

OFFICIAL STATEMENT

Dated October 19, 2010

Rating:
S&P: "AA+" (stable outlook)
Insurance: AGM
(See "OTHER INFORMATION
- Rating" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS



\$1,145,000
CITY OF CLYDE, TEXAS
(Callahan County)
COMBINATION TAX AND LIMITED SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2010

Dated Date: Interest Accrues from Date of Delivery

Due: August 1, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$1,145,000 City of Clyde, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010 (the "Certificates") will accrue from the date of their initial delivery and will be payable on February 1 and August 1 of each year commencing February 1, 2011, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – Book-Entry-Only System"). The initial Paying Agent/Registrar is Bank of Texas, N.A., Dallas, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Certificate of Obligation Act of 1971"), and Chapter 1502, Texas Government Code, as amended. The Certificates constitute direct obligations of the City of Clyde, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge (not to exceed \$1,000) of the surplus revenues of the City's waterworks and sewer system, as provided in the ordinance authorizing the issuance of the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance" and "THE CERTIFICATES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) constructing and improving streets, roads and sidewalks; (ii) constructing, installing, acquiring and equipping additions, extensions and improvements to the City's waterworks and sewer system; (iii) constructing and equipping a fire station, (iv) legal, fiscal, engineering, design and other professional fees in connection with such projects and (v) the costs of issuing the certificates of obligation.



The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Insurer"). See "BOND INSURANCE."

CUSIP PREFIX: 189702
MATURITY SCHEDULE
See Inside Front Cover

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see APPENDIX C - "Forms of Bond Counsel's Opinions").

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on November 23, 2010.

MATURITY SCHEDULE

CUSIP PREFIX ⁽¹⁾: 189702

<u>Principal Amount</u>	<u>August 1 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
\$ 40,000	2011	2.000%	0.600%	BP7
30,000	2012	2.000%	1.000%	BQ5
35,000	2013	2.000%	1.150%	BR3
40,000	2014	2.000%	1.400%	BS1
40,000	2015	3.000%	1.700%	BT9
40,000	2016	3.000%	2.000%	BU6

\$130,000 2.500% Term Certificates due August 1, 2019 Priced to Yield 2.570% - CUSIP Suffix ⁽¹⁾: BX0
\$205,000 4.000% Term Certificates due August 1, 2023 Priced to Yield 3.250% ⁽²⁾ - CUSIP Suffix ⁽¹⁾: CB7
\$335,000 4.000% Term Certificates due August 1, 2028 Priced to Yield 3.600% ⁽²⁾ - CUSIP Suffix ⁽¹⁾: CG6
\$250,000 4.000% Term Certificates due August 1, 2035 Priced to Yield 4.100% - CUSIP Suffix ⁽¹⁾: CP6

(Interest Accrues from Date of Delivery)

- (1) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the Purchasers of the Certificates. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of The American Bankers Association. Neither the City, the Financial Advisor, nor the Purchaser shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.
- (2) Yield shown is yield to first call date, August 1, 2020.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2023, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”). In addition, the Certificates maturing on August 1, 2019, August 1, 2023, August 1, 2028 and August 1, 2035 (the “Term Certificates”) are subject to mandatory sinking fund redemption at a price of par plus accrued interest on the dates and in the amounts described herein (see “THE CERTIFICATES – Mandatory Sinking Fund Redemption”).

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No dealer, broker, salesman or other person has been authorized by the City or the Purchaser to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy Certificates in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE 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.

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

NEITHER THE CITY, NOR ITS FINANCIAL ADVISOR, MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“AGM”) makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX D - Specimen Municipal Bond Insurance Policy”.

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The cover page hereof, this page, the appendices and schedule included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CERTIFICATES

THE CERTIFICATES	The Certificates are issued as \$1,145,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010. The Certificates are issued as Serial Certificates maturing on August 1 in the years 2011 through 2016, inclusive, and as Term Certificates maturing on August 1 in the years 2019, 2023, 2028 and 2035.
PAYMENT OF INTEREST	Interest on the Certificates accrues from the date of their initial delivery, and is payable on February 1, 2011, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES – Description of the Certificates” and “THE CERTIFICATES – Optional Redemption”).
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), and Chapter 1502, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City.
SECURITY	The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and a limited pledge (not to exceed \$1,000) of the surplus revenues of the City’s waterworks and sewer system, as provided in the ordinance authorizing the issuance of the Certificates (the “Ordinance”).
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2023, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, under statutes, regulations, published rulings and court decisions existing on the date thereof. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.
QUALIFIED TAX-EXEMPT CERTIFICATES	The City has designated the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for (i) constructing and improving streets, roads and sidewalks; (ii) constructing, installing, acquiring and equipping additions, extensions and improvements to the City's waterworks and sewer system; (iii) constructing and equipping a fire station, (iv) legal, fiscal, engineering, design and other professional fees in connection with such projects and (v) the costs of issuing the certificates of obligation.

GENERAL

THE CITY	The City of Clyde, Texas is a political subdivision and Type A general law municipal corporation of the State, located in Callahan County. The City is approximately 2.1 square miles in area (see “INTRODUCTION – Description of the City”).
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RATING Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) has assigned a municipal bond rating of “AA+” (stable outlook) to the Certificates with the understanding that upon delivery of the Certificates, an insurance policy guaranteeing the timely payment of the principal of an interest on the Certificates will be issued by AGM. The presently outstanding tax supported debt of the City is rated “A” by S&P. The City also has various issues outstanding which are rated by S&P based on municipal bond insurance policies issued by various commercial insurance companies (see “OTHER INFORMATION – Rating”).

BOOK-ENTRY-ONLY SYSTEM..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES – Book-Entry-Only System”).

PAYMENT RECORD The City has never defaulted in the payment of its tax-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽²⁾	Per Capita G.O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2007	3,694	\$ 92,106,030	\$ 24,934	\$ 1,885,000	\$ 510	2.05%	103.60%
2008	3,752	103,365,170	27,549	2,240,000	597	2.17%	95.15%
2009	3,768	100,628,440	26,706	2,054,000	545	2.04%	102.03%
2010	3,778	105,172,140	27,838	1,833,000	485	1.74%	97.29% ⁽³⁾
2011	3,794	106,659,930	27,721	2,511,000 ⁽⁴⁾	662	2.35%	N/A

(1) Source: City of Clyde, Texas.

(2) Includes self-supporting debt.

(3) Partial collections through August 31, 2010.

