

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 26, 2010

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE CERTIFICATES IS EXCLUDEABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER, EXISTING LAW AND THE CERTIFICATES ARE NOT PRIVATE ACTIVITY BONDS. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

**NEW ISSUE
BOOK-ENTRY ONLY**

RATINGS: Standard & Poor's "A+"
See "MUNICIPAL BOND RATING" herein

**\$1,710,000
CITY OF EL CAMPO, TEXAS
(WHARTON COUNTY, TEXAS)
TAX & REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010**

THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS".

Dated Date: March 1, 2010

Due: February 1 — See inside cover page

The City of El Campo, Texas (the "City") is issuing its Tax & Revenue Certificates of Obligation, Series 2010 (the "Certificates"). The Certificates are being particularly issued pursuant to the applicable provisions of the Texas Constitution and of the laws of the State of Texas (the "State"), including Chapter 271, Subchapter C, Texas Local Government Code, as amended, and an ordinance of the City authorizing the issuance of the Certificates (the "Ordinance").

Interest on the Certificates accrues from March 1, 2010 (the "Dated Date") and is payable on August 1, 2010 and each February 1 and August 1 thereafter until maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Certificates are direct obligations of the City and are payable from and secured by a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. In addition the Certificates are secured by a limited pledge of a subordinate lien of the net revenues of the City's water and sewer system. See "THE CERTIFICATES – Sources of Payment."

The Certificates will be issued in fully-registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and the nominee for The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Certificates. Individual purchases of the Certificates will initially be made pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** For as long as Cede & Co. is the sole registered owner of the Certificates, the principal of and interest on the Certificates will be payable by Wells Fargo Bank, N.A., Houston, Texas (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES – Book-Entry-Only System".

Proceeds from the sale of the Certificates will be used for the purpose of financing (i) improvements and renovations to the City's utility system and (ii) paying costs of issuance related to the Certificates. See "THE CERTIFICATES – Sources and Uses".

SEE INSIDE COVER FOR MATURITY SCHEDULE

The Certificates are subject to optional redemption prior to their scheduled maturities as described herein. See "THE CERTIFICATES – Optional Redemption."

The Certificates are offered for delivery, when, as and if issued by the City, subject to the approving opinions of the Attorney General of the State of Texas and Vinson & Elkins LLP, Houston, Texas, Bond Counsel for the City. See "LEGAL MATTERS". It is expected that the Certificates will be available for delivery through the facilities of the Depository Trust Company on or about March 4, 2010.

BIDS DUE: February 8, 2010 at 1:00 p.m. CST

MATURITY SCHEDULE

**City of El Campo, Texas
(Wharton County, Texas)
\$1,710,000**

**Tax & Revenue Certificates of Obligation, Series 2010
CUSIP Prefix: 282749**

Maturity Feb. 1	Principal Amount	Interest Rate	Initial Reoffering Yield ^(b)	CUSIP Suffix ^(c)
2013	\$ 100,000	%	%	
2014	100,000			
2015	115,000			
2016	50,000			
2017	50,000			
2018	50,000			
2019	50,000			
2020	50,000			
2021	(a) 50,000			
2022	(a) 50,000			
2023	(a) 50,000			
2024	(a) 50,000			
2025	(a) 140,000			
2026	(a) 145,000			
2027	(a) 155,000			
2028	(a) 160,000			
2029	(a) 170,000			
2030	(a) 175,000			

- (a) The City reserves the right at its option, to redeem Bonds having stated maturities on and after February 1, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2020, or any date thereafter at par plus accrued interest from the most recent interest payment date to the date of redemption. *See* "THE CERTIFICATES – Optional Redemption."
- (b) The initial reoffering prices or yields of the Certificates are furnished by the Initial Purchaser (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (c) CUSIP Numbers have been assigned to the Certificates by CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the purchasers of the Certificates. Neither the City, the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

Elected Officials

The City of El Campo, Texas was incorporated in 1905 and operates as a Home Rule city under the laws of the State of Texas and a charter approved by the voters in 1954. The City operates under the Council/Manager form of government, with a Mayor and six council members elected for staggered two-year terms. The City Council formulates operating policy for the City and the City Manager is the chief administrative officer.

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Phillip Spenrath	Mayor	2010	High School Teacher
Kenny Martin	Mayor Pro-Tem	2010	Owner – Martin Electric Co.
Robert Boone	Councilmember – District 1	2011	Retired
Charlotte Brown	Councilmember – District 2	2011	Insurance Sales
Anthony Collins	Councilmember – District 3	2011	Owner – E.A. Collins & Sons
Ed Erwin	Councilmember – District 4	2011	Contractor
Richard Young	Councilmember – At Large	2010	Vice President – Green Leaf Nursery

Appointed Officials

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
John Steelman	City Manager	33 Years
Courtney Sladek	Director of Finance	3 Years
Ronald Collins	City Attorney	18 Years
Cindy Cerny	City Secretary	5 Years

Consultants

Bond Counsel	Vinson & Elkins LLP Houston, Texas
Certified Public Accountants	Harrison, Waldrop & Uherek, L.L.P. Victoria, Texas
Financial Advisor	Coastal Securities, Inc. Houston, Texas

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date of this document, as the same may be supplemented or corrected from time to time, constitutes as an Official Statement with respect to the Certificates described herein "deemed final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information permitted by Rule 15c2-12.

The information contained in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create an implication that there have not been changes in the matters discussed herein since the date of this Official Statement.

No broker, dealer, sales representative or any other person has been authorized by the City to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

All the summaries of the statutes, ordinance, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the City.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Initial Purchaser after such Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Certificates into investment accounts.

Neither the City nor the Financial Advisor make any representations or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been furnished by The Depository Trust Company.

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

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OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information contained therein. The offering of the Certificates to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from the Official Statement or otherwise to use same without the entire Official Statement. Certain defined terms used in this Summary are defined elsewhere in this Official Statement.

The Issuer	City of El Campo, Texas.
The Certificates	\$1,710,000 City of El Campo, Texas Tax & Revenue Certificates of Obligation, Series 2010 (the "Certificates"). The Certificates are being issued in the principal amounts, maturities, and at the rates per annum set forth on the inside cover page hereof.
Interest	Interest on the Certificates accrues from March 1, 2010 the Dated Date, and is payable August 1, 2010 and each February 1 and August 1 thereafter until maturity or redemption.
Optional Redemption	The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 1, 2021, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2020, or any day thereafter at par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.
Sources of Payment	Principal of and interest on the Certificates is payable from the receipts of a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City. In addition, the Certificates are secured by a limited pledge of a subordinate lien on the net revenues of the City's water and sewer system. <i>See</i> "The CERTIFICATES – Sources of Payment." The Certificates are direct obligations of the City and not obligations of the State of Texas, Wharton County or any other political subdivision. <i>See</i> "THE CERTIFICATES – Sources of Payment."
Use of Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) improvements and renovations to the City's utility system, and (ii) paying costs of issuance related to the Certificates. <i>See</i> "THE CERTIFICATES – Sources and Uses".
Book-Entry Only System	The Certificates are initially issuable only to Cede & Co., the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Principal of and interest on the Certificates will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Certificates. <i>See</i> "THE CERTIFICATES–Book-Entry-Only System."
Payment Record	The City has never defaulted with respect to payment of debt service on any outstanding debt.
Municipal Bond Rating	Standard and Poor's Ratings Group, a Division of The McGraw-Hill Companies, Inc., has assigned its underlying municipal bond rating of "A+" to the Certificates. <i>See</i> "MUNICIPAL BOND RATINGS".
Tax Exemption	In the opinion of Bond Counsel, under existing law interest on the Certificates is excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein, and is not a specific preference item or included in a corporation's adjusted current earnings for purposes of the alternative minimum tax. <i>See</i> "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.
Qualified Tax-Exempt Obligations	The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. <i>See</i> "TAX MATTERS – Purchase of Qualified Tax-Exempt Obligations By Financial Institutions" herein.
Delivery	It is expected that the Certificates will be available for delivery through the facilities of DTC on or about March 4, 2010
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Vinson & Elkins LLP, Bond Counsel, Houston Texas.

FINANCIAL HIGHLIGHTS

2009 Taxable Assessed Valuation	\$ 424,039,969
2000 US Census Population	10,945
2008 Estimated Population ^(a)	11,187

Direct Ad Valorem Tax Debt ^(b)

Outstanding Debt	\$ 9,490,000
The Certificates	1,710,000
Total Direct Debt	<u>\$ 11,200,000</u>

Less: Self-Supporting Debt ^(c)	<u>\$ 6,402,530</u>
Total Net Direct Debt	<u>\$ 4,797,470</u>

Estimated Overlapping Debt ^(d)	<u>\$ 11,774,720</u>
Total Direct & Estimated Overlapping Debt	<u>\$ 22,974,720</u>
Total Net Direct & Estimated Overlapping	<u>\$ 16,572,190</u>

<u>Direct Debt Ratios</u>	<u>Per Capita</u>	<u>Percent of 2009 Assessed Value</u>
Direct Debt	\$ 1,001	2.64%
Direct & Estimated Overlapping Debt	\$ 2,054	5.42%
Net Debt	\$ 429	1.13%
Net Debt & Estimated Overlapping Debt	\$ 1,481	3.91%

<u>Annual Debt Requirements</u>	<u>Direct Debt</u>	<u>Net Debt</u>
Average Annual Debt Service	\$ 779,801	\$ 213,864
Maximum Annual Debt Service	\$ 1,074,009	\$ 313,319

2009 Tax Rate

Debt Service	\$ 0.05526
Maintenance & Operations	0.48909
Total	<u>\$ 0.54435</u>

Fund Balance as of 9/30/2008

General Fund	\$ 6,053,711
Debt Service Fund	\$ 311,065

(a) Source: City of El Campo.

(b) As of December 1, 2009.

(c) Portions of the Outstanding Debt are considered self-supporting paid from water/sewer revenues.
Includes a portion of the Certificates.

(d) See "Estimated Overlapping Debt" in Appendix A.

\$1,710,000
CITY OF EL CAMPO, TEXAS
(WHARTON COUNTY, TEXAS)
TAX & REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010

INTRODUCTION

This Official Statement is provided to furnish information in connection with the offering of City of El Campo, Texas Tax & Revenue Certificates of Obligation, Series 2010 in the aggregate principal amount of \$1,710,000 (the "Certificates").

Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted by City Council of the City of El Campo, Texas (the "City") authorizing the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

The Certificates are issued pursuant to the applicable provisions of the Constitution and laws of the State of Texas including Chapter 271, Subchapter C, Texas Local Government Code (the "Act"), and the Ordinance.

The Certificates are issued for the purposes described below and are payable from the receipts of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. In addition, the Certificates are secured by a limited pledge of a subordinate lien on the net revenues of the City's water and sewer system. See "THE CERTIFICATES – Sources of Payment".

The City's audited general purpose financial statements for the Fiscal Year ended September 30, 2008 (the "Financial Statements"), which are set forth in APPENDIX C, present information on the general financial condition of the City at the dates and for the periods described therein.

THE CERTIFICATES

Sources and Uses

Proceeds from the sale of the Certificates will be used for the purpose of financing (i) improvements and renovations to the City's utility system, and (ii) paying costs of issuance related to the Certificates.

The following table sets forth the estimated sources and uses of funds associated with the proceeds from the sale of the Certificates.

Sources of Funds:
Par Amount
Accrued Interest
Total
Uses of Funds:
Project Fund Deposit
Accrued Interest
Issuance Costs ¹
Total

¹ Includes professional costs and rounding.

General

The following is a description of some of the terms and conditions of the Certificates, which description is qualified in its entirety by reference to the Ordinance. Copies of the Ordinance may be obtained upon request to the City. Certain terms not defined elsewhere in the Official Statement are defined in the Ordinance.

Description

The Certificates will bear interest at the rates and will mature on the dates and in the amounts as set forth on the inside cover of this Official Statement. The Certificates are dated March 1, 2010, (the “Dated Date”) and will bear interest from the Dated Date, payable August 1, 2010 and each February 1 and August 1 thereafter, until the earlier of maturity or redemption.

The Certificates will be issued only in fully registered form, in integral multiples of \$5,000 of principal amount, for any one maturity, and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by Wells Fargo Bank, N. A., Houston, Texas (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. *See* “THE CERTIFICATES – Book-Entry-Only System” herein.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and laws of the State of Texas, including the Act and the Ordinance.

Sources of Payment

The Certificates are payable from the receipts of a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City. *See* “TAX INFORMATION -Tax Rate Limitations”. The Certificates are additionally secured by a limited pledge of a subordinate lien on the net revenues of the City’s water and sewer system.

Optional Redemption

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Certificates of a stated maturity are to be redeemed, the Certificates, or portions thereof, within such maturity to be redeemed shall be selected by the City.

By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or the portions thereof which are to be redeemed, plus accrued interest to the date fixed redemption. If a portion of any Certificate is redeemed, a substitute Certificate having the same maturity date, bearing interest at the same rate, and in the aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender of the Certificates redeemed, at the expense of the City, all as provided in the Ordinance.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each Owner of each Certificate to be redeemed in whole or in part, at the address of the Owner appearing on the registration books maintained by the Paying Agent/Registrar. Such notice shall state, among other matters, the redemption date, the redemption price, the place at which Certificates are to be surrendered for payment and, if less than all the Certificates are to be redeemed, the numbers of the Certificates or portions thereof to be redeemed. Any notice of redemption so mailed shall be conclusively presumed to have been duly given whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Certificates or portions thereof to be redeemed. When Certificates have been called for redemption in whole or in part and due provision made to redeem the same, the Certificates or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of being paid solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would

otherwise accrue after the redemption date on any Certificate or portion thereof called for redemption shall terminate on the date fixed for redemption.

Book-Entry-Only System

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co., or such other DTC

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

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

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement 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 Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered. Discontinuance by the City of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the City may require the consent of Participants under DTC's Operational Arrangements. In that event, certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City, the Financial Advisor nor the Underwriter take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and

the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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 Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES – Transfers and Exchanges" below.

Ownership

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purposes of making payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Certificate is overdue. Neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the registered owner of such Certificate in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar for such Certificate to the extent of the sums paid.

Transfers and Exchanges

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owners, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000, for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer.

All Certificates issued in any transfer or exchange of Certificates shall be delivered to the Registered Owners at the principal corporate trust office of the Paying Agent/Registrar or sent by United States Mail, first class, postage prepaid to the Registered Owners, and, upon the registration and delivery thereof, the same shall be the valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under the Ordinance, as the Certificates surrendered in such transfer or exchange.

Remedies In The Event of Default

The Ordinance does not establish specific events of default with respect to the Certificates. Under Texas law, there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. 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 Certificates as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160,

Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. The opinion of Bond Counsel will note that the rights of holders of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Paying Agent/Registrar

The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States or any state, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date For Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date of the Certificates means the close of business on the 15th business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date"), which shall be 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Registered Owner of an affected Certificate 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.

