental insurance plan for the following reasons:

- A fully insured policy would have a fixed premium
- The selected health insurance policy allows the City to receive a return of premium should the claims experience be better than was originally expected.
- The selected health insurance provider offers www on-line assistance
- A projected savings in premiums of over $200K

With any transition from a partially self-funded plan, the Plan must set aside funds for claims incurred during the self-funded plan year that must be paid after the arrangement is terminated. While the exact impact of the run-out liability is not available or predictable, the City has reserved the entire Internal Service Fund balance against these future claim payments.

A more complete estimate of the run-out liability can be calculated before the end of next fiscal year. This issue has been discussed with the City's insurance broker who will assist in determining any reserve for next year end. Should it be determined that a surplus is available, the surplus will be used to offset employee benefit costs in the future year(s).

C. NEW COMPONENT UNITS

The Corinth Economic Development Corporation is the only component unit of the City presented in the financial statements for the fiscal year ending September 30, 2004. However, the Corinth Crime Control and Prevention District and the Street Maintenance special revenue fund were approved by voters during a Special Election on September 11, 2004, and established by Council ordinance on September 21, 2004, with an effective date of January 1st, 2005.

For future reporting, the Corinth Economic Development Corporation and the Corinth Crime Control and Prevention District (meet the qualifications for and) will be shown as component units. However, the Street Maintenance special revenue fund, even though it will prepare its own budget, does not qualify as a component unit and will be presented as part of the General Fund.

Even though a distinction is made in the classification and reporting of the above three entities, there is a common financial consideration. Since each entity will receive ¼ cent (.0025) sales tax revenue, the additional future revenue to the General Fund for the Corinth Crime Control and Prevention District and the Street Maintenance functions will have a favorable impact on the ad valorem tax rate. The revenue received from sales tax for these functions will offset expenditures previously funded from ad valorem tax revenue.

Estimated additional revenues for (October, 2005 through September, 2006) the first complete year of receipts is an estimated $225,000 each. The first year of receipts is estimated to be $100,000 for each entity since collections will not be for the full twelve months.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Proposed Form of Opinion of Bond Counsel

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

CITY OF CORINTH, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2005, DATED DECEMBER 1, 2005
IN THE AGGREGATE PRINCIPAL AMOUNT OF $5,080,000

AS BOND COUNSEL for the City of Corinth, Texas, the issuer (the "Issuer") of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date specified in the text of the Bonds, until maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Bonds, and maturing and subject to redemption on the dates specified in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, the Escrow Agreement dated as of December 1, 2005, between the Issuer and The Bank of New York Trust Company, N.A., Jacksonville, Florida (the "Escrow Agreement"), and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered and constitutes a binding and enforceable agreement in accordance with its terms, and that the Refunded Obligations, as defined in the ordinance of the Issuer authorizing the Bonds, are outstanding only for the purpose of receiving the funds provided by, and are secured by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by The Bank of New York Trust Company, N.A., Jacksonville, Florida, as Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the verification report Grant Thornton LLP, as to the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purpose of paying such Refunded Obligations to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON SAID EXAMINATION, IT IS FURTHER OUR OPINION that said Bonds have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law.

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

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

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

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

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

APPENDIX D

SPECIMEN OF BOND INSURANCE POLICY

CIFG
IXIS FINANCIAL GUARANTY

CIFG Assurance North America, Inc.
825 Third Avenue, Sixth Floor
New York, NY 10022
For information, contact (212) 909-3939
Toll-free (866) 243-4212

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: ____________ Policy No.: CIFG NA-##

CUSIP: ____________ Effective Date: ______, 200_

OBLIGATIONS: ____________________________

CIFG ASSURANCE NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however, that* any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By ______________________________
Authorized Officer

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