(4) Projected; includes the Certificates and self-supporting debt.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2009	2008	2007	2006	2005
Beginning Balance	\$ 340,581	\$ 337,139	\$ 295,117	\$ 146,402	\$ 1,183
Total Revenue	2,102,381	1,923,618	1,634,079	1,465,176	1,514,677
Total Expenditures	2,034,831	1,804,947	1,466,082	1,714,131	1,349,891
Net Transfers	65,680	(115,229)	(125,000)	416,714	(19,567)
Prior Period Adjustment	-	-	(975)	(19,044)	-
Ending Balance	<u>\$ 473,811</u>	<u>\$ 340,581</u>	<u>\$ 337,139</u>	<u>\$ 295,117</u>	<u>\$ 146,402</u>

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Dustin Hawk Mayor	3 Years	May, 2011	CEO, Self-employed
Jim Rector Mayor Pro Tem	8 Years	May, 2012	Educational Consultant
Rodger Brown Councilmember	5 Years	May, 2011	Postal Carrier
Billy Dezern Councilmember	6 Years	May, 2012	GIS Analyst
Jeff Bell Councilmember	2 Years	May, 2012	Police Detective
Frank Peck Councilmember	8 Years	May, 2011	Self-employed

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>
Roger Nelson	City Manager	1 Year
C. Jean Gilmore	City Secretary	20 Years

CONSULTANTS AND ADVISORS

Auditors Cameron L. Gulley, CPA
Eastland, Texas

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

Financial Advisor..... Specialized Public Finance Inc.
Dallas, Texas

For additional information regarding the City, please contact:

Roger Nelson City Manager City of Clyde 222 Oak Street P.O. Box 1155 Clyde, Texas 79510 (325) 893-4234 (325) 893-5010 Fax	or	Steven A. Adams, CFA Paul N. Jasin Specialized Public Finance Inc. 4925 Greenville Avenue Suite 465 Dallas, Texas 75206 (214) 373-3911 (214) 373-3913 Fax
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OFFICIAL STATEMENT

RELATING TO

\$1,145,000

CITY OF CLYDE, TEXAS

COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$1,145,000 City of Clyde, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and Type A general law municipal corporation of the State, duly organized and existing under the laws of the State. The City was incorporated in 1907. The City operates under the Aldermanic form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. An appointed City Administrator is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The City covers approximately 2.1 square miles. For more information regarding the City, see APPENDIX A – "General Information Regarding the City".

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated November 1 and mature on August 1 in each of the years and in the amounts shown on page 2 hereof. Interest accrues from the date of delivery of the Certificates and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1, commencing February 1, 2011. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates and is further secured by a limited pledge (not to exceed \$1,000) of the surplus revenues of the City's waterworks and sewer system all as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. The City operates under the general laws of the State of Texas as authorized by Article XI, Section 4, of the Texas Constitution, which limits the maximum tax rate to \$1.50 per \$100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all General Obligation Debt, based on 90% tax collection.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 1, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on August 1, 2019, August 1, 2023, August 1, 2028 and August 1, 2035 (the “Term Certificates”) are subject to mandatory sinking fund redemption prior to maturity at the redemption price of par and accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

Term Certificates Due August 1, 2019		Term Certificates Due August 1, 2023	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 1, 2017	\$ 40,000	August 1, 2020	\$ 45,000
August 1, 2018	45,000	August 1, 2021	50,000
August 1, 2019*	45,000	August 1, 2022	55,000
		August 1, 2023*	55,000

Term Certificates Due August 1, 2028		Term Certificates Due August 1, 2035	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 1, 2024	\$ 60,000	August 1, 2029	\$ 75,000
August 1, 2025	65,000	August 1, 2030	80,000
August 1, 2026	70,000	August 1, 2031	15,000
August 1, 2027	70,000	August 1, 2032	20,000
August 1, 2028*	70,000	August 1, 2033	20,000
		August 1, 2034	20,000
		August 1, 2035*	20,000

* Stated Maturity.

At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot the numbers of the Term Certificates within the applicable Stated Maturity to be redeemed on the next following August 1 from moneys set aside for that purpose in the Bond Fund. Any Term Certificate not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Certificates required to be redeemed on any redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 50 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (iii) shall have been redeemed pursuant to the optional redemption provisions shown above and not previously credited to a mandatory sinking fund redemption.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the Town, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the Town will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Certificates have not been redeemed.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to the registered owners of the Certificate to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificate will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificate called for redemption or any other action premised or any such notice.

Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bond held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bond from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Certificates when payment of the principal of and premium, if any, on Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the respective series of Certificates. The Ordinance provides that "Defeasance Securities" means (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and online 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 confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, 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 principal, premium, if any, 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 disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered in accordance with the Order. 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 Order will be given only to DTC.

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 the City takes no 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.

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Bank of Texas, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the 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.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the fifteenth business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder of a 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.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Certificates will be The Depository Trust Company. See "Book-Entry-Only System" herein.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the owners, (4) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interest of the owners.

The Ordinance further provide that the owners of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Certificates no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding Certificates; (2) reducing the rate of interest borne by any of the outstanding Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

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

SOURCES OF FUNDS	
Par Amount of Certificates	\$ 1,145,000.00
Reoffering Premium	<u>25,970.25</u>
Total Sources	<u><u>\$ 1,170,970.25</u></u>
USES OF FUNDS	
Underwriter's Discount	\$ 24,862.10
Deposit to Project Construction Fund	1,100,000.00
Deposit to Capitalized Interest Fund	6,871.67
Deposit to Debt Service Fund	3,256.48
Costs of Issuance	<u>35,980.00</u>
Total Uses	<u><u>\$ 1,170,970.25</u></u>

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BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated "AA+" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). On February 24, 2010, Fitch, Inc. ("Fitch"), at the request of AGL, withdrew its "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 25, 2010, S&P published a Research Update in which it downgraded AGM's counterparty credit and financial strength rating from "AAA" (negative outlook) to "AA+" (stable outlook). Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the "AA" (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of AGM

At June 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,264,680,337 and its total net unearned premium reserve was approximately \$2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and
- (iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. However, in the event of any earlier due date of such principal by reason of mandatory or optional redemption, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such redemption. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Certificates which is recovered by the City from the owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absent such redemption by the City unless AGM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of AGM without appropriate consent. AGM may direct and must consent to any remedies that the Paying Agent exercises and AGM's consent may be required in connection with amendments to the Ordinance.

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the moneys received by the Paying Agent pursuant to the Ordinance. In the event AGM becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price of the Certificates.

The long-term ratings on the Certificates are dependent in part on the financial strength of AGM and its ability to pay claims which is predicated upon a number of factors that could change over time. No assurance is given that the long-term ratings of AGM and of the ratings on the Certificates insured by AGM will not be subject to downgrade and such event could adversely affect the market price of the Certificates.

The obligations of AGM are general obligations of AGM and in an event of default by AGM, the remedies available to the Paying Agent may be limited by applicable bankruptcy law or other similar laws related to insolvency. No independent investigation into the ability of AGM to pay claims has been made and no assurance or representation regarding the financial strength or projected financial strength of AGM is given.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Callahan County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District.

The Appraisal District is required to review the value of property with the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

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

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

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

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and Section 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. In

addition, effective for tax years 2008 and thereafter, Article VII, Section 1-n of the Texas Constitution provides for an exemption from taxation for “goods-in-transit,” which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a Freeport exemption or a goods-in-transit exemption for items of personal property.

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

The City may create one or more tax increment financing zones within the City (“TIRZ”), under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the “frozen values” to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the “frozen” value are not available for general City use but are restricted to paying or financing “project costs” within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under such tax abatement agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. A tax abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. Effective January 1, 2000, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

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

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
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, up to 20% attorney’s collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older in the amount of \$5,000.

The City has not granted an additional exemption of up to 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The City does not tax nonbusiness personal property; and the Callahan County Tax Assessor/Collector collects taxes for the City.