TAX INFORMATION

General

One of the City's primary sources of operational revenue and a principal source of funds for ad valorem tax debt service payments is ad valorem taxation. The following is a recapitulation of the authority for taxation, including methodology, limitations, remedies and procedures. For other taxing information *See* APPENDIX A.

Tax Rate Limitations

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 levied, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. 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 Assessed Valuation for all City purposes. The City operates under a Home-Rule Charter, which adopts the constitutional provisions. Administratively, the Attorney General of the State of Texas will only permit the allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

By September 1, or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

The City may not adopt a tax rate that produces tax revenues that exceed the previous year's tax revenues, unless it holds a public hearing on the proposed increase following notice to the taxpayers and otherwise complies with the Texas Property Tax Code (the "Tax Code"). The Tax Code provides that if the adopted tax rate exceeds the rollback tax rates 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.

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

The 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 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 Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Property Subject to Taxation

Except for certain exemptions provided by Texas law, all the property in the City, real or personal, is subject to taxation by the City. Principal categories of exempt property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones; certain property located in tax abatement zones, on which ad valorem taxes have been abated for a specified period of time pursuant to tax abatement agreements; certain household goods, family supplies, and personal effects; farm products owned by producers; certain property associated with charitable organizations, use and development associations, religious organizations, and qualified schools; designated historic sites; solar and wind powered energy devices; most individually owned automobiles; property of disabled veterans to the extent from \$1,000 to \$3,000 of taxable valuation; and residential homesteads of persons over 65 years to the extent the governing body of the political subdivision granting an exemption deems it advisable to exempt such homestead. The City grants an exemption of \$10,000 to the market value of the residence homestead of persons 65 years of age or older; the disabled are granted an exemption of \$12,000. Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City grants a general \$10,000 homestead exemption. An eligible owner of agricultural and timberland may apply to have such properties which meet certain requirements appraised on the basis of productivity value or market value, whichever is less.

In establishing the market value for taxable property, the cost of mitigation of environmental damage may be considered.

As of January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on the total amount of ad valorem taxes levied on the residence homestead of a disabled person or a person 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on

taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such tax limitation, the total amount of taxes imposed on such homestead cannot be increased except for improvements, and such freeze is transferable to a different residence homestead and to the surviving spouse living in such homestead who is disabled or is at least 55 years of age. Once established, such freeze cannot be repealed or rescinded. The City implemented a tax freeze in FY2007 on the residence homesteads of the elderly and the disabled.

Collections

The City has a lien granted by statute for unpaid taxes on real property, which is discharged upon payment. Thereafter, no lien exists in favor of the City until it again levies taxes. A tax lien may not be enforced on personal property transferred to a bona fide purchaser for value who does not have actual notice of the existence of the lien. In the event a taxpayer fails to make timely payment owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in the first month of delinquency and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. The City may file suit for the collection of delinquent taxes and may foreclose such lien in a foreclosure proceeding. The City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due. The property subject to the City's lien may be sold, in whole or in part, pursuant to a court order to collect the amounts due. The ability of the City to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of the taxpayer's debt.

Taxation Procedures

The Tax Code establishes for each county in Texas a single appraisal district with responsibility for recording and appraising property for all taxing units within the county, and a single appraisal review board, with responsibility for reviewing and equalizing the values established by the appraisal district. The Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the prior tax year or the value rendered by the property owner or whose property was not on the appraisal roll the preceding year or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the City; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition taxing units, such as the City, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records or the grant in whole or in part of an exemption. A taxing unit may not, however, challenge the valuation of individual properties.

Although the City has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Tax Code the City does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisals will be utilized by the Wharton County Appraisal District or whether reappraisals will be conducted on a zone or county wide basis.

City Development Corporation of El Campo, Inc.

The City Development Corporation of El Campo, Inc. (the "Corporation") was formed as a non-profit corporation governed by the Texas Development Corporation Act of 1979, as amended. The purpose of the Corporation is to

promote, assist, and enhance economic development in the City. In January 1992, the voters of the City approved a ¼ of 1% sales and use tax for the benefit of the City Development Corporation of El Campo, Inc. (4A), which became effective July 1, 1992.

The El Campo Volunteer Fire Department

The El Campo Volunteer Fire Department (the “ECVFD”) was formed as a tax-exempt organization for the preservation and protection of property and lives from and during such fires as may occur in the City and vicinity and any other disaster or situation where the ECVFD may be of assistance. The ECVFD will raise and hold economic resources for the direct benefit of the City.

Employees’ Retirement Plan

For a discussion of the City’s Employee Retirement Plan and its obligation thereunder, *See* “APPENDIX C – Note 6 and Note 7 Selected Data from the Comprehensive Annual Financial Report, City of El Campo Fiscal Year Ended September 30, 2008”.

Financial Policies

Basis of Accounting ... The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds based upon the purposes for which they are utilized and the means by which spending activities are controlled. All proprietary funds are accounted for using the accrual basis of accounting. *See* APPENDIX C – “Selected Data from Annual Report, City of El Campo, Texas Fiscal Year Ended September 30, 2008.”

General Fund ... Accounts for all financial resources of the general government, except those required to be accounted for in another fund. The City has established a policy of maintaining a fund balance of at least three months of expenditures.

Debt Service Fund... Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Special Revenue Funds.... Accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Fund... To account for financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived partially from proceeds from the sale of general obligation bonds.

*Utility Fund....*An enterprise fund accounts for the activities of the City related to its sewage treatment plant, water distribution system, and the City’s garbage collection.

Transfer Policy... Transfers to the General Fund from the Utility Fund are made to recover administrative costs provided by the General Fund and are based upon actual General Fund employee time allocated to the Utility Fund.

Deposits and Investments

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

Authorized Investments... Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit

of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Company 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, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, 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 is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) 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, (11) 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, (12) 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 (13) 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 AAA-m 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.

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

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

Additional Provisions . . . Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

Current Investments . . . As of September 30, 2009 the City had investments as follows:

Investments	\$4,703,439
Cash	\$ 252,824
US Government Securities	\$ 148,961

(a) Book Value

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the City are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

LEGAL MATTERS

Legal Opinions

The City will furnish the Initial Purchaser with a complete transcript of proceedings held incident to the authorization and issuance of the Certificates, including the approving opinion of the Attorney General of the State of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Certificates are valid and legally binding Certificates of the City under the Constitution and laws of the State of Texas. The City will also furnish the approving legal opinion of Bond Counsel in substantially the form attached hereto as Appendix D.

In its capacity as Bond Counsel, Vinson & Elkins LLP has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

The various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and subcaptions “THE CERTIFICATES” (except for the subcaptions “Sources and Uses,” “Sources of Payment” “Book-Entry-Only System” and “Remedies in the Event of Default” as to which no opinion is expressed), “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “Compliance With Prior Undertakings” as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Ordinance; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “TAX MATTERS,”: ”GENERAL CONSIDERTIONS - Legal Investments and Eligibility to Secure Public Funds in Texas” and “-Securities Laws” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

No-Litigation Certificate

The City will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and the City Secretary, to the effect that no litigation of any nature is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution, or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates.

Litigation

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs. Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City’s financial position.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins LLP, Bond Counsel, under existing law, (i) interest on the Certificates is excludable from gross income for federal income tax purposes and, (ii) interest on the Certificates is not (A) a specific preference item subject to the alternative minimum tax on individuals or corporations, or (B) included in a corporation’s adjusted current earnings for purposes of the alternative minimum tax.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel’s opinions will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Financial Advisor and the Initial Purchaser

with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such includability occurs.

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

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

Purchase of Tax-Exempt Obligations by Financial Institutions

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides a limited exception for a limited amount of new money tax-exempt obligation holdings if such obligations were issued in 2009 and 2010. In addition, Section 265(b) also provides an exception for financial institutions for (ii) tax-exempt obligations that are properly designated by an issuer as "qualified tax-exempt obligations."

The Certificates have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Certificates, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds") issued or reasonably anticipated to be issued on behalf of the City during 2010, will not exceed \$30,000,000. Further, the City has not designated more than \$30,000,000 in "qualified tax-exempt obligations" (including the Certificates) during 2010.

Notwithstanding the designation of the Certificates as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Certificates will be subject to a 20% disallowance of allocable interest expense.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount Certificates

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Certificate.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Schedules in Appendix A numbered 1 and 2 and 4 through 11 and in Appendix C. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2010. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C 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 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The City has agreed to provide the foregoing information only as described above. Investors will be able to access

continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. 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 Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

Since fiscal year 2007, the City has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule. For fiscal years 2005 and 2006, the City was late to file annual reports. The City has taken appropriate remedial action to ensure timely filing in the future.

FINANCIAL ADVISOR

Coastal Securities, Inc. ("Coastal") is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Coastal, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Coastal has reviewed the information in this Official Statement in accordance with its responsibilities to the City and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but Coastal does not guarantee the accuracy or completeness of such information.

UNDERWRITING

After requesting competitive bids for the Certificates, the City has accepted a bid tendered by _____ (the "Initial Purchaser") to purchase the Certificates at the rates shown on the inside cover page of this Official Statement at a price of \$_____ plus accrued interest to the date of delivery. No assurance can be given that any trading market will be developed for the Certificates after their initial sale by the City. The City has no control over the prices at which the Certificates will initially be re-offered to the public.

MUNICIPAL RATING

Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard and Poor's") has assigned its municipal bond rating of "A+" to this issue of Certificates. An explanation of the rating may be obtained from Standard & Poor's. The rating reflects only the view of the rating organization and the City makes no representation as to the appropriateness of the rating. 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 such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

FINANCIAL GUARANTY INDUSTRY – RECENT EVENTS

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's"), (collectively referred to herein as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to sub-prime mortgage risk as an area of stress for the financial guaranty industry. In various releases, the Ratings Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, including the Bond Insurer.

GENERAL CONSIDERATIONS

Prices and Marketability

The delivery of the Certificates is conditioned upon the receipt by the City of a certificate executed and delivered by the Initial Purchaser on or before the Date of Delivery of the Certificates, stating the prices at which a substantial amount of the Certificates of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bondhouse, broker, dealer, or similar person acting in the capacity of Initial Purchaser or wholesaler. The City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Initial Purchaser at the yields specified inside the cover pages. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Initial Purchaser after the Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Certificates into investment accounts.

Legal Investments and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees, and for municipalities and other political subdivisions or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Certificates have a rating of not less than "A" or its equivalent to be legal investments of such entity's funds. The "Public Funds Collateral Act," Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. "Eligible Security" is defined to include local government obligations (such as the Certificates) with a rating from a nationally recognized investment firm of "A" or its equivalent. See "MUNICIPAL BOND RATINGS".

The City makes no representation that the Certificates will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. No review by the City has been made of

the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

Securities Laws

No registration statement relating to the Certificates has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any other jurisdiction in which the Certificates may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the statutes, ordinance and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Forward-Looking Statements

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.

It is important to note that the City's actual results could differ materially from those in such forward-looking statements. The forward-looking statements 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 would prove to be accurate.

Updating of Official Statement

The City will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the City and, to the extent that information comes to its attention, to the other matters described in the Official Statement, until the delivery of the Certificates to the Initial Purchaser. Except as set out above under "CONTINUING DISCLOSURE OF INFORMATION," all changes in the affairs of the City and other matters described in the Official Statement subsequent to the delivery of the Certificates to the Initial Purchaser and all information with respect to the resale of the Certificates shall be the responsibility of the Initial Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

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

Approval of Official Statement

The Ordinance will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Certificates by the Initial Purchaser. This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the Rule.

City of El Campo, Texas

/s/ _____
Mayor

Attest
/s/ _____
City Secretary

APPENDIX A
FINANCIAL INFORMATION

Schedule 1 - Outstanding Certificates

The City has previously issued general obligation bonds and certificates of obligation (the “Outstanding Obligations”). The following table lists the principal amounts of the Outstanding Obligations, including the issuance of the Certificates:

Outstanding Debt as of December 1, 2009

Combination Tax & Revenue Certificates of Obligation, Series 1995	\$ 660,000
General Obligation Refunding Bonds, Series 1998	795,000
Tax & Revenue Certificates of Obligation, Series 2004	3,010,000
Certificates of Obligation, Series 2007	1,595,000
Tax & Revenue Certificates of Obligation, Series 2008	<u>3,430,000</u>
Total Outstanding Obligations	\$ 9,490,000
The Certificates	<u>\$ 1,710,000</u>
Total	\$ 11,200,000
Less: Outstanding Self-Supporting Debt ^(a)	<u>\$ (4,817,652)</u>
Net Debt	\$ 6,382,348

Outstanding Self Supported Debt as of December 1, 2009

Combination Tax & Revenue Certificates of Obligation, Series 1995	\$ 235,686
General Obligation Refunding Bonds, Series 1998	729,174
Tax & Revenue Certificates of Obligation, Series 2004	2,007,670
Tax & Revenue Certificates of Obligation, Series 2008	3,430,000
The Certificates	<u>1,584,878</u>
Total Self-Supported Debt	\$ 6,402,530

(a) The City intends to pay approximately 97% of the Certificates from the net revenues of the City's water and sewer fund.

Self-Supporting Debt

The City follows a policy of paying debt service on portions of the City's Outstanding Debt issued for certain utility system purposes from revenues of the Water and Sewer Fund rather than from ad valorem taxes. Additionally, the City of El Campo Economic Development Corporation revenues pay a portion of the debt service on certain of the City's Outstanding Obligations. Although the foregoing policy is taken into consideration in the setting of each of the year's tax rate in the budget process and in the calculations contained herein, the City may modify or eliminate such policy as it may deem appropriate in future years.

The City presently intends to continue such policy. Although the foregoing policy is taken into consideration in the setting of each year's tax rate in the budget process and in the calculations contained herein, the City may modify or eliminate such policy as it may deem appropriate in future years.

Authorized But Unissued General Obligation Debt

The City has no authorized but unissued debt, although under State law, the City is authorized to issue various types of indebtedness, including tax-supported debt, such as the Certificates, without seeking voter approval.

Anticipated Issuance of Additional Debt

The City has no plans for the issuance of additional debt at this time.

Outstanding Revenue Bonds

The City has no revenue debt issued and outstanding.

Other Obligations

Other Obligations - Capital Leases

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 234,477	\$ 70,119	\$ 304,596
2011	215,908	59,414	275,322
2012	162,176	49,650	211,826
2013	119,667	43,770	163,437
2014-2018	680,458	136,728	817,186
2019-2020	274,236	11,778	286,014
	<u>\$ 1,686,922</u>	<u>\$ 371,459</u>	<u>\$ 2,058,381</u>

Estimated Overlapping Debt

Expenditures of the various taxing bodies within the territory of the City may be paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. The following information on overlapping jurisdictions 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 below may have issued additional obligations since the date stated in the table, and such entities may have programs requiring the issuance of substantial amounts of additional obligations the amount of which cannot be determined. The following table reflects the estimates share, in thousands, of overlapping debt of these various taxing bodies.