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

The City does tax freeport property

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has not adopted a tax abatement policy and has not participated in the creation of a tax increment financing zone.

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2010/11 Market Valuation of Taxable Property Established by Callahan County Appraisal District (excluding totally exempt property)		\$ 118,074,630
Less Exemptions/Reductions at 100% Market Value:		
Over 65	\$ 1,944,970	
Disabled Veterans	1,939,430	
Productivity Loss	2,525,280	
Miscellaneous	4,880	
Property Construction/Redevelopment	<u>5,000,140</u>	<u>\$ 11,414,700</u>
2010/11 Net Taxable Assessed Valuation		\$ 106,659,930
Debt Payable From Ad Valorem Taxes (as of 9/30/10) ⁽¹⁾ :		\$ 1,622,000
The Certificates		<u>1,145,000</u>
		\$ 2,767,000
Less Supported Debt:		
Waterworks and Sewer System General Obligation Debt ⁽²⁾		1,490,000
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 1,277,000
General Obligation Interest and Sinking Fund (as of 9/30/10)		\$ 35,173
Ratio Net General Obligation Debt Payable from Ad Valorem Taxes to Net Taxable Assessed Valuation		1.20%

2010 Estimated Population - 3,794
Per Capita Taxable Assessed Valuation - \$28,113
Per Capita Net Debt Payable from Ad Valorem Taxes - \$337

- (1) The above statement of indebtedness does not include currently outstanding waterworks and sewer system revenue bonds, as these bonds are payable solely from the net revenues of the Waterworks and Sewer System (the "System"), as defined in the ordinances authorizing the Bonds.
- (2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2011		2010		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Acreage (Land Only)	\$ 12,300,230	10.42%	\$ 12,278,320	10.58%	\$ 12,241,010	10.97%
Real, Farm and Ranch Improvements	95,483,950	80.87%	91,967,760	79.27%	88,167,860	78.98%
Agriculture	723,320	0.61%	717,290	0.62%	689,780	0.62%
Tangible Personal, Other	9,567,130	8.10%	11,049,490	9.52%	10,528,420	9.43%
Total Appraised Value Before Exemptions	\$ 118,074,630	100.00%	\$ 116,012,860	100.00%	\$ 111,627,070	100.00%
Less: Total Exemptions/Reductions	11,414,700		10,840,720		10,998,630	
Taxable Assessed Value	<u>\$ 106,659,930</u>		<u>\$ 105,172,140</u>		<u>\$ 100,628,440</u>	

Category	Taxable Appraised Value Fiscal Year Ended September 30,			
	2008		2007	
	Amount	% of Total	Amount	% of Total
Real, Acreage (Land Only)	\$ 12,262,990	11.00%	\$ 12,021,730	11.97%
Real, Farm and Ranch Improvements	81,210,190	72.87%	77,961,140	77.61%
Agriculture	692,780	0.62%	705,090	0.70%
Tangible Personal, Other	17,273,560	15.50%	9,762,080	9.72%
Total Appraised Value Before Exemptions	\$ 111,439,520	100.00%	\$ 100,450,040	100.00%
Less: Total Exemptions/Reductions	8,074,350		8,344,010	
Taxable Assessed Value	<u>\$ 103,365,170</u>		<u>\$ 92,106,030</u>	

Note: Valuations shown are certified taxable assessed values reported by the Callahan County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽³⁾	Ratio G.O. Tax Debt to Taxable Assessed Valuation	Per Capita G.O. Tax Debt
2007	3,694	\$ 92,106,030	\$ 24,934	\$ 1,885,000	2.05%	\$ 510
2008	3,752	103,365,170	27,549	2,240,000	2.17%	597
2009	3,768	100,628,440	26,706	2,054,000	2.04%	545
2010	3,778	105,172,140	27,838	1,833,000	1.74%	485
2011	3,794	106,659,930	28,113	2,511,000 ⁽⁴⁾	2.35%	662

(1) Source: The City.

(2) As reported by the Callahan County Appraisal District on City’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Includes self-supporting debt.

(4) Projected; includes the Certificates and self-supporting debt.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Adjusted Tax Levy	% Total Collections
2007	\$ 0.6696	\$ 0.5267	\$ 0.1429	\$ 616,427	103.60%
2008	0.6696	0.5085	0.1611	688,480	95.15%
2009	0.6696	0.4933	0.1763	660,448	102.03%
2010	0.6987	0.5325	0.1662	700,093	97.29% ⁽¹⁾
2011	0.6787	0.5125	0.1662	N/A	N/A

(1) Collections for part year only, through August 31, 2010.

TABLE 5 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2010/2011 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Blake Fulenwider Chrysler/Dodge/Jeep LTD	Car Dealership	\$ 3,699,920	3.47%
AEP-Texas North Company	Electric Company	1,744,850	1.64%
First Financial	Financial Services	1,185,480	1.11%
White Drilling	Well Drilling	1,062,860	1.00%
Mal Enterprises Inc.	Development	843,710	0.79%
Smith & Walski Inc.	Professional Services	752,960	0.71%
Lawrence Management Services	Professional Services	533,210	0.50%
Moore Leo Keith & Susan Len	Property	513,580	0.48%
CSE Alamo LLC	Financial Services	457,470	0.43%
Windstream Communications Inc.	Telecommunications	421,910	0.40%
		<u>\$ 11,215,950</u>	<u>10.52%</u>

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

TABLE 6 – TAX ADEQUACY⁽¹⁾

2011 Net Tax Supported Debt Principal and Interest Requirements	\$ 354,192
\$0.3389 Tax Rate at 98% Collection Produces	\$ 354,241
Average Net Tax Supported Debt Annual Principal and Interest Requirements, 2011 - 2035	\$ 144,189
\$0.1380 Tax Rate at 98% Collection Produces	\$ 144,247
Maximum Net Tax Supported Debt Principal and Interest Requirements, 2014	\$ 370,927
\$0.3549 Tax Rate at 98% Collection Produces	\$ 370,965

(1) Projected; includes the Certificates and self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional obligations since the date hereof, 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 estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2010/2011 Taxable Assessed Value	2010/2011 Tax Rate	Total G.O. Tax Debt	Estimated % Applicable	City's Overlapping G.O. Tax Debt As of 9/30/2011	Authorized But Unissued Debt as of 9/30/2011
Clyde, City of	\$ 106,659,930	\$ 0.6987	\$ 2,511,000 ⁽¹⁾	100.00%	\$ 2,511,000 ⁽¹⁾	\$ -
Clyde CISD	614,380,425	1.3997	25,324,996	33.79%	8,557,316	-
Callahan County	507,608,914	0.3273	-	24.49%	-	-
Total Direct and Overlapping G.O. Tax Debt					\$ 11,068,316	
Ratio of Direct and Overlapping G.O. Tax Debt to Taxable Assessed Valuation					2.35%	
Per Capita Overlapping G.O. Tax Debt					\$ 2,917	

(1) Projected; includes the Certificates and self-supporting debt.

DEBT INFORMATION

TABLE 8 – DEBT SERVICE REQUIREMENTS

Year Ending 9/30	Outstanding Debt ⁽¹⁾		The Certificates ⁽²⁾		Total Debt	Less: Self-Supporting Debt	Net Total Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest				
2011	\$ 216,000	\$ 70,533	\$ 40,000	\$ 27,659	\$ 354,192	\$ 81,212	\$ 272,980	
2012	232,000	61,165	30,000	39,350	362,515	132,066	230,449	
2013	242,000	51,225	35,000	38,750	366,975	129,118	237,857	
2014	252,000	40,877	40,000	38,050	370,927	131,203	239,724	
2015	263,000	29,957	40,000	37,250	370,207	133,047	237,160	61.34%
2016	268,000	18,455	40,000	36,050	362,505	129,349	233,156	
2017	59,000	6,469	40,000	34,850	140,319	135,510	4,809	
2018	59,000	3,232	45,000	33,850	141,082	131,572	9,510	
2019	10,000	1,355	45,000	32,725	89,080	79,058	10,022	
2020	10,000	838	45,000	31,600	87,438	82,934	4,504	82.10%
2021	11,000	289	50,000	29,800	91,089	85,938	5,151	
2022	-	-	55,000	27,800	82,800	82,800	-	
2023	-	-	55,000	25,600	80,600	80,600	-	
2024	-	-	60,000	23,400	83,400	83,400	-	
2025	-	-	65,000	21,000	86,000	86,000	-	89.18%
2026	-	-	70,000	18,400	88,400	88,400	-	
2027	-	-	70,000	15,600	85,600	85,600	-	
2028	-	-	70,000	12,800	82,800	82,800	-	
2029	-	-	75,000	10,000	85,000	85,000	-	
2030	-	-	80,000	7,000	87,000	87,000	-	97.77%
2031	-	-	15,000	3,800	18,800	18,800	-	
2032	-	-	20,000	3,200	23,200	23,200	-	
2033	-	-	20,000	2,400	22,400	22,400	-	
2034	-	-	20,000	1,600	21,600	21,600	-	
2035	-	-	20,000	800	20,800	20,800	-	100.00%
	<u>\$ 1,622,000</u>	<u>\$ 284,394</u>	<u>\$ 1,145,000</u>	<u>\$ 553,334</u>	<u>\$ 3,604,728</u>	<u>\$ 2,119,407</u>	<u>\$ 1,485,321</u>	

(1) Includes self-supporting debt.

(2) Interest calculated at a true interest cost of 3.782%. Includes self-supporting debt.

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2011 ⁽¹⁾		\$ 354,192
Interest and Sinking Fund, 9/30/2010	\$ 35,173	
2010 Interest and Sinking Fund Tax Levy @ 98% Collection	171,300	206,473
Less: Self-Supporting Debt		<u>81,212</u>
Estimated Balance, 9/30/2011		<u><u>\$ 66,507</u></u>

(1) Projected; includes the Certificates and self-supporting debt.

TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT

Water and Sewer Self-Supporting		
Net System Revenue Available	\$ 375,225	
Less: Requirements for Revenue Bonds		<u>31,800</u>
Balance Available for Other Purposes	\$ 343,425	
Requirements for System Tax Bonds		85,277
Percentage of System General Obligation Bonds Water & Sewer Self-Supporting		60.08%

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued general obligation bonds.

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

TABLE 12 - OTHER OBLIGATIONS

The City had the following unfunded debt outstanding as of September 30, 2009.

Notes Payable

The Water, Sewer and Sanitation Fund issued a five-year note in the amount of \$33,871, at 5.75% interest, payable in annual installments of \$7,768 beginning March 1, 2007. The note is secured by a 1998 Ford truck and a 1991 International dump truck. As of September 30, 2009, principal of \$14,285 was outstanding.

The City issued a nine-year note payable for a State Infrastructure Board loan of \$ \$120,000 in 2002, at 4.1% interest, for right-of-way acquisition and utility relocation at F.M. 604 overpass. Annual payments total \$14,941 due April 1 of each year until 2011. As of September 30, 2009 principal of \$28,089 was outstanding.

The City acquired a ten-year note payable to finance the purchase of two fire brush trucks in March, 2009. Total amount financed was \$148,000 at 4.95% interest payable in monthly installments of \$1,570. At September, 30, 2009, principal of \$122,857 was outstanding.

Capital Leases

The City entered into a capital lease for a backhoe loader from Key Government Finance. The lease was executed in March, 2007, with a total capitalized purchase totaling \$71,429 at an annual interest rate of 4.6%. Annual payments are \$15,599 with a final maturity in March, 2012.

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

FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS (IN THOUSANDS DOLLARS)

	Fiscal Year Ending September 30,				
	2009	2008	2007	2006	2005
Program Revenues:					
Charges for Services	\$ 521.0	\$ 419.3	\$ 320.0	\$ 164.6	\$ 14.0
Operating Grants	94.9	140.8	4.9	30.5	10.2
General Revenues:					
Taxes	1,128.0	1,092.2	1,047.5	1,108.4	1,187.1
Administrative Costs	326.0	201.0	202.0	169.5	168.6
Fines	-	-	-	-	117.8
Investment Earnings	3.0	10.5	19.7	-	-
Other	(47.3)	(51.7)	(85.5)	34.2	0.9
Total Revenues	<u>\$ 2,025.4</u>	<u>\$ 1,812.1</u>	<u>\$ 1,508.6</u>	<u>\$ 1,507.2</u>	<u>\$ 1,498.6</u>
Program Expenses:					
General Government	\$ 356.5	\$ 413.4	\$ 300.6	\$ 279.5	\$ 363.3
Public Safety	914.5	757.9	701.3	583.1	482.1
Streets	386.7	399.3	381.6	416.3	345.4
Animal Control	114.5	112.7	66.8	39.6	34.7
Culture and Recreation	76.4	112.1	71.9	36.0	62.0
Interest on Debt	10.0	12.6	14.0	7.6	12.7
Ad Valorem Taxes for					
Debt Economic Development	-	-	-	102.8	108.8
Total Expenses	<u>\$ 1,858.6</u>	<u>\$ 1,808.0</u>	<u>\$ 1,536.1</u>	<u>\$ 1,464.9</u>	<u>\$ 1,409</u>
Excess (Deficiency) before Other Resources, Uses, and Transfers	\$ 166.9	\$ 4.1	\$ (27.5)	\$ 42.3	\$ 89.6
Other Resources Transfers In (Out)	\$ -	\$ -	\$ -	\$ 76.1	\$ (13.7)
Increase (Decrease) in Net Assets	<u>\$ 167</u>	<u>\$ 4.1</u>	<u>\$ (27.5)</u>	<u>\$ 118.4</u>	<u>\$ 75.9</u>