Schedule 2 – Estimated Overlapping Debt

Estimated Overlapping Debt

<u>Jurisdiction</u>	<u>Outstanding Debt</u>	<u>As of</u>	<u>Percent Overlapping</u>	<u>Amount</u>
El Campo Independent School District	\$26,045,000	12/1/2009	42.31%	\$ 11,019,640
Wharton County	4,300,000	12/1/2009	17.56%	755,080
Total Overlapping Debt	<u>\$30,345,000</u>			<u>\$ 11,774,720</u>
City of El Campo *	<u>\$11,200,000</u>	12/1/2009	100%	<u>\$ 11,200,000</u>
Total	<u>\$41,545,000</u>			<u>\$ 22,974,720</u>

* Includes the Certificates.

Schedule 3 – Pro Forma Debt Service Requirements

The following table reflects the estimated debt service on the City's Outstanding Obligations including the Certificates.

FYE 9/30	Outstanding Debt Service	The Certificates				Total Debt Service	Less: Self Supporting Debt Service	Net Debt Service
		Principal	Interest Rate ^(a)	Interest	Total			
2010	\$ 988,968	\$ -	-	\$ 32,063	\$ 32,063	\$ 1,021,030	\$ 716,731	\$ 304,299
2011	991,393	-	-	76,950	76,950	1,068,343	759,493	308,849
2012	997,059	-	-	76,950	76,950	1,074,009	760,689	313,319
2013	722,173	100,000	4.50%	74,700	174,700	896,873	600,624	296,249
2014	722,041	100,000	4.50%	70,200	170,200	892,241	599,768	292,473
2015	715,304	115,000	4.50%	65,363	180,363	895,666	600,518	295,148
2016	736,041	50,000	4.50%	61,650	111,650	847,691	603,412	244,279
2017	741,948	50,000	4.50%	59,400	109,400	851,348	605,086	246,261
2018	739,298	50,000	4.50%	57,150	107,150	846,448	599,547	246,901
2019	741,343	50,000	4.50%	54,900	104,900	846,243	599,187	247,056
2020	747,800	50,000	4.50%	52,650	102,650	850,450	601,641	248,809
2021	743,303	50,000	4.50%	50,400	100,400	843,703	598,081	245,623
2022	747,551	50,000	4.50%	48,150	98,150	845,701	598,640	247,061
2023	749,953	50,000	4.50%	45,900	95,900	845,853	597,991	247,862
2024	769,944	50,000	4.50%	43,650	93,650	863,594	610,681	252,913
2025	411,661	140,000	4.50%	39,375	179,375	591,036	451,530	139,506
2026	411,001	145,000	4.50%	32,963	177,963	588,964	449,486	139,478
2027	414,409	155,000	4.50%	26,213	181,213	595,622	456,075	139,547
2028	284,594	160,000	4.50%	19,125	179,125	463,719	451,934	11,785
2029	286,650	170,000	4.50%	11,700	181,700	468,350	456,396	11,954
2030	-	175,000	4.50%	3,938	178,938	178,938	167,165	11,772
Total	\$ 13,662,432	\$ 1,710,000		\$ 1,003,388	\$ 2,713,388	\$ 16,375,819	\$ 11,884,677	\$ 4,491,142

(a) Coupons shown for illustrative purposes only.

Financial Ratios

The following table reflects the ratio of direct debt and direct and estimated overlapping debt to the 2009 Taxable Assessed Valuation provided by the Wharton County Appraisal District (the "Appraisal District") and also reflects the per capita estimate of such debt.

<u>Direct Debt Ratios</u>	<u>Per Capita</u>	<u>Percent of 2009 Assessed Value</u>
Direct Debt	\$ 1,001	2.64 %
Direct & Estimated Overlapping Debt	\$ 2,054	5.42 %
Net Debt	\$ 429	1.13 %
Net Debt & Estimated Overlapping Debt	\$ 1,481	3.91 %

Tax Adequacy for Estimated Debt Service

The calculations shown below assume, solely for the purpose of illustration, no increase in assessed valuation over the 2009 Taxable Assessed Valuation provided by the Appraisal District and use a tax rate adequate to the service of the City's total debt service requirements following issuance of the Certificates.

Total Debt Service

Average annual debt service requirements on the City's total outstanding indebtedness including the Certificates	\$ 779,801
\$ 0.18766 Tax Rate on 2009 Taxable Assessed Valuation at 98% collection produces	\$ 779,838
Maximum annual debt service requirements on the City's total outstanding indebtedness including the Certificates	\$ 1,074,009
\$ 0.25845 Tax Rate on 2009 Taxable Assessed Valuation at 98% collection produces	\$ 1,074,013

Net Debt Service

Net average annual debt service requirements on the City's net outstanding indebtedness including the Certificates	\$ 213,864
\$ 0.05417 Tax Rate on 2009 Taxable Assessed Valuation at 98% collection produces	\$ 213,888
Net maximum annual debt service requirements on the City's total outstanding indebtedness including the Certificates	\$ 313,319
\$ 0.07540 Tax Rate on 2009 Taxable Assessed Valuation at 98% collection produces	\$ 313,332

Estimated Overlapping Taxes

Property within the City is subject to taxation by several taxing authorities in addition to the City. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the City is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the City and such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Schedule 4 – Overlapping Tax Rate Information

<u>Overlapping Tax</u>	2009
<u>Jurisdiction</u>	<u>Tax Rate</u>
El Campo Independent School District	\$ 1.1891
Wharton County	0.5438
City of El Campo	0.5444

Schedule 5 – Historical Analysis of Ad Valorem Taxation

Tax Year	Assessed Valuation	Tax Rate	Percent Collection ^(a)		FYE
			Current	Total	
2000	\$ 265,298,949	\$ 0.5757	97.47%	97.56%	9/30/2001
2001	282,365,010	0.5757	98.56%	98.65%	9/30/2002
2002	285,166,722	0.5757	99.26%	99.35%	9/30/2003
2003	286,330,356	0.5757	100.83%	* 101.20%	9/30/2004
2004	315,980,969	0.6207	104.56%	* 104.80%	9/30/2005
2005	348,455,734	0.6207	99.41%	99.80%	9/30/2006
2006	395,185,670	0.5598	101.68%	* 102.46%	9/30/2007
2007	420,556,716	0.5598	98.60%	98.68%	9/30/2008
2008	417,092,973	0.5598	98.38%	^(b) (c)	9/30/2009
2009	424,039,969	0.5544	(c)	(c)	

(a) Source: City of El Campo.

(b) In 2007 the City implemented a taxable freeze for disabled and over 65. Freeze took effect 2008

(c) Information not yet available - in process of collection.

* Includes penalty and interest for the current year.

Schedule 6 – Tax Rate Distribution

Tax Rate Distribution

	2009	2008	2007	2006	2005
General Fund	\$ 0.4891	\$ 0.4715	\$ 0.5020	\$ 0.4991	\$ 0.5350
Debt Service Fund	0.0553	0.0883	0.0577	0.0607	0.0857
	<u>\$ 0.5444</u>	<u>\$ 0.5598</u>	<u>\$ 0.5598</u>	<u>\$ 0.5598</u>	<u>\$ 0.6207</u>

Property within the City is assessed as of January 1 of each year (except for business inventory which may, at the option of the taxpayer, be assessed as of September taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Discounts are not allowed. Taxpayers 65 years old or older are permitted by State law to pay taxes on homestead residences in four installments with the first due prior to February 1 of each year and the final installment due prior to August 1.

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Penalty	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 20% attorney’s collection fee is added to the total tax penalty and interest charge.

Largest Assessed Valuations

<u>Largest Taxpayers</u>		2009	Percent of
<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation</u>	<u>Total Assessed Valuation</u>
Farmers Coop of El Campo	Agriculture	\$ 7,075,070	1.67%
Wal-Mart Stores, Inc.	Retail	6,049,473	1.43%
Wal-Mart Stores, Inc.	Retail	5,962,571	1.41%
AEP Texas Central Co.	Utility	4,504,100	1.06%
HEB Food Store	Grocery/Retail	4,134,689	0.98%
Wincup Holdings, Inc.	Industrial	3,776,300	0.89%
Key Energy-Gulf Coast	Utility	3,640,170	0.86%
Sutherland Lumber Southwest	Industrial	3,408,559	0.80%
		<u>\$ 38,550,932</u>	<u>9.09%</u>

Schedule 7 - Municipal Sales Tax History

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates.

The City Development Corporation of El Campo, Inc. (the "Corporation") was formed as a non-profit corporation governed by the Texas Development Corporation Act of 1979, as amended. The purpose of the Corporation is to promote, assist, and enhance economic development in the City. In January 1992, the voters of the City approved a ¼ of 1% sales and use tax for the benefit of the City Development Corporation of El Campo, Inc. (4A), which became effective July 1, 1992.

Sales Tax Revenues

<u>Tax Year</u>	<u>FYE 9/30</u>	<u>Sales Tax Revenues^(a)</u>	<u>Percent of Ad Valorem Tax Levy</u>	<u>Equivalent Ad Valorem Tax Rate</u>	<u>Revenues Per Capita^(b)</u>
2002	2003	\$ 1,747,751	106.46%	\$ 0.61	\$ 156.23
2003	2004	1,788,358	108.49%	0.62	159.86
2004	2005	1,861,214	102.31%	0.59	166.37
2005	2006	2,000,244	92.48%	0.57	178.80
2006	2007	2,150,320	87.66%	0.54	192.22
2007	2008	2,154,527	91.52%	0.51	192.59
2008	2009	2,422,347	103.75%	0.58	216.53
2009	2010	2,842,632	123.15%	0.67	254.10

(a) City sales tax revenues collected. Includes 1/4 of 1% for ad valorem tax reduction.

Does not include the EDC 1/4 of 1% for the EDC sales tax revenues.

(b) Based on City of El Campo 2008 population estimate of 11,187.

City Development Corporation of El Campo, Inc. (the "CDC")

The City created a non-profit economic development Corporation to promote the development of industrial and manufacturing enterprises and to promote and enhance the creation of jobs in the City. All powers of the CDC are vested in the Board of Directors appointed by the City Council. One fourth of one percent of the Sales and Use Tax to be collected within the boundaries of the City of El Campo will be for the benefit of the Corporation.

Schedule 8 – Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the City’s Debt Service Fund. Such information has been prepared based upon information obtained from the City’s audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ending September 30				
	2008	2007	2006	2005	2004
REVENUES					
Ad Valorem Taxes ^(a)	\$ 252,716	\$ 244,745	\$ 313,266	\$ 416,088	\$ 227,741
Investment Income	9,539	21,846	18,691	9,607	10,013
Total Revenues	262,255	266,591	331,957	425,695	237,754
EXPENDITURES					
Debt Service					
Principal	169,842	193,453	184,704	158,816	158,378
Interest and fiscal	133,531	101,097	108,196	115,528	74,096
Total Expenditures	303,373	294,550	292,900	274,344	232,474
Excess (deficiency) of revenues over expenditures	(41,118)	(27,959)	39,057	151,351	5,280
Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balance			-	-	-
Fund balance beginning of year	352,183	380,142	341,085	189,734	184,454
Fund balance end of year	\$ 311,065	\$ 352,183	\$ 380,142	\$ 341,085	\$ 189,734

(a) Decline in tax revenue dues to a decline in the debt service tax rates.

Schedule 9 – Historical Operations of the General Fund

The following statement sets forth in condensed form the historical operations of the City's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. General Fund revenues are not pledged to pay the Certificates, though any surplus may be used for debt service at the discretion of the City Council. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ending September 30				
	2008	2007	2006	2005	2004
REVENUES					
Taxes	\$ 5,183,705	\$ 4,783,922	\$ 4,688,854	\$ 4,337,196	\$ 3,966,538
Licenses and permits	110,520	125,546	87,717	100,367	110,551
Fines and forfeitures	627,661	632,966	494,368	533,007	500,761
Charges for services	541,610	497,817	512,565	511,787	421,924
Intergovernmental	387,894	167,030	192,895	158,900	145,460
Investment income	227,501	340,648	263,364	176,522	99,502
Other	74,034	93,736	176,301	1,747,320 ^(a)	86,611
Total revenues	7,152,925	6,641,665	6,416,064	7,565,099	5,331,347
EXPENDITURES					
Current					
General government	1,481,338	1,450,626	1,231,896	1,118,867	1,007,309
Public safety	3,732,699	3,292,542	2,965,907	2,660,244	2,576,272
Public works	1,443,217	1,782,484	1,289,692	1,282,385	1,112,820
Parks and recreation	652,629	617,806	650,031	576,742	441,790
Capital outlay	98,288	131,070	819,278	1,528,277 ^(b)	196,400
Total expenditures	7,408,171	7,274,528	6,956,804	7,166,515	5,334,591
Excess (deficiency) of revenues over expenditures	(255,246)	(632,863)	(540,740)	398,584	(3,244)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of assets	45,959	16,546	85,293	11,651	9,193
Capital lease proceeds	65,426	476,050	-	-	-
Operating transfers in ^(b)	412,212	359,260	496,009	459,370	389,051
Operating transfers out	-	(75,000)	(43,067)	(60,300)	(1,540)
Total other financing sources (uses)	523,597	776,856	538,235	410,721	396,704
Excess (deficiency) of revenues and other sources over expenditures and other uses	268,351	143,993	(2,505)	809,305	393,460
Fund balances at beginning of year ^(c)	5,785,360	5,559,277	5,608,555	4,581,853	4,188,393
Fund balances at end of year	\$ 6,053,711	\$ 5,703,270	\$ 5,606,050	\$ 5,391,158	\$ 4,581,853

(a) Capital outlay in FT2005 due to settlement City received from Alcola.

(b) Transfers in from the City's Utility Fund and other Non-governmental funds.

(c) Restated fund balance to properly reflect accounts payable and sales tax revenues. GASB accruals.

Schedule 10 – Historical Operations of the Utility Fund

The following statement sets forth in condensed form the historical operations of the City's Utility Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ending September 30				
	2008	2007	2006	2005	2004
Operating Revenues					
Charges for services	\$ 4,285,212	\$ 3,867,211	\$ 4,040,834	\$ 3,642,874	\$ 3,332,422
Miscellaneous	26,820	51,336	60,263	73,633	71,096
Total operating revenues	4,312,032	3,918,547	4,101,097	3,716,507	3,403,518
Operating Expenses					
Personnel	721,907	729,082	722,535	593,778	611,607
Materials and supplies	61,903	99,927	57,315	47,382	39,919
Repairs and maintenance	133,362	143,536	156,172	153,514	150,237
Other services and charges	2,038,398	1,743,041	1,674,815	1,467,862	1,400,666
Bad debt expense	47,042	13,948	18,180	20,000	21,667
Depreciation and amortization	589,297	547,089	520,630	424,998	410,102
Total operating expenses	3,591,909	3,276,623	3,149,647	2,707,534	2,634,198
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	720,123	641,924	951,450	1,008,973	769,320
Nonoperating Revenues (Expenses)					
Investment income	99,331	46,868	102,960	55,909	36,871
Interest and fiscal charges	(270,981)	(251,964)	(284,527)	(296,471)	(172,871)
Net operating revenues (expenses)	(171,650)	(205,096)	(181,567)	(240,562)	(136,000)
Income before contributions and transfers	548,473	436,828	769,883	768,411	633,320
Contributions and transfers					
Capital contributions	101,676	104,804	409,122	1,252,082	88,084
Transfers out	(345,100)	(301,720)	(434,033)	(367,735)	(319,500)
Total contributions and transfers	(243,424)	(196,916)	(24,911)	884,347	(231,416)
Change in net assets	305,049	239,912	744,972	1,652,758	401,904
Total net assets beginning of year, restated	9,527,319	9,207,667	8,470,391	6,621,366	6,219,527
Total net assets end of year	\$ 9,832,368	\$ 9,447,579	\$ 9,215,363	\$ 8,274,124	\$ 6,621,431

(a) Fund balances restated in FY2005-2008 for accounts receivable.