TABLE 13A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2009	2008	2007	2006	2005
<u>Revenues:</u>					
Taxes:					
General Property Tax	\$ 661,293	\$ 644,029	\$ 625,803	\$ 572,335	\$ 551,998
General Sales Tax	353,313	352,073	340,223	428,314	506,558
Other Taxes - Franchise Tax	108,001	87,921	82,486	89,613	82,434
Penalty and Interest on Delinquent Taxes	12,592	11,026	12,809	12,421	14,981
Licenses and Permits	20,423	23,021	15,387	4,494	5,377
Administrative Cost Allocation	326,000	201,000	201,961	169,519	168,641
Charges for Services	51,058	44,929	23,485	9,690	8,622
Fines	438,189	336,845	270,192	137,307	117,802
Grants	93,781	139,651	3,867	29,435	10,235
Other Revenue	34,986	73,321	39,511	9,228	48,029
Investment Earnings	2,745	9,802	18,355	2,820	-
Total Revenues	<u>\$ 2,102,381</u>	<u>\$ 1,923,618</u>	<u>\$ 1,634,079</u>	<u>\$ 1,465,176</u>	<u>\$ 1,514,677</u>
<u>Expenditures:</u>					
General Government	\$ 282,304	\$ 318,526	\$ 275,075	\$ 521,609	\$ 353,609
Senior Citizens	15,463	16,457	15,225	18,601	15,005
Cemetery	4,460	5,263	3,974	4,328	3,469
Library	49,952	68,804	36,864	143,922	15,235
Police	489,627	479,453	461,229	396,283	316,904
Police Seizure Training	-	-	-	50	4,911
Municipal Court	222,094	216,046	173,345	108,257	74,798
Fire	310,971	52,153	38,238	46,214	27,007
Domestic Preparedness	-	-	-	-	4,029
Parks and Recreation	276,834	192,499	65,786	36,039	20,826
Code Enforcement	30,563	53,233	25,517	23,209	21,395
Animal Control	76,594	78,607	36,879	44,152	32,921
Streets	221,828	232,145	227,206	251,597	179,894
Economic Development	-	-	-	-	108,745
Debt Service:					
Principal	44,363	78,919	92,381	112,266	88,341
Interst and Fiscal Charges	9,778	12,842	14,363	7,604	12,666
Capital Outlay	-	-	-	-	70,136
Total Expenditures	<u>\$ 2,034,831</u>	<u>\$ 1,804,947</u>	<u>\$ 1,466,082</u>	<u>\$ 1,714,131</u>	<u>\$ 1,349,891</u>
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 67,550	\$ 118,671	\$ 167,997	\$ (248,955)	\$ 164,786
Other Financing Sources (Uses):					
Transfers In	\$ -	\$ 9,771	\$ -	\$ 200,607	\$ 111,289
Transfers Out	(125,000)	(125,000)	(125,000)	(136,001)	(131,863)
Loan Proceeds	148,000	-	-	215,000	-
Issuance of Debt	-	-	-	115,000	-
Insurance Proceeds	42,680	-	-	22,108	1,007
Total Other Sources (Uses)	<u>\$ 65,680</u>	<u>\$ (115,229)</u>	<u>\$ (125,000)</u>	<u>\$ 416,714</u>	<u>\$ (19,567)</u>
Net Change in Fund Balances					
	\$ 133,230	\$ 3,442	\$ 42,997	\$ 167,759	\$ 145,219
Beginning Fund Balance					
	\$ 340,581	\$ 337,139	\$ 295,117	\$ 146,402	\$ 1,183
Prior Period Adjustment					
	-	-	(975)	(19,044)	-
Ending Fund Balance	<u>\$ 473,811</u>	<u>\$ 340,581</u>	<u>\$ 337,139</u>	<u>\$ 295,117</u>	<u>\$ 146,402</u>

TABLE 14 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Notes. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 6, 1995, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development. Collection for the additional tax went into effect in December, 1995. The sales tax for economic development is collected solely for the benefit of Clyde Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2006	\$ 298,401	51.70%	\$ 0.3240	\$ 83
2007	341,000	55.32%	0.3304	92
2008	353,081	51.28%	0.3511	94
2009	335,442	50.79%	0.3169	89
2010	351,933 ⁽³⁾	50.27%	0.3300	93

Source: Texas Comptroller of Public Accounts.

(1) Excludes collections of the one-half percent (1/2%) sales and use tax for economic development.

(2) Based on population estimates of the City.

(3) Partial collections through August 31, 2010.

FINANCIAL POLICIES

Basis of Accounting . . . Governmental Funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Licenses and permits, charges for service, fines and forfeits, and miscellaneous revenues are recorded as revenues when received in cash. General property taxes, self-assessed taxes, and investment earnings are recorded when earned (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations which are recognized when paid.

General Fund Balance . . . The General Fund is the City’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds . . . These funds are used to account for the proceeds of specific revenue sources (other than special assessments of major capital projects) that are legally restricted to expenditures for specified purposes.

Budgetary Procedures . . . Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the general fund and the proprietary funds, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. All unencumbered budget appropriations lapse at the end of each fiscal year.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the 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 below.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

TABLE 15 – CURRENT INVESTMENTS

As of August 31, 2010, the City’s investable funds were invested in the following categories:

<u>Description</u>	<u>Market Value</u>	<u>% of Portfolio</u>
Certificates of Deposit	<u>\$ 501,644</u>	<u>100.00%</u>
Total	<u><u>\$ 501,644</u></u>	<u><u>100.00%</u></u>

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TAX MATTERS

OPINIONS . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Certificates (i) will be excludable from the "gross income" of the holders thereof for federal income tax purposes, and (ii) will not be treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code") and will not be includable in the adjusted current earnings of corporations under section 56(g) of the Code for purposes of calculating the alternative minimum tax imposed on such corporations. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See APPENDIX C - "Form of Bond Counsel's Opinion".

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

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

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

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

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

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

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

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

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

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

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year, except that such amount will be \$30,000,000 for the taxable years beginning after December 31, 2008 and ending prior to January 1, 2011. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The City has designated the Certificates as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the City has covenanted to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Certificates as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011), there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of such amounts is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the dollar limitation and the Certificates would not be “qualified tax-exempt obligations.”**

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations, because the City has not issued more than \$10,000,000 in aggregate amount of outstanding municipal securities (excluding securities offered in transactions that were exempt from the Rule) and no person is committed by contract or other arrangement with respect to payment of the Certificates. Pursuant to the exemption, 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 an "obligated person" with respect to the Certificates, within the meaning of the United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). 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 which is customarily prepared by the City and is publicly available to the MSRB on an annual basis. Such information is currently provided through its annual financial statements, annual budget and annual tax appraisal reports. The City will update and provide this information within 6 months after the end of each fiscal year ending. The City will provide the updated information to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB intends to make the information available to the public without charge through an internet portal as part of an expansion of its Electronic Municipal Market Access ("EMMA") system. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "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 B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of 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. (Neither the Certificates nor the Ordinances make any reserve fund provisions or provision for credit or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB.

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

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 holders 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 . . . The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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OTHER INFORMATION

RATING . . . Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned a municipal bond rating of "AA+" (stable outlook) to the Certificates with the understanding that upon delivery of the Certificates, an insurance policy guaranteeing the timely payment of the principal of an interest on the Certificates will be issued by AGM. The presently outstanding tax supported debt of the City is rated "A" by S&P. The City also has various issues outstanding which are rated by S&P based on municipal bond insurance policies issued by various commercial insurance companies. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organizations and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or more of such rating company, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Certificates.

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

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

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

LEGAL MATTERS

LEGAL OPINIONS . . . The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

The legal opinion to be delivered concurrently with the delivery of the Certificates will express the professional judgment of the attorneys rendering the opinion 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.

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and Secretary of the City, to the effect that no litigation of any nature has been filed or 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 proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. 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. Specialized Public Finance Inc., 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.

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

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.

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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Purchaser") to purchase the Certificates at the interest rates shown on the inside cover page of the Official Statement at a price of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Reference is made to original documents in all respects. The Ordinance authorizing the issuance of the Certificates has approved 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 Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/S/ DUSTIN HAWK
Mayor
City of Clyde, Texas

ATTEST:

/S/ C. JEAN GILMORE
City Secretary
City of Clyde, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND POPULATION

The City of Clyde (2000 U.S. Census 3,345; 2006 estimated population 3,694) is located in Callahan County (2000 U.S. Census 12,905) approximately 130 miles west of the City of Fort Worth and 15 miles east of the City of Abilene. The City of Baird (2000 U.S. Census 1,623) is the County Seat. Other incorporated towns in Callahan County and their 2000 U.S. Census include Cross Plains, 1,068 and Putnam, 88.

ECONOMY

The City of Clyde benefits from its proximity to Abilene, with many residents commuting to jobs in Abilene, and the City is located favorably on Interstate Highway 20. Local manufacturers produce steel storage tanks, pickup camper tops and aluminum portable buildings.

The County's economy is based on agriculture and mineral production. Agricultural crops include beef cattle, wheat, peanuts, grain sorghums and some irrigation of grasses for hay. The Railroad Commission of Texas reported that in 2005 there were 160,583 barrels of crude oil and 912,458 MCF of natural gas recovered in the County.

LABOR FORCE

Callahan County

	July	Average Annual			
	2010	2009	2008	2007	2006
Civilian Labor Force	7,332	7,196	7,083	6,916	7,101
Total Employed	6,873	6,771	6,820	6,679	6,826
Total Unemployed	459	425	263	237	275
% Unemployed	6.3%	5.9%	3.7%	3.4%	3.9%

(1) Source: Texas Workforce Commission; figures subject to revision.

TRANSPORTATION – CALLAHAN COUNTY

The County is served by Interstate Highway 20, State Highway 36 and a well-developed system of farm-to-market roads. The Union Pacific Railroad passes through the City on its main line from Dallas to El Paso, and one motor freight trucking company serves the City. Commercial air service is available at Abilene Regional Airport, located approximately 15 miles west of the City.

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APPENDIX B

**EXCERPTS FROM THE
CITY OF CLYDE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2009**

The information contained in this APPENDIX consists of excerpts from the City of Clyde, Texas Annual Financial Report for the Year Ended September 30, 2009, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

P. O. Box 163
Eastland, Texas 76448
(254)629-8696
Cell (325)669-9795

Independent Auditor's Report

City Commission
City of Clyde, Texas
P. O. Box 1155
Clyde, Texas 79510

Members of the City Commission:

I 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 City of Clyde, Texas (the "City") as of and for the year ended September 30, 2009, 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 administrators. My responsibility is to express an opinion on them based on my audit.

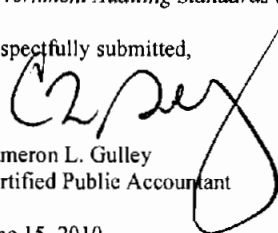
I conducted my audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clyde, Texas as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with account principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiring of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion in it.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 15, 2010, on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Respectfully submitted,


Cameron L. Gulley
Certified Public Accountant

June 15, 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Clyde, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2009. Please read it in conjunction with the independent auditor's report on page 1 and the City's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 3. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two activities:

Governmental activities - Most of the City's basic services are reported here, including public safety, maintenance of city streets and alleys, community services, and general administration. Property taxes, franchise and other fees, and state and federal grants finance most of these services.

Business-type activities - The City charges a fee to "customers" to help it cover all or most of the cost of services it provides in the utility waterworks, sewer, and solid waste funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the City as a whole. Laws and contracts require the City to establish some funds, such as a debt service fund used to provide sources of revenues to service the City's general obligation bonds. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds - Most of the City's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds - the City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net assets of the City's governmental activities increased from \$3,901,503 to \$4,068,397. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$391,945 to \$527,842 at September 30, 2009. Current assets increased by \$194,193 due to increases in cash. Capital assets increased by \$134,814 due to current year asset additions in excess of depreciation expense. Long-term liabilities increased a net of \$85,947 due to one new note agreement entered into during the current year. Other liabilities increased by \$76,166 due to increases in deferred revenue for proceeds received but not expended until after year-end.

Net assets of the business-type activities increased by over \$143,474. Current assets decreased by \$377,682 due to liquidation of borrowed cash received in the previous fiscal year used to complete construction of a new elevated storage tank facility. Capital assets decreased by \$55,982 due to current year depreciation expense in excess of current year asset additions. Long-term liabilities decreased by \$251,428 due to liquidation of outstanding debt. Current liabilities decreased by \$325,710 relative to liquidation of prior year accounts payable attributable to the elevated storage tank construction.

Table I
City of Clyde, Texas
Net Assets

	Governmental Activities 2009	Governmental Activities 2008	Variance Increase/ (Decrease)
Current and other assets	\$ 719,218	\$ 525,025	\$ 194,193
Capital assets	3,790,943	3,656,129	134,814
Total assets	4,510,161	4,181,154	329,007
Long-term liabilities	233,948	148,001	85,947
Other liabilities	207,816	131,650	76,166
Total liabilities	441,764	279,651	162,113
Net assets:			
Invested in capital assets net of related debt	3,540,555	3,509,558	30,997
Unrestricted	527,842	391,945	135,897
Total net assets	\$ 4,068,397	\$ 3,901,503	\$ 166,894
	Business-type Activities 2009	Business-type Activities 2008	Variance Increase/ (Decrease)
Current and other assets	\$ 737,390	\$ 1,115,072	\$ (377,682)
Capital assets	4,239,679	4,295,661	(55,982)
Total assets	4,977,069	5,410,733	(433,664)
Long-term liabilities	1,778,584	2,030,012	(251,428)
Other liabilities	337,603	663,313	(325,710)
Total liabilities	2,116,187	2,693,325	(577,138)
Net assets:			
Invested in capital assets net of related debt	2,356,501	2,144,966	211,535
Restricted for debt service	175,713	184,966	(9,253)
Unrestricted	328,668	387,476	(58,808)
Total net assets	\$ 2,860,882	\$ 2,717,408	\$ 143,474

Table II
City of Clyde, Texas
Changes in Net Assets

	Governmental Activities 2009	Governmental Activities 2008	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 520,970	\$ 419,295	\$ 101,675
Operating grants and contributions	94,891	140,753	(45,862)
General Revenues:			
Maintenance and operations taxes	666,646	652,243	14,403
Sales and hotel/motel taxes	353,313	352,073	1,240
Franchise fees	108,001	87,921	20,080
Administrative cost allocation	326,000	201,000	125,000
Investment earnings	2,961	10,462	(7,501)
Miscellaneous and transfers	(47,334)	(51,679)	4,345
Total Revenues	2,025,448	1,812,068	213,380
Expenses:			
General government	280,751	317,939	37,188
Senior citizens	17,435	18,429	994
Cemetery	4,460	5,263	803
Library	53,820	71,732	17,912
Police and municipal court	726,060	671,262	(54,798)
Fire	188,452	86,676	(101,776)
Parks and recreation	76,407	112,136	35,729
Code enforcement and animal control	114,475	112,673	(1,802)
Street	386,736	399,288	12,552
Interest expense on long-term debt	9,958	12,560	2,602
Total Expenses	1,858,554	1,807,958	(50,596)
Increase in Net Assets	166,894	4,110	162,784
Net Assets - beginning of year	3,901,503	3,897,393	4,110
Prior period adjustment			
Net Assets - end of year	\$ 4,068,397	\$ 3,901,503	\$ 166,894