(b) Capital contribution in FY2005 for Johnson Control meter replacement.

APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION

Location

The City is located in the gulf coast region of southeast Texas and is the largest city in Wharton County with an estimated population of 10,945. It is located on U.S. Highway 59 and State Highway 71, approximately 72 miles southeast of Houston. U.S. Highway 59 is one of the major transportation arteries that ties the United States to Mexico and it is currently being studied for conversion to an interstate highway that would link Canada to Mexico.

Economy

On September 28, 2009 the City of El Campo authorized the annexation of the remaining 84 households located in the northern Sandy corner neighborhood completing the final phase of the 373.45 acre 2007 annexation. The annexation became effective November 1, 2009. The City is also refurbishing the South Meadow Lane roadway in the southern section of the West Loop between Business 59 and the bypass.

One of the economy’s mainstays is agriculture. Wharton County has consistently ranked as one of the largest rice producing counties in the state and nation. Several major regional agricultural facilities are located in the City, including operations for product storage, milling, transportation and marketing as well as three farm cooperatives which provide direct sales, service and marketing assistance to area farmers. There are approximately 3,789 households in the City which includes the 150 newly annexed homes. The per capita personal income is approximately \$28,152 and the City unemployment rate is approximately 7.50%.

The manufacturing sector includes Greenleaf Nursery Company, the largest wholesale nursery operation in the State of Texas, with more than 300 acres in cultivation. Other businesses in the industrial park include manufacturers of cabinets, Styrofoam cups, and a metal fabrication operation.

There are several residential subdivisions planned and currently under construction. An area adjacent to the City will add 30 high end residential homes with values of approximately \$400,000. A 50 lot detached single family home subdivision is ready for construction pending underground electrical installation.

Population

	1970	1980	1990	2000
	Official	Official	Official	Official
	<u>Census</u>	<u>Census</u>	<u>Census</u>	<u>Census</u>
Wharton County	36,729	40,242	39,955	41,188
City of El Campo	9,332	10,479	10,511	10,945

Education Facilities

Education is provided to approximately 3,500 students by the El Campo Independent School District. The El Campo Independent School District includes three elementary schools, one middle school, and one high school. A community junior college, Wharton County Junior College is located nearby. The curriculum offerings of the El Campo Independent School District extend beyond the minimum requirements of the state.

Property Value and Construction

Property Value and Construction

Tax Roll	Commercial	Residential	Estimated Property Value
2000	\$ 3,326,400	\$ 2,391,062	\$ 5,717,462
2001	3,223,360	1,495,937	4,719,297
2002	3,177,750	1,934,176	5,111,926
2003	8,698,900	1,435,868	10,134,768 *
2004	9,348,858	5,587,175	14,936,033
2005	6,306,557	5,008,771	11,315,328
2006	9,078,022	3,695,045	12,773,067
2007	19,402,546	5,122,153	24,524,699 **
2008	8,815,493	5,446,717	14,262,210
2009	5,410,944	3,445,126	8,856,070

* 2003 Includes Wal-Mart and HEB \$5.8 million.

** 2007 Includes Middle School \$14.4 million.

Source: City of El Campo, Texas.

Major Employers (2009)

Major Employers (2009)	Employees
El Campo Independent School District	575
Greenleaf Nursery	350
Wal-Mart	222
El Campo Memorial Hospital	153
City of El Campo	106
HEB	105
New ICM	103
El Campo Coca-Cola	91
Mark's Machine	59
	<u>1,764</u>

Source: City of El Campo

Employment Statistics

Total Civilian Labor Force	4,821
Civilian Labor Force Unemployment Rate	5.2%
Avg Weekly Manufacturing Production Wage	\$356

Source: City Development Corporation of El Campo, Texas.

APPENDIX C

**SELECTED DATA FROM
ANNUAL REPORT
CITY OF EL CAMPO, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2008**

CITY OF EL CAMPO, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2008

Courtney Sladek
Director of Finance

John Steelman
City Manager

Issued By:
Finance Department



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of El Campo
Texas

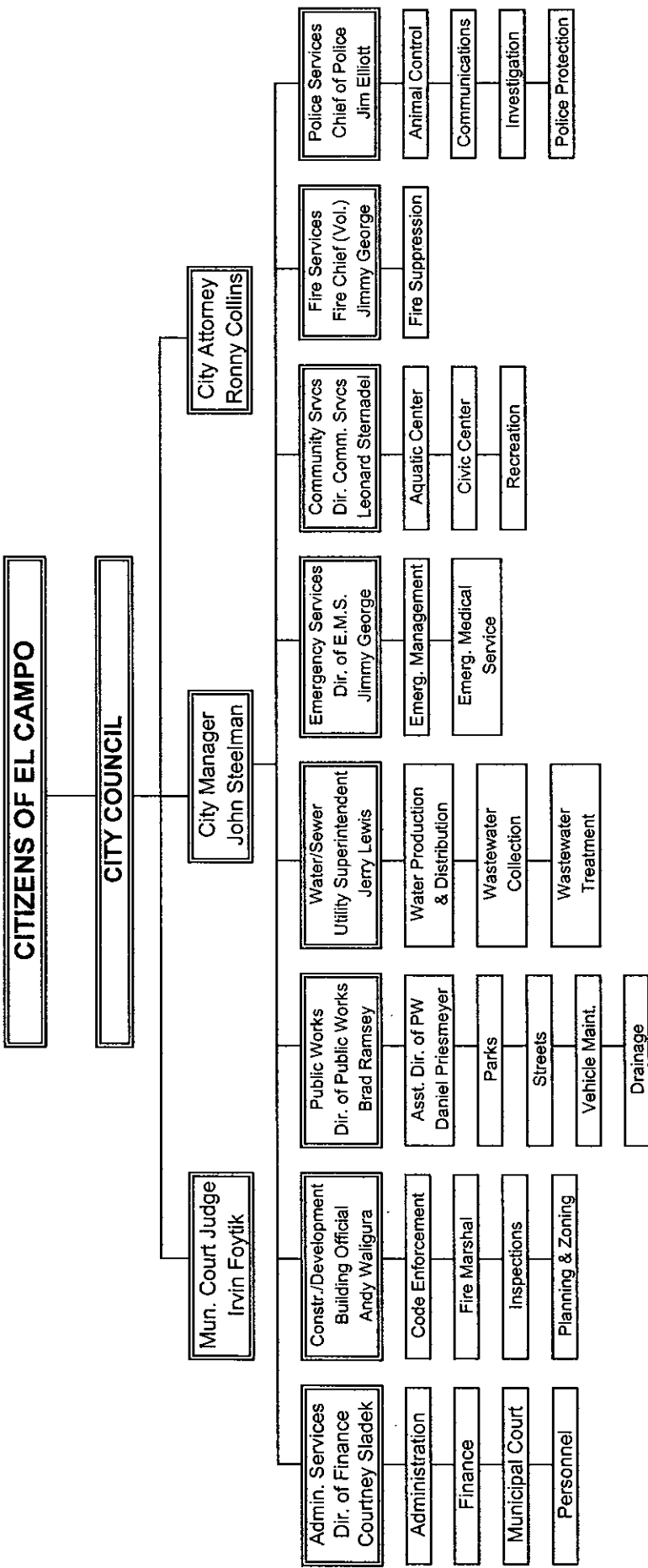
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



City Officials

Phillip Spenrath
Kenneth Martin
Robert Boone
Gloria Harris
Edgar Erwin
Anthony Collins
Richard Young

Elective Position

Mayor
Mayor Pro-Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Key Staff

John Steelman
Ronald B. Collins
Courtney Sladek

Appointive Position

City Manager
City Attorney
Director of Finance





CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members
of the City Council
City of El Campo, 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 El Campo, Texas (the "City") as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City Development Corporation of El Campo, Inc., which statements reflect total assets of \$2,922,188 as of September 30, 2008, and total revenues of \$660,430 for the year then ended. We also did not audit the financial statements of the El Campo Volunteer Fire Department, which statements reflect total assets of \$1,487,890 as of December 31, 2007, and total revenues of \$306,288 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included in the component units column, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards and standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City Development Corporation of El Campo, Inc. and the El Campo Volunteer Fire Department were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 53 through 54, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and Members
of the City Council

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual major and nonmajor fund financial statements and schedules, and statistical data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual major and nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our report and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Harrison Waldrop + Wheeler, LLP.
March 2, 2009

As management of the City of El Campo, Texas (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, 2008.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2008, by \$29,014,930. Of this amount, \$9,733,979 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$12,339,324 for the fiscal year. The net expense was \$6,015,068.
- During the year, the City's general revenues exceeded net expenses of the governmental activities by \$50,353. This represents a 0.17% increase in net assets from the previous fiscal year as a result from operations.
- At September 30, 2008, the City's governmental funds reported combined ending fund balances of \$7,888,953, a net increase of \$978,727 in comparison with prior year. The net increase in fund balance was primarily made up of an increase of \$268,351 in the General Fund and a \$780,610 increase in the 2007 Bond Fund, which is a major capital project fund.
- At September 30, 2008, unreserved fund balance for the General Fund was \$6,033,298 or 81.44% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditor's Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 3 to 10

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 11 to 14

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 15 to 22

Component Unit Financial Statements

Provides information on the City's component units.

Pages 23 to 25

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 26 to 52

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the City'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 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 (i.e., 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 general government, public safety, public works, parks and recreation, and interest on long-term debt. The business-type activities of the City include water/wastewater and solid waste services.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component units of City Development Corporation of El Campo, Inc., and El Campo Volunteer Fire Department. These component units are not included as part of the primary government.

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

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintained nine individual governmental funds during the 2008 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund, which is considered a major fund. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Schedules of revenues, expenditures, and changes in fund balances - budget and actual (GAAP basis) have been provided for each of the funds to demonstrate compliance with the appropriated budgets.

The City maintains only one type of *proprietary fund*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water/wastewater utility service and for its solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The proprietary fund financial statements provide information for the water/wastewater utility service and for the solid waste operation, which is considered to be a major fund of the City.

Notes to 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.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

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, net assets exceeded liabilities by \$29,014,930 at the close of the fiscal year 2008.

By far, the largest portion of the City's net assets (65.63%) reflects its investment in capital assets (i.e., land, buildings, infrastructure, and machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of El Campo, Texas

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	As Restated 2007	2008	As Restated 2007	2008	As Restated 2007
ASSETS						
Current assets	\$ 9,297,218	\$ 8,302,421	\$ 6,251,974	\$ 2,794,894	\$ 15,549,192	\$ 11,097,315
Capital assets (net)	14,170,582	14,078,215	12,211,948	12,259,711	26,382,530	26,337,926
Other noncurrent assets	167,011	118,967	124,512	37,541	291,523	156,508
Total assets	23,634,811	22,499,603	18,588,434	15,092,146	42,223,245	37,591,749
LIABILITIES						
Current liabilities	926,308	877,045	931,140	746,428	1,857,448	1,623,473
Noncurrent liabilities	3,525,941	2,185,300	7,824,926	4,818,399	11,350,867	7,003,699
Total liabilities	4,452,249	3,062,345	8,756,066	5,564,827	13,208,315	8,627,172
NET ASSETS						
Invested in capital assets, net of related debt	11,802,324	11,783,741	7,239,131	7,094,356	19,041,455	18,878,097
Restricted	239,496	284,411	-	-	239,496	284,411
Unrestricted	7,140,742	7,369,106	2,593,237	2,432,963	9,733,979	9,802,069
Total net assets	\$ 19,182,562	\$ 19,437,258	\$ 9,832,368	\$ 9,527,319	\$ 29,014,930	\$ 28,964,577

An additional portion of the City's net assets (0.83%) represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The remaining balance of unrestricted net assets (\$9,733,979) may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the primary government as a whole.

Governmental activities. Governmental activities decreased the City's net assets by \$254,696. Key elements of this decrease are as follows:

- Property taxes increased \$165,295 (7.56%) during the year. This is primarily due to the increase in assessed valuations by approximately 6%.
- Operating grants and contributions decreased \$524,651 (81.94%). This is attributable to the TDCHA Housing Grant received during fiscal year 2007.
- Capital grants and contributions increased \$135,359 (541.44%) mainly because of capital contributions received from El Campo Independent School District.
- Interest and investment earnings decreased \$122,481 (30.04%) because of low interest rates.
- Public safety expenses increased \$736,916 (22.33%) primarily due to an increase in personnel expenses.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities. Business-type activities increased the City's net assets by \$305,049, accounting for 605.82% of the total growth in the City's net assets. Key elements of this increase are as follows:

- Charges for services increased \$313,745 (7.85%) due to a dry summer.
- Investment earnings increased because of returns on investments (principal pay-downs) and maturities were higher than the previous fiscal year.
- Expenses increased \$334,303 (9.47%) because of equipment purchases, water main replacement, and a 7% cost-of-living wage adjustment.

City of El Campo, Texas

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	As Restated 2007	2008	As Restated 2007	2008	As Restated 2007
REVENUES						
Program revenues:						
Charges for services	\$ 1,634,583	\$ 1,458,972	\$ 4,312,032	\$ 3,998,287	\$ 5,946,615	\$ 5,457,259
Operating grants and contributions	115,606	640,257	-	-	115,606	640,257
Capital grants and contributions	160,359	25,000	101,676	104,804	262,035	129,804
General revenues:						
Property taxes	2,350,642	2,185,347	-	-	2,350,642	2,185,347
Sales taxes	2,422,347	2,154,527	-	-	2,422,347	2,154,527
Franchise taxes	604,010	604,425	-	-	604,010	604,425
Other taxes	136,673	120,776	-	-	136,673	120,776
Investment earnings	285,267	407,748	99,331	46,868	384,598	454,616
Miscellaneous	167,151	140,150	-	-	167,151	140,150
Total revenues	7,876,638	7,737,202	4,513,039	4,149,959	12,389,677	11,887,161
EXPENSES						
General government	1,735,303	1,847,968	-	-	1,735,303	1,847,968
Public safety	4,036,711	3,299,795	-	-	4,036,711	3,299,795
Public works	1,853,152	1,991,662	-	-	1,853,152	1,991,662
Parks and recreation	705,118	662,876	-	-	705,118	662,876
Interest on long-term debt	146,150	99,957	-	-	146,150	99,957
Utilities	-	-	3,862,890	3,528,587	3,862,890	3,528,587
Total expenses	8,476,434	7,902,258	3,862,890	3,528,587	12,339,324	11,430,845
Change in net assets before transfers	(599,796)	(165,056)	650,149	621,372	50,353	456,316
Transfers	345,100	301,720	(345,100)	(301,720)	-	-
Change in net assets	(254,696)	136,664	305,049	319,652	50,353	456,316
Net assets - beginning, as restated	19,437,258	19,300,594	9,527,319	9,207,667	28,964,577	28,508,261
Net assets - ending	\$ 19,182,562	\$ 19,437,258	\$ 9,832,368	\$ 9,527,319	\$ 29,014,930	\$ 28,964,577

FINANCIAL ANALYSIS OF THE CITY'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 \$7,888,953, an increase of \$978,727 from the prior year.