Table II - Continued
City of Clyde, Texas
Changes in Net Assets

	Business-type Activities 2009	Business-type Activities 2008	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,845,936	\$ 1,666,631	\$ 179,305
Operating grants and contributions	38,148	248,794	(210,646)
Investment income	3,269	9,594	(6,325)
Miscellaneous and transfers	130,170	139,882	(9,712)
Total Revenues	2,017,523	2,064,901	(47,378)
Expenses:			
Water, sewer and sanitation	1,874,049	1,742,485	(131,564)
Total Expenses	1,874,049	1,742,485	(131,564)
Increase in Net Assets	143,474	322,416	(178,942)
Net Assets - beginning of year	2,717,408	2,394,992	322,416
Prior period adjustment			
Net Assets - end of year	\$ 2,860,882	\$ 2,717,408	\$ 143,474

The City's total revenues of its governmental activities increased by \$213,000 from the previous year. Most significantly, the City received increased administrative cost allocation fee from the enterprise fund totaling \$125,000 over the previous year's allocation. Charges for services were up by \$101,000 due primarily from increased fine revenues generated by the municipal court and police departments.

Total expenses of the City's governmental activities increased by more than \$50,000 from the previous year. Police and municipal court expenses were higher by \$55,000 due to the state cost share of the increased fine revenues generated during the year. The net increase in fire department expenses of \$102,000 due to water damage repairs of the fire hall during the year. Those increased expenses, however, were absorbed by expense decreases in other departments.

The City's total revenues of its business-type activities decreased by \$47,378 from the previous year. Operating revenues for charges for services, however, were up by nearly \$180,000 due to increases in utility rates. Grant revenues were down by approximately \$210,000 due to the completion of an elevated storage tank facility begun in the previous fiscal year partially financed by a federal grant award.

Total expenses of the business-type activities increased by approximately \$132,000 from the previous year. Most significantly, the business-type fund increased its administrative cost allocation fee to the governmental funds by \$125,000 from the previous year. Other operational costs were consistent with what they were in the previous year.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$534,512, an increase of \$145,946 in the City's governmental funds over last year's fund balance of \$388,606. The increase in fund balance was due to the changes in revenues and expenses discussed above with exceptions for depreciation expense and capital acquisitions and related debt service principal reductions.

The City Commission did not amend the City's budget during the year. The originally adopted budget was set at \$2,424,670 for the General Fund.

The City's General Fund balance of \$473,811 reported on pages 14 and 34 differs from the projected budgetary fund balance of \$354,434 primarily due to the state and locally funded parks and recreation grant expenditures which were fully budgeted for completion at a net cost of \$154,000 were only partially completed with actual net expenditures being only about \$100,000 for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2009, the City had \$15,694,695 invested in a broad range of capital assets including infrastructure, water treatment and wastewater disposal facilities and equipment and maintenance of City streets and alleys. This amount represents a net increase of \$642,680 from last fiscal year. This year's major additions included:

Fire smoke breathing apparatus	\$ 5,200
Dodge fire brush trucks (2)	173,000
Dodge pickup	22,059
Codification of ordinances	10,300
Septic system at lake park	29,695
City park (in progress)	179,198
Water line extensions	9,754
Overhead water storage tank (completion)	213,474
Total	\$ 642,680

Debt

At year-end, the City had \$2,117,402 in notes, bonds and capital leases outstanding as shown below.

During the year the City entered into a long-term note payable totaling \$148,000 to finance the purchases of two fire brush trucks to be paid in monthly installments of \$1,570 beginning in April, 2009 at an interest rate of 4.95% for 120 months with final maturity in March, 2019.

	Governmental Activities		Business-type Activities	
	2009	2008	2009	2008
Bonds			\$ 1,825,000	\$ 2,070,000
Notes	\$ 248,947	\$ 145,310	14,285	20,803
Capital leases			29,170	42,800
Total	\$ 248,947	\$ 145,310	\$ 1,868,455	\$ 2,133,603

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City should maintain its financial health during the 2009-10 fiscal year. Budgeted expenditures for next fiscal year are approximately the same as they were for the 2008-09 fiscal year. The City has projected a relatively break-even year for 2009-10. Therefore, the fund balance of the City is projected to remain at or near \$535,000 and retained earnings/contributed capital should remain at or near \$2,900,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's business office at: City of Clyde, Texas, P. O. Box 1155, Clyde, Texas 79510.