Approximately 98.55% of this total amount, \$7,774,286, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remaining fund balance of \$114,667 or 1.45% is reserved to indicate that it is not available for new spending because it has already been committed: 1) for deferred expenditures \$9,626; 2) for noncurrent notes receivable \$94,254; and 3) for inventory \$10,787.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$6,033,298. Unreserved fund balance represents 81.44% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$268,351 during the current fiscal year. This was primarily due to total revenues exceeding budgeted amounts by \$191,400.

Also included in the current year fund balance change is a \$780,610 increase in the 2007 Bond Fund's fund balance as a result of the issuance of debt during fiscal year 2008.

Proprietary Fund

The City's proprietary fund, the Utility Fund, provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund at the end of the current fiscal year amounted to \$2,593,237. The total growth for the fund was \$305,049.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual fiscal year expenditures in the General Fund were \$74,991 more than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$75,520 for police personnel due to grant overtime and flex-time pay; and
- \$98,288 for capital projects authorized by Council.

The fiscal year 2008 budget was amended from the original budget adopted by Council. The following were included in the amendment:

- \$249,045 increase for sales tax allocation;
- \$63,560 increase for gas and oil due to the rising cost in fuel in 2008;
- \$10,820 for communications due to a new phone system that added features;
- \$69,550 for capital leases that needed to properly be recorded in the general ledger;
- \$54,420 for legal expenses associated with a lawsuit;
- \$6,230 for furniture and equipment for the Appraisal District; and
- \$3,130 for repairs to the air conditioning units at the Civic Center.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$26,382,530 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, service delivery system, infrastructure, and construction in progress. The net increase in the City's investment in capital assets was 0.17% (a 0.66% increase for governmental activities and a 0.39% decrease in business-type activities). Major capital asset events during the current fiscal year included the following:

- The total additions to machinery and equipment for governmental activities were \$932,569. These additions include the purchase of various City vehicles, fire truck, radio equipment, and HVAC equipment for the Civic Center.
- The water and sewer works system had improvements totaling \$171,475 and \$163,443 of projects in progress at September 30, 2008.

City of El Campo, Texas

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 403,189	\$ 403,189	\$ 16,021	\$ 16,021	\$ 419,210	\$ 419,210
Machinery and equipment	2,144,191	1,597,853	372,752	225,216	2,516,943	1,823,069
Bldgs. and improvements	2,713,871	2,852,624	811,277	853,479	3,525,148	3,706,103
Water works system	-	-	6,894,895	7,164,976	6,894,895	7,164,976
Sewer system	-	-	3,953,560	4,000,018	3,953,560	4,000,018
Infrastructure	8,783,594	9,224,549	-	-	8,783,594	9,224,549
Construction in progress	125,737	-	163,443	-	289,180	-
Total	\$14,170,582	\$14,078,215	\$12,211,948	\$12,259,710	\$26,382,530	\$26,337,925

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$10,045,000. Of this amount, \$1,040,000 represents General Obligation Refunding Bonds, Series 1998. The remainder of the City's bonded debt represents \$9,005,000 Combination Tax and Revenue Certificates of Obligation, Series 1995, 1999, 2004, 2007 and 2008. The City's bonded debt had a net increase of \$4,635,000 during the fiscal year ended September 30, 2008, with the issuance of the 2007 and 2008 Combination Tax and Revenue Certificates of Obligation, \$225,000 in principal paid on the Refunding Bonds, and \$220,000 in principal paid on the Combination Tax and Revenue Certificates of Obligation, Series 1995 and 1999.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt - (Continued)

The City maintains a bond rating of "AAA" from Moody's and a "AAA" rating from Standard & Poor's.

As a Home Rule City, the City is not limited by law in the amount of debt it may issue; however, all new local bond issues must be approved by the State Attorney General.

During fiscal year 2008, the City entered into one capital lease with proceeds totaling \$65,426. Payments on all capital leases in fiscal year 2008 were \$204,623.

Additional information on the City's long-term debt can be found in Note 9 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The total sales tax payments received by the City from the State Comptroller and retained by the City on its own utility billing for the current fiscal year totaled \$2,903,300 (including funds dispersed to the City Development Corporation of El Campo, Inc.). This amount is an increase of \$277,419 (10.56%) over the previous year, indicating a fairly constant pattern in the retail economy.
- To accommodate the lower rates in fiscal year 2009, interest earnings are expected to decrease 33%.
- Adjustments were made to provide funding for operational expenses in which the City has seen extraordinary cost increases, including fuel and electricity.

All of these factors were considered in preparing the City's budget for the 2008-2009 fiscal year.

The certified assessed taxable property valuations for the 2008 tax roll total \$417,092,973 and \$330,152 for the senior tax freeze, with a tax rate of \$0.55976 per \$100 valuation. The maintenance in the tax rate from the prior year was a direct result of the increase in the taxable value that more than offset the continually increasing operating costs. \$0.47148 was allocated for maintenance and operations, and \$0.08828 was allocated for interest and sinking (debt service). The projected total property tax due is \$2,611,574 for the 2008 tax year.

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 Finance Officer, 315 E. Jackson, El Campo, Texas 77437.

Basic Financial Statements

CITY OF EL CAMPO, TEXAS
STATEMENT OF NET ASSETS
September 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,716,410	\$ 1,683,899	\$ 6,400,309	\$ 243,616
Investments	2,752,632	865,541	3,618,173	942,115
Receivables (net)	1,272,897	456,314	1,729,211	14,272
Internal balances	4,293	(4,293)	-	-
Due from other governments	518,426	-	518,426	-
Due from primary government	-	-	-	86,131
Note receivable from component unit	12,147	-	12,147	-
Deferred expenditures/expenses	9,626	-	9,626	-
Inventory	10,787	-	10,787	-
Restricted assets				
Cash and cash equivalents	-	3,250,513	3,250,513	-
Total current assets	9,297,218	6,251,974	15,549,192	1,286,134
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	528,926	179,464	708,390	173,378
Buildings, infrastructure, and equipment (net)	13,641,656	12,032,484	25,674,140	2,950,566
Bond issue costs (net)	72,757	124,512	197,269	-
Note receivable from component unit, net	94,254	-	94,254	-
Total noncurrent assets	14,337,593	12,336,460	26,674,053	3,123,944
Total assets	23,634,811	18,588,434	42,223,245	4,410,078

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 114,949	\$ 240,533	\$ 355,482	\$ 32,556
Accrued expenses/expenditures	60,030	7,483	67,513	-
Deposits	8,546	151,069	159,615	-
Accrued interest payable	25,975	91,886	117,861	-
Due to component unit	86,131	235	86,366	-
Due to other governments	64,653	-	64,653	-
Unearned revenue	12,500	-	12,500	-
Accrued compensated absences	191,162	23,586	214,748	-
Current portion of long-term obligations	362,362	416,348	778,710	57,457
Total current liabilities	926,308	931,140	1,857,448	90,013
Noncurrent liabilities				
Accrued compensated absences	156,001	17,944	173,945	-
Noncurrent portion of long-term obligations	3,369,940	7,806,982	11,176,922	1,362,174
Total noncurrent liabilities	3,525,941	7,824,926	11,350,867	1,362,174
Total liabilities	4,452,249	8,756,066	13,208,315	1,452,187
NET ASSETS				
Invested in capital assets, net of related debt	11,802,324	7,239,131	19,041,455	1,704,312
Restricted for:				
Debt service	226,499	-	226,499	9,546
Special projects	12,997	-	12,997	-
Other purposes	-	-	-	259,361
Unrestricted net assets	7,140,742	2,593,237	9,733,979	984,672
Total net assets	\$ 19,182,562	\$ 9,832,368	\$ 29,014,930	\$ 2,957,891

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2008

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 1,735,303	\$ 148,938	\$ 109,389	\$ -
Public safety	4,036,711	1,267,229	6,217	-
Public works	1,853,152	32,206	-	160,359
Parks and recreation	705,118	186,210	-	-
Interest on long-term debt	146,150	-	-	-
Total governmental activities	<u>8,476,434</u>	<u>1,634,583</u>	<u>115,606</u>	<u>160,359</u>
Business-type activities				
Utilities	3,862,890	4,312,032	-	101,676
Total business-type activities	<u>3,862,890</u>	<u>4,312,032</u>	<u>-</u>	<u>101,676</u>
Total primary government	<u>\$ 12,339,324</u>	<u>\$ 5,946,615</u>	<u>\$ 115,606</u>	<u>\$ 262,035</u>
Component Units	<u>\$ 776,946</u>	<u>\$ 266,903</u>	<u>\$ 125,753</u>	<u>\$ 38,028</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales taxes
- Franchise taxes
- Other taxes

Investment earnings

Grants and contributions not restricted

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning, as restated

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,476,976)	\$ -	\$ (1,476,976)	\$ -
(2,763,265)	-	(2,763,265)	-
(1,660,587)	-	(1,660,587)	-
(518,908)	-	(518,908)	-
(146,150)	-	(146,150)	-
<u>(6,565,886)</u>	<u>-</u>	<u>(6,565,886)</u>	<u>-</u>
-	550,818	550,818	-
-	550,818	550,818	-
<u>(6,565,886)</u>	<u>550,818</u>	<u>(6,015,068)</u>	<u>-</u>
-	-	-	(346,262)
2,110,176	-	2,110,176	-
240,466	-	240,466	-
2,422,347	-	2,422,347	484,550
604,010	-	604,010	-
136,673	-	136,673	-
285,267	99,331	384,598	41,766
-	-	-	-
167,151	-	167,151	9,718
345,100	(345,100)	-	-
<u>6,311,190</u>	<u>(245,769)</u>	<u>6,065,421</u>	<u>536,034</u>
(254,696)	305,049	50,353	189,772
<u>19,437,258</u>	<u>9,527,319</u>	<u>28,964,577</u>	<u>2,768,119</u>
<u>\$ 19,182,562</u>	<u>\$ 9,832,368</u>	<u>\$ 29,014,930</u>	<u>\$ 2,957,891</u>

CITY OF EL CAMPO, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2008

	General	2007 Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,977,944	\$ 784,011	\$ 954,455	\$ 4,716,410
Investments	2,752,632	-	-	2,752,632
Receivables (net)	1,172,310	-	100,587	1,272,897
Due from other funds	28,841	-	3,326	32,167
Due from other governments	518,426	-	-	518,426
Note receivable from component unit	-	-	12,147	12,147
Deferred expenditures	9,626	-	-	9,626
Inventory	10,787	-	-	10,787
Noncurrent assets				
Note receivable from component unit (net)	-	-	94,254	94,254
Total assets	\$ 7,470,566	\$ 784,011	\$ 1,164,769	\$ 9,419,346
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 96,351	\$ 75	\$ 18,523	\$ 114,949
Accrued expenditures	60,030	-	-	60,030
Deposits	8,546	-	-	8,546
Due to component unit	86,131	-	-	86,131
Due to other governments	64,653	-	-	64,653
Due to other funds	-	3,326	24,548	27,874
Deferred revenue	1,101,144	-	67,066	1,168,210
Total liabilities	1,416,855	3,401	110,137	1,530,393
Fund balances				
Reserved for:				
Deferred expenditures	9,626	-	-	9,626
Inventory	10,787	-	-	10,787
Noncurrent notes receivable	-	-	94,254	94,254
Unreserved, undesignated reported in:				
General fund	6,033,298	-	-	6,033,298
Special revenue funds	-	-	26,573	26,573
Debt service fund	-	-	216,811	216,811
Capital project funds	-	780,610	716,994	1,497,604
Total fund balances	6,053,711	780,610	1,054,632	7,888,953
Total liabilities and fund balances	\$ 7,470,566	\$ 784,011	\$ 1,164,769	\$ 9,419,346

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

September 30, 2008

Total governmental fund balances		\$ 7,888,953
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		319,147
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		836,563
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$32,329,786 and the accumulated depreciation is \$18,159,204.		14,170,582
Other noncurrent assets (for example, bond issue costs) used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$79,815 and the accumulated amortization is \$7,058.		72,757
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	\$ (3,327,172)	
Capital leases payable	(405,130)	
Accrued interest on the bonds	(25,975)	
Compensated absences	<u>(347,163)</u>	<u>(4,105,440)</u>
Net assets of governmental activities		<u>\$ 19,182,562</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended September 30, 2008

	General	2007 Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,183,705	\$ -	\$ 370,162	\$ 5,553,867
Licenses and permits	110,520	-	-	110,520
Intergovernmental	387,894	-	109,389	497,283
Charges for services	541,610	-	15,700	557,310
Fines and forfeitures	627,661	-	-	627,661
Investment income	227,501	23,655	34,111	285,267
Miscellaneous	74,034	-	84,989	159,023
Total revenues	<u>7,152,925</u>	<u>23,655</u>	<u>614,351</u>	<u>7,790,931</u>
EXPENDITURES				
Current				
General government	1,481,338	-	159,723	1,641,061
Public safety	3,732,699	-	85,382	3,818,081
Public works	1,443,217	-	219	1,443,436
Parks and recreation	652,629	-	-	652,629
Capital outlay	98,288	835,280	68,776	1,002,344
Debt service				
Principal retirement	-	-	169,842	169,842
Interest and fiscal charges	-	-	133,531	133,531
Bond issuance costs	-	57,765	-	57,765
Total expenditures	<u>7,408,171</u>	<u>893,045</u>	<u>617,473</u>	<u>8,918,689</u>
Excess (deficiency) of revenues over expenditures	(255,246)	(869,390)	(3,122)	(1,127,758)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	45,959	-	-	45,959
Capital leases	65,426	-	-	65,426
Bonds issued	-	1,650,000	-	1,650,000
Transfers in	412,212	-	-	412,212
Transfers out	-	-	(67,112)	(67,112)
Total other financing sources (uses)	<u>523,597</u>	<u>1,650,000</u>	<u>(67,112)</u>	<u>2,106,485</u>
Net change in fund balances	268,351	780,610	(70,234)	978,727
Fund balances at beginning of year, as restated	<u>5,785,360</u>	<u>-</u>	<u>1,124,866</u>	<u>6,910,226</u>
Fund balances at end of year	<u>\$ 6,053,711</u>	<u>\$ 780,610</u>	<u>\$ 1,054,632</u>	<u>\$ 7,888,953</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***For the year ended September 30, 2008*

Total net change in fund balances - governmental funds		\$ 978,727
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(38,771)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2007/2008 capital outlays is to increase net assets.		1,127,082
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(995,944)
Proceeds of long-term debt during the year are recognized as other financing sources in the governmental funds but increases the liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond proceeds	\$ (1,650,000)	
Capital lease proceeds	<u>(65,426)</u>	(1,715,426)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond principal retirement	169,842	
Capital lease principal retirement	<u>107,756</u>	277,598
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.		
Property taxes	3,736	
Other revenues	<u>74,783</u>	78,519
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	(11,656)	
Increase in accrued interest	(8,840)	
Net increase in bond issue costs	<u>54,015</u>	<u>33,519</u>
Change in net assets of governmental activities		\$ <u>(254,696)</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS**STATEMENT OF NET ASSETS****PROPRIETARY FUND**

September 30, 2008

	Business-type Activities
	Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,683,899
Investments	865,541
Receivables (net)	456,314
Restricted assets	
Cash and cash equivalents	3,250,513
Total current assets	<u>6,256,267</u>
Noncurrent assets	
Capital assets	
Land and other assets not being depreciated	179,464
Buildings, improvements, and equipment (net)	12,032,484
Bond issue costs (net)	124,512
Total noncurrent assets	<u>12,336,460</u>
Total assets	<u>18,592,727</u>
LIABILITIES	
Current liabilities	
Accounts payable	240,533
Accrued expenses	7,483
Deposits	151,069
Accrued interest payable	91,886
Due to component unit	235
Due to other funds	4,293
Compensated absences	23,586
Current portion of capital leases	101,050
Current portion of general obligation bonds	224,714
Current portion of certificates of obligation	90,584
Total current liabilities	<u>935,433</u>
Noncurrent liabilities	
Compensated absences	17,944
Capital leases, net of current portion	1,404,452
General obligation bonds, net of current portion	729,174
Certificates of obligation, net of current portion	5,673,356
Total noncurrent liabilities	<u>7,824,926</u>
Total liabilities	<u>8,760,359</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,239,131
Unrestricted net assets	2,593,237
Total net assets	<u>\$ 9,832,368</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND**

For the year ended September 30, 2008

	Business-type Activities
	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 4,285,212
Miscellaneous	26,820
Total operating revenues	<u>4,312,032</u>
OPERATING EXPENSES	
Personnel	721,907
Materials and supplies	61,903
Repairs and maintenance	133,362
Other services and charges	2,038,398
Bad debt expense	47,042
Depreciation and amortization	589,297
Total operating expenses	<u>3,591,909</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	720,123
NONOPERATING REVENUES (EXPENSES)	
Investment income	99,331
Interest and fiscal charges	(270,981)
Net nonoperating revenues (expenses)	<u>(171,650)</u>
Income before contributions and transfers	548,473
Contributions and transfers	
Capital contributions	101,676
Transfers out	(345,100)
Total contributions and transfers	<u>(243,424)</u>
Change in net assets	305,049
Total net assets at beginning of year, as restated	<u>9,527,319</u>
Total net assets at end of year	<u>\$ 9,832,368</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended September 30, 2008

	Business-type Activities
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,255,469
Cash paid to suppliers for goods and services	(2,208,505)
Cash paid to employees for services	(725,796)
Net cash provided (used) by operating activities	<u>1,321,168</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (out) to other funds	(345,100)
Net cash provided (used) by noncapital financing activities	<u>(345,100)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(362,960)
Proceeds from issuance of debt	3,430,000
Payment of debt issuance costs	(89,179)
Principal paid on debt	(372,025)
Interest paid	(219,323)
Net cash provided (used) by capital and related financing activities	<u>2,386,513</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(652,008)
Proceeds from maturity of investments	792,858
Investment income	99,824
Net cash provided (used) by investing activities	<u>240,674</u>
Net increase (decrease) in cash and cash equivalents	3,603,255
Cash and cash equivalents at beginning of year	<u>1,331,157</u>
Cash and cash equivalents at end of year	<u>\$ 4,934,412</u>

CITY OF EL CAMPO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended September 30, 2008

	<u>Business-type Activities</u>
	<u>Utility Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 720,123
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	589,297
Bad debt expense	47,042
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(57,379)
(Increase) decrease in prepaid expenses	8,739
Increase (decrease) in accounts payable	23,069
Increase (decrease) in accrued expenses	102
Increase (decrease) in deposits	816
Increase (decrease) in due to other governments	(6,650)
Increase (decrease) in compensated absences	(3,991)
Total adjustments	<u>601,045</u>
Net cash provided (used) by operating activities	\$ <u>1,321,168</u>
Reconciliation of cash and cash equivalents	
Unrestricted	
Cash and cash equivalents	\$ 1,683,899
Restricted	
Cash and cash equivalents	<u>3,250,513</u>
Total	\$ <u>4,934,412</u>

Noncash capital and related financing activities

The Utility Fund received noncash contributions relating to capital asset additions of \$101,676 in fiscal year 2008.

Noncash investing activities

The Utility Fund had a increase in fair value of investments of \$6,429 in fiscal year 2008.

The accompanying notes are an integral part of this statement.



CITY OF EL CAMPO, TEXAS
STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2008

	City Development Corporation of El Campo, Inc.	El Campo Volunteer Fire Department	Total
ASSETS			
Cash and cash equivalents	\$ 56,798	\$ 186,818	\$ 243,616
Investments	942,115	-	942,115
Receivables (net)	14,216	56	14,272
Due from primary government	86,131	-	86,131
Capital assets			
Land and improvements	164,378	9,000	173,378
Other capital assets (net)	1,658,550	1,292,016	2,950,566
Total assets	<u>2,922,188</u>	<u>1,487,890</u>	<u>4,410,078</u>
LIABILITIES			
Accounts payable	1,765	30,791	32,556
Long-term liabilities			
Due within one year	39,380	18,077	57,457
Due in more than one year	755,792	606,382	1,362,174
Total liabilities	<u>796,937</u>	<u>655,250</u>	<u>1,452,187</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,027,756	676,556	1,704,312
Restricted for:			
Debt service	9,546	-	9,546
Other purposes	246,161	13,200	259,361
Unrestricted net assets	841,788	142,884	984,672
Total net assets	<u>\$ 2,125,251</u>	<u>\$ 832,640</u>	<u>\$ 2,957,891</u>

The accompanying notes are an integral part of this statement.

CITY OF EL CAMPO, TEXAS
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the year ended September 30, 2008

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units				
City Development Corporation of El Campo, Inc.	\$ 535,021	\$ 141,639	\$ -	\$ -
El Campo Volunteer Fire Department	<u>241,925</u>	<u>125,264</u>	<u>125,753</u>	<u>38,028</u>
Total component units	<u>\$ 776,946</u>	<u>\$ 266,903</u>	<u>\$ 125,753</u>	<u>\$ 38,028</u>

General revenues:

Taxes:

Sales taxes

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue
and Changes
in Net Assets

Component Units		
City Development Corporation of El Campo, Inc.	El Campo Volunteer Fire Department	Total
\$ (393,382)	\$ -	\$ (393,382)
<u>-</u>	<u>47,120</u>	<u>47,120</u>
<u>(393,382)</u>	<u>47,120</u>	<u>(346,262)</u>
484,550	-	484,550
34,241	7,525	41,766
<u>-</u>	<u>9,718</u>	<u>9,718</u>
<u>518,791</u>	<u>17,243</u>	<u>536,034</u>
125,409	64,363	189,772
<u>1,999,842</u>	<u>768,277</u>	<u>2,768,119</u>
<u>\$ 2,125,251</u>	<u>\$ 832,640</u>	<u>\$ 2,957,891</u>

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of El Campo, Texas (the "City") was incorporated in 1905 and has adopted a Home Rule Charter. The City now operates under a council-manager form of government. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council and is allowed to vote on all matters. The City provides the following services: public safety to include police, fire, and emergency medical services, highways and streets, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administration.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units. The component units discussed in this note are included in the City's financial statements because of the significance of their financial relationships with the City.

The component unit column in the financial statements includes the financial data from two component units. These component units are reported in a separate column to emphasize that they are legally separate from the City.

The component unit column is made of the following:

The City Development Corporation of El Campo, Inc. (the "Corporation") - was created for the purpose of benefiting and accomplishing public purposes of the City by promoting, encouraging, and enhancing the creation of jobs in the City. This is to be achieved through assistance in the retention of existing businesses and industries and the attraction of new businesses and industries and aid in their development and growth. The Corporation was incorporated under the Texas Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Ann.CIV.ST. Section 4A, as amended, and qualifies as a tax-exempt organization under Code Section 501(c)(4) of the Internal Revenue Code. All powers of the Corporation are vested in the Board of Directors appointed by the City Council. The City is also able to impose its will on the Corporation, including approving its operating budget. The amounts reported for the Corporation are as of September 30, 2008.

The El Campo Volunteer Fire Department (the "ECVFD") - was formed as a tax-exempt organization under Code Section 501(c)(3) of the Internal Revenue Code. The purpose of the ECVFD is the preservation and protection of property and lives from and during such fires as may occur in the City and vicinity and any other disaster or situation wherein ECVFD may be of assistance in protecting or promoting the safety and welfare of the public. The ECVFD raise and hold economic resources for the direct benefit of the City. The amounts reported for the ECVFD in the financial statements are as of December 31, 2007, which is the most recent information available.

These component units are discretely presented in the financial statements. Complete financial statements of the individual component units can be obtained from El Campo City Hall, 315 E. Jackson, El Campo, Texas 77437.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the 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 its legally separate component units.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded 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 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 end 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, 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:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has three Capital Project Funds, one of which has been reported as a major fund. The 2007 Bond Fund is reported as a major fund and accounts for the use of the proceeds from the City's 2007 Certificates of Obligation issued to renovate public safety facilities, the Civic Center, and purchase a fire truck. The other Capital Project Funds include the following: The 2004 Bond Fund accounts for the use of the proceeds from the City's 2004 Certificates of Obligation; and the Street Paving Fund accounts for paving the City's remaining unpaved streets through assessments to adjacent landowners and transfers from General Fund.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Utility Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant, water distribution system, and the City's garbage collection.

Additionally, the City reports the following fund types:

The Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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 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 general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes 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, and then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

Procedures in establishing budgetary data reflected in the financial statements are as follows:

1. The annual budget must specify appropriations for capital expenditures and for expenditures directed by the City Council for services and for the operation of the City. It must comply with fund requirements of bond covenants. City department directors and officers shall submit budget requests for the next fiscal year to, and as directed by, the City Manager for review and consolidation. The City Manager shall submit a proposed annual budget to the City Council at least forty-five days prior to the end of each fiscal year. Before taxes are levied, but after a public hearing or hearings, the City Council shall adopt an annual budget. The budget shall be adopted by a majority of all members of the City Council not later than fifteen days prior to the beginning of the fiscal year.
2. At any time during the fiscal year, the City Manager is authorized to transfer unencumbered budgeted amounts between line-items within a department; however, any revisions that alter the total budgeted expenditures of any department must be approved by the City Council.
3. Formal budgetary integration is employed as a management control device by expenditure category during the year for the City's Governmental Funds.
4. Legally adopted annual budgets for the General and Debt Service Funds are prepared on a basis consistent with generally accepted accounting principles (GAAP) at the departmental level (i.e., administration, municipal court, etc.), the legal level of budgetary control. An annual budget is also adopted for the Enterprise Fund on a non-GAAP budgetary basis. The legal level of budgetary control for the Utility Fund is at the fund level.
5. Unencumbered budget appropriations lapse at year-end and do not carry forward to future periods.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. There are no outstanding encumbrances at September 30, 2008.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; 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; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments are recorded at fair value as of September 30, 2008. Fair value is defined by GASB as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Quoted market prices were used to determine fair value at the end of the current fiscal period. See Note 3 for further discussion.

G. Receivables and Payables

Activity 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". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

H. Inventories and Prepaid Items

Inventories of materials and supplies held by the General Fund are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available. Inventories are not maintained in the Utility Fund since materials and supplies are charged to related expenditure accounts when purchased. As these amounts are not material to the financial statements, the exclusion of inventories does not materially affect the financial position or result of operations of the Utility Fund.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide statements.

I. Restricted Assets

Certain proceeds of the City's Utility Fund debt are classified as restricted assets on the balance sheet because they are restricted for use in construction.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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 not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	5-40
Water works	5-40
Sewer system	5-40
Infrastructure	20-50
Machinery and equipment	5-15

K. Compensated Absences

All full-time employees accumulate personal benefits in varying annual amounts up to a maximum allowable accumulation based on years of service. In the event of termination, an employee is reimbursed for all accumulated personal days up to the maximum accrued time. Sick leave benefits are earned by all full-time employees at a rate of 12 days per year and may be accumulated to a maximum of 960 hours. City personnel policies state that unused sick leave benefits will be paid to employees upon termination at a rate of \$5 per hour up to a maximum of 960 hours. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Long-Term Obligations

In the government-wide financial statements, and in 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**M. 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 use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

N. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Compliance**

There were several situations of expenditures exceeding the amount appropriated during the fiscal year 2007-2008.

<u>Fund Name - Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Police	\$ 2,064,160	\$2,165,237	\$ (101,077)
Fire	202,280	213,323	(11,043)
Fire marshal	16,680	21,852	(5,172)
Ambulance	793,610	837,125	(43,515)
Administration/engineering	149,960	157,005	(7,045)
Capital outlay	-	98,288	(98,288)
Debt Service Fund	261,350	303,373	(42,023)

These over expenditures were funded by available fund balances in the General Fund and the Debt Service Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

As of September 30, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
Public Funds Investment Pool		
MBIA Investment Pool	\$ 9,272,028	0.08
U.S. Government Securities	2,597,395	212.31
Asset-Backed Securities	770,778	10.44
Total	<u>\$ 12,640,201</u>	

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

The investment pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in the pool.

As previously discussed in Note 1, the investments are reported in the accompanying statements at fair value.

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. The MBIA Investment Pool's weighted average maturity cannot exceed 60 days.

Credit Risk

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with the MBIA Investment Pool. The pool operates in full compliance with the Public Funds Investment Act. The MBIA Investment Pool (which represents approximately 72% of the portfolio) is rated AAA/V-1+ by Standard & Poor's. The remaining 28% of the City's portfolio has a AAA rating issued by Standard & Poor's.

Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

The City's custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held.

As of September 30, 2008, \$538,590 of the City's bank balance of \$638,590 was exposed to custodial credit risk because it was uninsured by the FDIC and collateralized with securities held by the pledging institution's trust department or agent, but not in the City's name.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2008, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Notes 14 and 15 for discussions relative to the investments of the City's component units.

NOTE 4: RECEIVABLES

Receivables at September 30, 2008, consist of the following:

	<u>General</u>	<u>Utility</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ -	\$ 449,809	\$ 347,551	\$ 797,360
Ad valorem taxes	337,488	-	42,449	379,937
Franchise taxes	62,334	-	-	62,334
Ambulance	1,318,432	-	-	1,318,432
Fines	1,459,444	-	-	1,459,444
Interest	21,333	6,505	-	27,838
Total gross receivables	3,199,031	456,314	390,000	4,045,345
Less: Allowances	2,026,721	-	289,413	2,316,134
Total net receivables	<u>\$ 1,172,310</u>	<u>\$ 456,314</u>	<u>\$ 100,587</u>	<u>\$ 1,729,211</u>

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 283,484	\$ -	\$ 283,484
Ambulance	659,216	-	659,216
Fines	145,944	-	145,944
Other	-	12,500	12,500
Non-major Funds			
Ad valorem taxes	35,663	-	35,663
Other	31,403	-	31,403
	<u>\$ 1,155,710</u>	<u>\$ 12,500</u>	<u>\$ 1,168,210</u>

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. Taxes are levied on October 1st and payable by the following January 31st, which comprises the collection dates for the current tax roll. The Wharton County Tax Assessor bills, collects, and remits all ad valorem taxes.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.55976 per \$100 of assessed valuation, which were prorated between operations and debt service in the amounts of \$0.50204 and \$0.05772, respectively. The resulting adjusted total tax levy was \$2,354,108 on the total adjusted taxable valuation of \$420,556,716 for the 2007 tax year.

NOTE 5: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 403,189	\$ -	\$ -	\$ 403,189
Construction in progress	-	125,737	-	125,737
Total capital assets not being depreciated	<u>403,189</u>	<u>125,737</u>	<u>-</u>	<u>528,926</u>
Capital assets, being depreciated				
Machinery and equipment	3,673,027	932,569	222,116	4,383,480
Buildings	5,930,448	-	-	5,930,448
Infrastructure	21,418,156	68,776	-	21,486,932
Total capital assets being depreciated	<u>31,021,631</u>	<u>1,001,345</u>	<u>222,116</u>	<u>31,800,860</u>
Less accumulated depreciation for				
Machinery and equipment	2,075,174	347,460	183,345	2,239,289
Buildings	3,077,824	138,753	-	3,216,577
Infrastructure	12,193,607	509,731	-	12,703,338
Total accumulated depreciation	<u>17,346,605</u>	<u>995,944</u>	<u>183,345</u>	<u>18,159,204</u>
Total capital assets being depreciated, net	<u>13,675,026</u>	<u>5,401</u>	<u>38,771</u>	<u>13,641,656</u>
Governmental activities capital assets, net	<u>\$ 14,078,215</u>	<u>\$ 131,138</u>	<u>\$ 38,771</u>	<u>\$ 14,170,582</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 16,021	\$ -	\$ -	\$ 16,021
Construction in progress	-	163,443	-	163,443
Total capital assets not being depreciated	<u>16,021</u>	<u>163,443</u>	<u>-</u>	<u>179,464</u>
Capital assets, being depreciated				
Machinery and equipment	1,584,381	204,409	11,192	1,777,598
Buildings and improvements	1,705,709	-	-	1,705,709
Water works system	10,302,499	51,781	-	10,354,280
Sewer system	7,201,996	119,694	-	7,321,690
Total capital assets being depreciated	<u>20,794,585</u>	<u>375,884</u>	<u>11,192</u>	<u>21,159,277</u>
Less accumulated depreciation for				
Machinery and equipment	1,359,165	56,873	11,192	1,404,846
Buildings and improvements	852,230	42,202	-	894,432
Water works system	3,137,523	321,862	-	3,459,385
Sewer system	3,201,978	166,152	-	3,368,130
Total accumulated depreciation	<u>8,550,896</u>	<u>587,089</u>	<u>11,192</u>	<u>9,126,793</u>
Total capital assets being depreciated, net	<u>12,243,689</u>	<u>(211,205)</u>	<u>-</u>	<u>12,032,484</u>
Business-type activities capital assets, net	<u>\$ 12,259,710</u>	<u>\$ (47,762)</u>	<u>\$ -</u>	<u>\$ 12,211,948</u>

NOTE 5: CAPITAL ASSETS - (Continued)

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

Governmental activities

General government	\$ 87,100
Public safety	245,799
Public works	606,512
Parks and recreation	56,533
Total depreciation expense - governmental activities	<u>\$ 995,944</u>

Business-type activities

Utilities	<u>\$ 587,089</u>
Total depreciation expense - business-type activities	<u>\$ 587,089</u>

NOTE 6: EMPLOYEES' RETIREMENT PLANPlan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 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. Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 1.5 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's 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, 2007, valuation is effective for rates beginning January 2009).

NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)

Annual Pension Cost

For the employer's fiscal year ending September 30, 2008, the annual pension cost for the TMRS plan for its employees was \$423,127, and the actual contributions were \$423,127. The net pension obligation at the beginning and end of the fiscal year was zero.

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the 12/31/07 and 12/31/06 valuation dates:

	Actuarial Valuation Information	
	12/31/07	12/31/06
Actuarial cost method	projected unit credit	unit credit
Amortization method	level percent of payroll	level percent of payroll
Amortization period in years	30 - closed	25 - open
Asset valuation method	amortized cost	amortized cost
Investment return	7.00%	7.00%
Projected salary increases	varies by age and service	none
Inflation	3.00%	3.50%
Cost of living adjustments	2.1% (3.0% CPI)	none
Payroll growth assumption	3.00%	4.00%
Withdrawal rates for male/female	low/mid	mid/mid-high

Trend Information

Year Ended September 30	Contributions Required and Contributions Made		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 423,127	100%	\$ -
2007	366,801	100%	-
2006	344,557	100%	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/07	\$ 10,202,248	\$ 13,954,179	\$ 3,761,931	73.11%	\$ 3,816,186	98.58%
12/31/06	10,173,047	12,762,866	2,589,819	79.71%	3,348,699	77.34%
12/31/05	10,051,419	12,544,550	2,493,131	80.10%	3,399,727	73.33%
12/31/04	9,178,723	11,588,951	2,410,228	79.20%	3,195,778	75.42%
12/31/03	8,509,931	10,808,750	2,298,819	78.73%	3,053,451	75.29%
12/31/02	8,283,076	10,342,035	2,058,959	80.09%	2,968,532	69.36%
12/31/01	7,820,853	9,769,974	1,949,121	80.05%	2,958,509	65.88%
12/31/00	7,004,042	8,850,468	1,846,426	79.14%	2,787,497	66.24%
12/31/99	6,300,400	8,027,834	1,727,434	78.48%	2,668,646	64.73%
12/31/98	5,911,283	7,574,193	1,662,910	78.05%	2,683,189	61.98%

NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)

Trend Information - (Continued)

The City is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 30-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$2,753,253 and the funded ratio would have been 78.7%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009, actuarial valuation.

NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2008, there were 186 members of fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2008, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,939
Terminated Participants Entitled to Benefits but not yet receiving them	1,975
Active Participants (vested and nonvested)	<u>4,340</u>
	<u>8,254</u>

NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)

Plan Description - (Continued)

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005) recodified the provision and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were originally established by Senate Bill 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2007, total contributions (dues and prior services) of \$2,439,339 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$8,800,000 for the fiscal year ending August 31, 2008. The City's contributions into TESRS for fiscal year ending September 30, 2008, were \$26,443. Total contributions made were greater than the contributions required by the state statute and were greater than the contributions required based on the revised August 31, 2006, actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2008, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2009, (\$415,405 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of 1) the maximum state contribution amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and 2) approximately \$425,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2009, are equal to the contributions required.

To the best of our knowledge, the actuarial information supplied in this section is complete, accurate and in compliance with GASB Statement No. 27. In our opinion, each assumption used in the August 31, 2008, actuarial valuation is reasonable (taking into account the experience of the plan and reasonable expectations) and represents a reasonable estimate of anticipated experience under the plan solely with respect to that individual assumption.

NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the 8/31/06 and 8/31/08 valuation dates:

	Actuarial Valuation Information	
	8/31/06	8/31/08
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period in years	30 years	6 years
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value
Investment return	8.00%, net of expenses	8.00%, net of expenses
Projected salary increases	n/a	n/a
Inflation	3.75%	3.50%
Cost of living adjustment	none	none

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ¹ (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered (b-a)/(c)
8/31/2004	\$ 38,140,501	\$ 51,567,426	\$ 13,426,925	74.0%	7,994	\$ 1,680
8/31/2006 ²	42,268,305	58,082,828	15,814,523	72.8%	8,061	1,962
8/31/2008 ³	60,987,157	64,227,341	3,240,184	95.0%	8,254	393

Notes:

¹ The actuarial accrued liability is based upon the entry age actuarial cost method.

² Changes in actuarial assumptions and methods, as well as benefit and contribution provisions, were first reflected in this valuation.

³ Changes in actuarial assumptions were reflected in this valuation.

Three-Year Trend Information - State-wide

Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2006	\$ 2,753,035 ¹	\$ 2,753,035 ³	100%
2007	3,162,742 ²	3,162,742 ⁴	100%
2008	3,160,764 ³	11,239,339 ⁵	356%

Notes:

¹ Based on the revised August 31, 2004, actuarial valuation.

² Based on the August 31, 2006, actuarial valuation.

³ Includes a state contribution of \$675,307.

⁴ Includes a state contribution of \$709,072.

⁵ Includes a state contribution of \$8,800,000.

NOTE 7: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)

Required Supplementary Information - (Continued)

State contributions to the City's plan for the fiscal year 2008 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

Three-Year Trend Information - City of El Campo, Texas			
Year Ended September 30	Annual Required Contributions	Percentage of ARC Contributed	Net Obligation
2008	\$ 26,443	100%	\$ -
2007	28,445	100%	-
2006	25,795	100%	-

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has also purchased commercial insurance to cover employee health related expenses. The City has not retained any risks other than the deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 9: LONG-TERM DEBT

A. Changes In Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds and certificates payable					
Certificates of obligation	\$ 1,742,272	\$ 1,650,000	\$ 151,212	\$ 3,241,060	\$ 219,416
General obligation bonds	104,742	-	18,630	86,112	20,286
Total bonds and certificates payable	1,847,014	1,650,000	169,842	3,327,172	239,702
Capital leases payable	447,460	65,426	107,756	405,130	122,660
Compensated absences	335,508	200,149	188,494	347,163	191,162
Total governmental activity long-term liabilities	\$ 2,629,982	\$ 1,915,575	\$ 466,092	\$ 4,079,465	\$ 553,524
Business-type activities					
Bonds and certificates payable					
Certificates of obligation	\$ 2,402,728	\$ 3,430,000	\$ 68,788	\$ 5,763,940	\$ 90,584
General obligation bonds	1,160,258	-	206,370	953,888	224,714
Total bonds and certificates payable	3,562,986	3,430,000	275,158	6,717,828	315,298
Capital leases payable	1,602,369	-	96,867	1,505,502	101,050
Compensated absences	52,646	24,723	35,839	41,530	23,586
Total business-type activity long-term liabilities	\$ 5,218,001	\$ 3,454,723	\$ 407,864	\$ 8,264,860	\$ 439,934

NOTE 9: LONG-TERM DEBT - (Continued)

A. Changes In Long-Term Liabilities - (Continued)

During the year ended September 30, 1998, the City defeased certain revenue bonds and certificates of obligation by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2008, \$1,090,000 of bonds outstanding was considered defeased.

Compensated absences are generally liquidated by the General Fund for the governmental activities and by the Utility Fund for the business-type activities. Please see Notes 14 and 15 for discussions relative to the long-term debt of the City's component units.

B. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rates</u>	<u>Original Amount</u>
Refunding Series 1998	6/98 - 9/12	4.00 - 4.75%	\$ 3,540,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 20,286	\$ 3,559	\$ 224,714	\$ 39,424	\$ 287,983
2010	20,700	2,611	229,300	28,925	281,536
2011	21,942	1,617	243,058	17,911	284,528
2012	23,184	551	256,816	6,099	286,650
	<u>\$ 86,112</u>	<u>\$ 8,338</u>	<u>\$ 953,888</u>	<u>\$ 92,359</u>	<u>\$ 1,140,697</u>

C. Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.'s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system. The C.O.'s have been issued for both governmental and business-type activities. C.O.'s currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rates</u>	<u>Original Amount</u>
Series 1995	6/95 - 2/15	5.50 - 7.50%	\$ 1,400,000
Series 1999	5/99 - 9/09	3.40 - 4.35%	1,040,000
Series 2004	8/04 - 2/24	4.125 - 5.75%	3,120,000
Series 2007	8/08 - 2/27	3.55 - 5.50%	1,650,000
Series 2008	8/08 - 2/29	4.25 - 6.00%	3,430,000
			<u>\$ 10,640,000</u>

NOTE 9: LONG-TERM DEBT - (Continued)

C. Combination Tax and Revenue Certificates of Obligation - (Continued)

Annual debt service requirements to maturity for C.O.'s are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2009	\$ 219,416	\$ 146,218	\$ 90,584	\$ 278,506	\$ 734,724
2010	142,836	136,043	157,164	271,388	707,431
2011	150,930	129,298	164,070	262,567	706,865
2012	162,474	122,048	172,526	253,361	710,409
2013	170,574	114,182	194,426	242,991	722,173
2014-2018	840,430	439,978	1,359,570	1,014,657	3,654,635
2019-2023	967,850	235,534	1,902,150	624,419	3,729,953
2024-2028	586,550	43,301	1,443,450	218,311	2,291,612
2029	-	-	280,000	6,650	286,650
	<u>\$ 3,241,060</u>	<u>\$ 1,366,602</u>	<u>\$ 5,763,940</u>	<u>\$ 3,172,850</u>	<u>\$ 13,544,452</u>

D. Capital Leases

Lease purchase agreement on Motorola radio equipment. The original amount of the lease, entered into in 2007, was \$91,600. The lease is payable in annual installments of \$21,813 and bears interest at a rate of 5.95%.	\$ 58,185
Lease purchase agreement on a street sweeper. The original amount of the lease, entered into in 2007, was \$108,064. The lease is payable in monthly installments of \$2,049 and bears interest at a rate of 5.19%.	81,919
Lease purchase agreement on a Gradall excavator. The original amount of the lease, entered into in 2007, was \$211,386. The lease is payable in monthly installments of \$4,008 and bears interest at a rate of 5.19%.	160,244
Lease purchase agreement on a tractor with mower boom. The original amount of the lease, entered into in 2007, was \$65,000. The lease is payable in monthly installments of \$1,957 and bears interest at a rate of 5.19%.	44,514
Lease purchase agreement on a tractor with mower boom. The original amount of the lease, entered into in 2008, was \$65,426. The lease is payable in monthly installments of \$1,932 and bears interest at a rate of 4.00%.	60,268
Lease purchase agreement on water meters. The original amount of the lease, entered into in 2004, was \$1,784,239. The lease is payable in quarterly installments of \$40,859 and bears interest at a rate of 4.25%.	<u>1,505,502</u>
Total capital leases	<u>\$ 1,910,632</u>

NOTE 9: LONG-TERM DEBT - (Continued)

D. Capital Leases - (Continued)

The present value of the capital leases after deduction of imputed interest is \$1,910,632.

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2009	\$ 122,660	\$ 18,498	\$ 101,050	\$ 62,388	\$ 304,596
2010	129,064	12,095	105,413	58,024	304,596
2011	105,943	5,942	109,965	53,472	275,322
2012	47,463	927	114,713	48,723	211,826
2013	-	-	119,667	43,770	163,437
2014-2018	-	-	680,458	136,728	817,186
2019-2020	-	-	274,236	11,778	286,014
	<u>\$ 405,130</u>	<u>\$ 37,462</u>	<u>\$ 1,505,502</u>	<u>\$ 414,883</u>	<u>\$ 2,362,977</u>

NOTE 10: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2008, were as follows:

Receivable Fund	Payable Fund	Amount
General	Utility	\$ 4,293
	Nonmajor Governmental	
	Hotel/Motel Tax	19,155
	Police Seizure	5,393
Debt Service	2007 Bonds	3,326
		<u>\$ 32,167</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

Transfers Out	Transfers In	
	General	Total
Nonmajor Governmental	\$ 67,112	\$ 67,112
Utility	345,100	345,100
	<u>\$ 412,212</u>	<u>\$ 412,212</u>

NOTE 11: RELATED PARTY TRANSACTIONS

At September 30, 2008, the primary government owed the City Development Corporation of El Campo, Inc., a discretely presented component unit, for a percentage of sales tax that was collected by the City. The receivables and payables are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
City Development Corporation of El Campo, Inc.	General	\$ 86,131

Note Receivable from Component Unit

On June 7, 1995, as part of the City's Tax and Revenue Certificate of Obligation Series 1995 Bonds, the Debt Service Fund loaned \$200,000 to the City Development Corporation of El Campo, Inc., a component unit of the City. At September 30, 2008, the amount outstanding of \$106,401 is shown as a note receivable from the component unit on the Statement of Net Assets. Annual installments ranging from \$16,620 to \$19,088 are due through February 1, 2015, with interest rates varying from 7.5% to 5.5%. The total annual payments for the note receivable outstanding balance at September 30, 2008, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 12,146	\$ 5,522	\$ 17,668
2010	12,861	4,834	17,695
2011	14,290	4,087	18,377
2012	15,005	3,281	18,286
2013	16,433	2,417	18,850
2014	17,148	1,493	18,641
2015	18,518	571	19,089
	<u>\$ 106,401</u>	<u>\$ 22,205</u>	<u>\$ 128,606</u>

NOTE 12: COMMITMENTS AND CONTINGENCIES**Grant Programs**

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2008, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Construction and Acquisition Commitments

As of September 30, 2008, the City had entered into contractual commitments with contractors for various City projects. These projects include the renovation of the police station and the Civic Center and the construction of a new animal shelter. The total commitments were \$2,815,807 as of year-end. The commitments are being funded by bond proceeds.

NOTE 13: ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES

A. Fund Balances/Net Assets

The beginning fund balances/net assets of the General and Utility Fund were adjusted for the following:

	<u>General Fund</u>	<u>Utility Fund</u>	<u>Total</u>
Beginning fund balances/net assets, as previously reported	\$ 5,703,270	\$ 9,447,579	\$ 15,150,849
To adjust accounts receivable for earned but unbilled revenue not previously included	-	79,740	79,740
To adjust accounts payable for double recording of sales tax payment	36,359	-	36,359
To reclass Police Seizure Fund as a Special Revenue Fund	(14,133)	-	(14,133)
To combine EMS Fund, previously reported as a Special Revenue Fund, with General Fund	59,864	-	59,864
Total prior year adjustments	<u>82,090</u>	<u>79,740</u>	<u>161,830</u>
Beginning fund balances/net assets, as restated	<u>\$ 5,785,360</u>	<u>\$ 9,527,319</u>	<u>\$ 15,312,679</u>

Management estimates that the adjustments noted above would have increased the amounts reported as General Fund's change in fund balance for the year ended September 30, 2007, by \$68,410. The change in net assets for the Utility Fund would have increased \$79,740.

B. Government-wide Net Assets

The beginning net assets in the government-wide financial statements were adjusted for the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Beginning net assets, as previously reported	\$ 19,559,823	\$ 9,447,579	\$ 29,007,402
Restatements to net assets as described above	-	79,740	79,740
To adjust net municipal court receivable previously recorded	(122,565)	-	(122,565)
Total prior year adjustments	<u>(122,565)</u>	<u>79,740</u>	<u>(42,825)</u>
Beginning net assets, as restated	<u>\$ 19,437,258</u>	<u>\$ 9,527,319</u>	<u>\$ 28,964,577</u>

NOTE 13: ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES - (Continued)

B. Government-wide Net Assets - (Continued)

Management estimates that the changes described above to the governmental activities would have increased the previously reported change in net assets by \$9,603 for the year ended September 30, 2007. The change in net assets for the business-type activities would have increased \$79,740.

NOTE 14: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC.

As described in Note 1, the City Development Corporation of El Campo, Inc. is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit.

A. Organization

The City Development Corporation of El Campo, Inc. (the "Corporation") was formed as a non-profit corporation governed by the Texas Development Corporation Act of 1979, as amended. The purpose of the Corporation was to promote, assist, and enhance economic development in the City.

The Corporation directors are appointed and/or removed by the City Council of the City and the Corporation is therefore a component unit of the City.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of the Corporation conform to GAAP, as applicable to governmental units. For inclusion in this report, the Corporation's operations are reported as a governmental fund type.

The budget is adopted on a GAAP basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General and Debt Service Fund.

C. Legal Compliance - Budget

The Corporation director prepares an estimate of revenues and expenditures. The Board of Directors adopts a budget based on these estimates. Before being formalized, the City Council must approve the budget.

Amendments to the budget may be made by the Board of Directors at the object level. Expenditures may not exceed legally budgeted appropriations in total. The Corporation has complied with all legal budget requirements for the year ended September 30, 2008.

D. Deposits and Investments

The Corporation has demand deposits, money market accounts, and certificates of deposit that are held by three institutions within the State of Texas.

The Corporation's deposits at September 30, 2008, are as follows:

Cash and money market accounts	\$ 56,798
Certificates of deposit	<u>942,115</u>
Total deposits	<u>\$ 998,913</u>

The deposits were fully insured by the FDIC at September 30, 2008.

The certificates of deposit are reflected as investments in the accompanying statements since they have original maturities of more than three months from the date of acquisition.

NOTE 14: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)

E. Sales Tax

The Corporation's primary revenue is sales tax collected by the City and remitted to the Corporation. The Corporation's policy is to accrue two month's sales tax collections.

F. Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. In compliance with GASB 34, depreciation policies were adopted to include useful lives. The following is a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 164,378	\$ -	\$ -	\$ 164,378
Total capital assets not being depreciated	<u>164,378</u>	<u>-</u>	<u>-</u>	<u>164,378</u>
Capital assets, being depreciated				
Equipment	16,840	-	-	16,840
Buildings	1,990,006	-	-	1,990,006
Street improvements	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Total capital assets being depreciated	<u>2,206,846</u>	<u>-</u>	<u>-</u>	<u>2,206,846</u>
Less accumulated depreciation for				
Equipment	(15,038)	(902)	-	(15,940)
Buildings	(430,606)	(49,750)	-	(480,356)
Street improvements	<u>(48,000)</u>	<u>(4,000)</u>	<u>-</u>	<u>(52,000)</u>
Total accumulated depreciation	<u>(493,644)</u>	<u>(54,652)</u>	<u>-</u>	<u>(548,296)</u>
Total capital assets being depreciated, net	<u>1,713,202</u>	<u>(54,652)</u>	<u>-</u>	<u>1,658,550</u>
Governmental activities capital assets, net	<u>\$ 1,877,580</u>	<u>\$ (54,652)</u>	<u>\$ -</u>	<u>\$ 1,822,928</u>

G. Long-Term Debt

Notes Payable to Primary Government

On June 7, 1995, the Corporation received \$200,000 from the City as part of the City's Tax and Revenue Certificate of Obligation Series 1995 Bonds of which the Corporation is obligated to repay. Annual installments ranging from \$16,620 to \$19,088 are due through February 1, 2015, with interest rates varying from 5.5% to 7.5%.

Notes Payable to Prosperity Bank

On April 21, 2005, the Corporation took a construction note with Prosperity Bank for \$766,750 to finance the construction of the Silver Streak Bass Facilities. The note is to be paid over 120 months with the final unpaid balance of principal and interest due October 21, 2015. The rate of interest is 4.75%.

NOTE 14: CITY DEVELOPMENT CORPORATION OF EL CAMPO, INC. - (Continued)**G. Long-Term Debt - (Continued)****Summary of Long-Term Debt Requirements**

The annual requirements to amortize all the Corporation's long-term debt outstanding at September 30, 2008, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 39,380	\$ 38,095	\$ 77,475
2010	41,436	36,066	77,502
2011	44,271	33,912	78,183
2012	46,381	31,712	78,093
2013	49,436	29,221	78,657
2014-2015	<u>574,268</u>	<u>41,916</u>	<u>616,184</u>
	<u>\$ 795,172</u>	<u>\$ 210,922</u>	<u>\$ 1,006,094</u>

During the year ended September 30, 2008, the following changes occurred in the Corporation's long-term debt:

	<u>Notes Payable</u>		<u>Total</u>
	<u>Primary Government</u>	<u>Prosperity Bank</u>	
Balance, beginning of year	\$ 117,832	\$ 714,170	\$ 832,002
New issues	-	-	-
Principal retirements	<u>(11,432)</u>	<u>(25,398)</u>	<u>(36,830)</u>
Balance, end of year	<u>\$ 106,400</u>	<u>\$ 688,772</u>	<u>\$ 795,172</u>
Due within one year	<u>\$ 12,146</u>	<u>\$ 27,234</u>	<u>\$ 39,380</u>

NOTE 15: EL CAMPO VOLUNTEER FIRE DEPARTMENT

As described in Note 1, the El Campo Volunteer Fire Department (the "ECVFD") is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit.

A. Organization

The ECVFD was formed as a tax-exempt organization under Code Section 501(c)(3) of the Internal Revenue Code. The purpose of the ECVFD is the preservation and protection of property and lives from and during such fires as may occur in the City and vicinity and any other disaster or situation wherein ECVFD may be of assistance in protecting or promoting the safety and welfare of the public.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of the ECVFD conform to GAAP, as applicable to governmental units. For inclusion in this report, the ECVFD's operations are reported as a governmental fund type.

The budget is adopted on a GAAP basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General and Debt Service Fund.

C. Budget

The budget is adopted on income tax basis. The budget is based on expenditures amounting to a percentage of revenues recognized. A budget is adopted for the General Fund.

NOTE 15: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)

D. Cash

The ECVFD has demand deposits, money market accounts, and certificates of deposit that are held by one institution within the State of Texas. The deposits were fully insured by the FDIC at December 31, 2007.

The ECVFD's cash at December 31, 2007, is as follows:

Cash and money market accounts	\$ 86,818
Certificates of deposit	<u>100,000</u>
Total deposits	<u>\$ 186,818</u>

E. Capital Assets

Capital assets are recorded at cost or, if donated, at fair market value at the date of receipt. In compliance with GASB 34, depreciation policies were adopted to include useful lives. The following is a summary of the change in fixed assets:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 9,000	\$ -	\$ -	\$ 9,000
Total capital assets not being depreciated	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>9,000</u>
Capital assets, being depreciated				
Training facility	<u>1,487,026</u>	<u>33,653</u>	<u>-</u>	<u>1,520,679</u>
Total capital assets being depreciated	<u>1,487,026</u>	<u>33,653</u>	<u>-</u>	<u>1,520,679</u>
Less accumulated depreciation for				
Training facility	<u>(164,438)</u>	<u>(64,225)</u>	<u>-</u>	<u>(228,663)</u>
Total accumulated depreciation	<u>(164,438)</u>	<u>(64,225)</u>	<u>-</u>	<u>(228,663)</u>
Total capital assets being depreciated, net	<u>1,322,588</u>	<u>(30,572)</u>	<u>-</u>	<u>1,292,016</u>
Governmental activities capital assets, net	<u>\$ 1,331,588</u>	<u>\$ (30,572)</u>	<u>\$ -</u>	<u>\$ 1,301,016</u>

F. Long-term Debt

On October 23, 2003, the ECVFD opened a construction line of credit at Commercial State Bank for construction of the training facility collateralized by 30 acres of land. On April 19, 2004, the loan was paid off and renewed for \$1,120,000 at 4% payable yearly with the final unpaid principle and interest due April 12, 2029.

During the year ended December 31, 2007, the following changes occurred in the ECVFD long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Construction note	<u>\$ 818,924</u>	<u>\$ -</u>	<u>\$ 194,465</u>	<u>\$ 624,459</u>	<u>\$ 18,077</u>

NOTE 15: EL CAMPO VOLUNTEER FIRE DEPARTMENT - (Continued)

F. Long-term Debt - (Continued)

The following is a summary of payments on the note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 18,077	\$ 24,649	\$ 42,726
2009	18,814	23,913	42,727
2010	19,580	23,146	42,726
2011	20,378	22,349	42,727
2012	21,208	21,518	42,726
2013-2017	119,728	93,905	213,633
2018-2022	146,187	67,446	213,633
2023-2027	178,494	35,139	213,633
2028-2029	81,993	3,460	85,453
	<u>\$ 624,459</u>	<u>\$ 315,525</u>	<u>\$ 939,984</u>

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

March 4, 2010

WE HAVE ACTED as bond counsel for the City of El Campo, Texas (the “City”), in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF EL CAMPO, TEXAS, TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010, dated March 1, 2010, in the principal amount of \$1,710,000.

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

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates which contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined a copy of the executed Certificate No. I-1 of this issue.



BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the City, and that taxable property within the City is subject to the levy of ad valorem taxes, within the limits prescribed by law, to pay the Certificates and the interest thereon.

IT IS OUR FURTHER OPINION that the revenues, in an amount not to exceed \$10,000, to be derived from the operation of the City's waterworks and sanitary sewer system after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), are also pledged to the payment of the principal of and interest on the Certificates; provided, however, that such pledge of the Net Revenues is junior and subordinate in all respects to the pledge of the Net Revenues to the payment of all outstanding obligations of the City and any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of the Net Revenues to the payment of the Certificates.

THE CITY has reserved the right to issue, for any lawful purpose at any time in one or more installments, bonds, certificates of obligation and other obligations of any kind payable in whole or in part from the Net Revenues, secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of the Net Revenues securing the Certificates.

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

IT IS OUR FURTHER OPINION that:

- (1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law.
- (2) The Certificates are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and as such, interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates could be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax liabilities.



In providing such opinions, we have relied on representations of the City, the City's financial advisor, and the Initial Purchaser (as defined in the Ordinance), with respect to matters solely within the knowledge of the City, the City's financial advisor, and the Initial Purchaser, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the 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 as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Coastal Securities, Inc.

Financial Advisor to the City