CITY OF CLYDE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 849,499	\$ 140,133	\$ 989,632	\$ 417,373
Receivables (net of allowance for uncollectibles):				
Property taxes	18,011		18,011	
Accounts receivable		170,446	170,446	
Other	29,620		29,620	8,641
Internal balances	(177,912)	177,912	0	
Restricted assets:				
Cash and cash equivalents		112,841	112,841	
Revenue bond covenant accounts		62,872	62,872	
Deferred charges		73,186	73,186	
Capital assets:				
Land	320,528	163,154	483,682	17,143
Buildings and improvements	871,034	1,218,362	2,089,396	
Machinery and equipment	1,270,064	503,049	1,773,113	
Infrastructure	4,567,842	6,780,662	11,348,504	
Less: accumulated depreciation	(3,238,525)	(4,425,548)	(7,664,073)	
TOTAL ASSETS	<u>4,510,161</u>	<u>4,977,069</u>	<u>9,487,230</u>	<u>443,157</u>
LIABILITIES				
Accounts payable	40,163	47,826	87,989	
Accrued liabilities and other payables	26,532	18,794	45,326	514
Accrued interest payable	1,441	14,723	16,164	
Due to other governments			0	
Notes payable - current	39,680	7,003	46,683	
Capital leases payable - current		14,257	14,257	
Revenue bonds payable - current		235,000	235,000	
Deferred revenue	100,000		100,000	
Noncurrent liabilities:				
Notes payable - due in more than one year	209,267	7,282	216,549	
Capital leases payable - due in more than one year		14,913	14,913	
Revenue bonds payable - due in more than one year		1,590,000	1,590,000	
Accrued compensable absences payable	24,681	11,994	36,675	
Customer deposits		154,395	154,395	
TOTAL LIABILITIES	<u>441,764</u>	<u>2,116,187</u>	<u>2,557,951</u>	<u>514</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,540,555	2,356,501	5,897,056	17,143
Restricted for debt service		175,713	175,713	
Unrestricted	527,842	328,668	856,510	425,500
TOTAL NET ASSETS	<u>\$ 4,068,397</u>	<u>\$ 2,860,882</u>	<u>\$ 6,929,279</u>	<u>\$ 442,643</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities	Business-type Activities	Totals		
						(Memo Only) Primary Govt		
Governmental activities:								
General government	\$ 280,751	\$ 3,109	\$	\$ (277,642)	\$	\$ (277,642)	\$	
Senior citizens	17,435	900		(16,535)		(16,535)		
Cemetery	4,460	11,300	30	6,870		6,870		
Library	53,820		3,633	(50,187)		(50,187)		
Police	499,482	30,000	1,080	(468,402)		(468,402)		
Municipal court	226,578	438,189		211,611		211,611		
Fire	188,452			(188,452)		(188,452)		
Parks and recreation	76,407	17,314	90,148	31,055		31,055		
Code enforcement	34,158	1,706		(32,452)		(32,452)		
Animal control	80,317	18,452		(61,865)		(61,865)		
Street	386,736			(386,736)		(386,736)		
Interest expense on long-term debt	9,958			(9,958)		(9,958)		
Total governmental activities	<u>1,858,554</u>	<u>520,970</u>	<u>94,891</u>	<u>(1,242,693)</u>	<u>0</u>	<u>(1,242,693)</u>		
Business-type activities:								
Water, sewer and sanitation	1,754,438	1,845,936	19,677		111,175	111,175		
Abilene water line	119,611		18,471		(101,140)	(101,140)		
Total business-type activities	<u>1,874,049</u>	<u>1,845,936</u>	<u>38,148</u>	<u>0</u>	<u>10,035</u>	<u>10,035</u>		
Total primary government	<u>\$ 3,732,603</u>	<u>\$ 2,366,906</u>	<u>\$ 133,039</u>	<u>(1,242,693)</u>	<u>10,035</u>	<u>(1,232,658)</u>		
Component units:								
Clyde Economic Development Corporation	59,361							(59,361)
Total component units	<u>\$ 59,361</u>	<u>\$ 0</u>	<u>\$ 0</u>					<u>(59,361)</u>
General revenues:								
Property taxes				666,646		666,646		
Sales taxes				353,313		353,313		117,771
Franchise taxes				108,001		108,001		
Administrative cost allocation				326,000		326,000		
Investment income				2,961	3,269	6,230		4,149
Other revenues				77,666	5,170	82,836		
Transfers				(125,000)	125,000	0		
Total general revenues				<u>1,409,587</u>	<u>133,439</u>	<u>1,543,026</u>		<u>121,920</u>
Changes in net assets				166,894	143,474	310,368		62,559
Beginning net assets				3,901,503	2,717,408	6,618,911		380,084
Beginning net asset adjustment						0		
Ending net assets				<u>\$ 4,068,397</u>	<u>\$ 2,860,882</u>	<u>\$ 6,929,279</u>		<u>\$ 442,643</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS AND OTHER DEBITS			
Assets:			
Cash and cash equivalents	\$ 788,798	\$ 60,701	\$ 849,499
Receivables (net of allowance for uncollectibles):			
Property taxes	18,011		18,011
Accounts receivable			0
Other	29,620		29,620
Due from other funds			0
Total assets and other debits	<u>\$ 836,429</u>	<u>\$ 60,701</u>	<u>\$ 897,130</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 40,163	\$	\$ 40,163
Accrued liabilities and other payables	26,532		26,532
Due to other funds	177,912		177,912
Due to other governments			0
Deferred revenue	118,011		118,011
Total liabilities	<u>362,618</u>	<u>0</u>	<u>362,618</u>
Fund Balances:			
Unreserved	473,811	60,701	534,512
Total fund balances	<u>473,811</u>	<u>60,701</u>	<u>534,512</u>
Total liabilities and fund balances	<u>\$ 836,429</u>	<u>\$ 60,701</u>	<u>\$ 897,130</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Primary Government
Total Fund Balances - Governmental Funds	\$ 534,512
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$6,610,016 and the accumulated depreciation was \$2,953,887. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	3,509,558
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	315,635
3 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(284,638)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(6,670)
Net Assets of Governmental Activities	\$ 4,068,397

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUE:			
Taxes:			
General property taxes	\$ 661,293	\$	\$ 661,293
General sales and use taxes	353,313		353,313
Other taxes - franchise taxes	108,001		108,001
Penalty and interest on delinquent taxes	12,592		12,592
Licenses and permits	20,423		20,423
Administrative cost allocation	326,000		326,000
Charges for services	51,058	11,300	62,358
Fines	438,189		438,189
Grants	93,781	1,110	94,891
Other revenue	34,986		34,986
Investment earnings	2,745	216	2,961
Total revenues	<u>2,102,381</u>	<u>12,626</u>	<u>2,115,007</u>
EXPENDITURES:			
General government	282,304		282,304
Senior citizens	15,463		15,463
Cemetery	4,460		4,460
Library	49,952		49,952
Police	489,627		489,627
Police seizure training		(50)	(50)
Municipal court	222,094		222,094
Fire	310,971		310,971
Parks and recreation	276,834		276,834
Code enforcement	30,563		30,563
Animal control	76,594		76,594
Streets	221,828		221,828
Debt service:			
Principal	44,363		44,363
Interest and fiscal charges	9,778		9,778
Total expenditures	<u>2,034,831</u>	<u>(50)</u>	<u>2,034,781</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>67,550</u>	<u>12,676</u>	<u>80,226</u>
OTHER FINANCING RESOURCES (USES):			
Transfers in (out)	(125,000)		(125,000)
Loan proceeds	148,000	0	148,000
Insurance proceeds	42,680		42,680
Total other financing resources (uses)	<u>65,680</u>	<u>0</u>	<u>65,680</u>
NET CHANGE IN FUND BALANCES	133,230	12,676	145,906
Fund balances - beginning	340,581	48,025	388,606
Prior period adjustment			0
Fund balances - ending	<u>\$ 473,811</u>	<u>\$ 60,701</u>	<u>\$ 534,512</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, 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, 2009

		Primary Government
Net change in fund balances - total governmental funds	\$	145,906
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		315,635
2 Depreciation is not recognized as an expense in 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.		(284,638)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(10,009)
Change in net assets of governmental activities	\$	166,894

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Enterprise Funds		
	Water, Sewer & Sanitation Fund	Abilene Water Line Fund	Total Enterprise Funds
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 142,406	\$ (2,273)	\$ 140,133
Accounts receivable (net of allowance for uncollectibles)	170,446		170,446
Other receivables			0
Due from other funds	177,912		177,912
Total current assets	<u>490,764</u>	<u>(2,273)</u>	<u>488,491</u>
Noncurrent assets:			
Restricted cash, cash equivalents and investments:			
Cash	112,841		112,841
Revenue bond covenant accounts	62,872		62,872
Deferred charges	73,186		73,186
Capital assets:			
Land	163,154		163,154
Buildings and improvements	1,218,362		1,218,362
Machinery and equipment	496,113	6,936	503,049
Infrastructure	5,228,152	1,552,510	6,780,662
Less: accumulated depreciation	<u>(3,863,110)</u>	<u>(562,438)</u>	<u>(4,425,548)</u>
Total noncurrent assets	<u>3,491,570</u>	<u>997,008</u>	<u>4,488,578</u>
Total assets	<u>3,982,334</u>	<u>994,735</u>	<u>4,977,069</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	45,387	2,439	47,826
Accrued wages and withholdings	18,794		18,794
Accrued interest payable	14,723		14,723
Due to other funds			0
Notes payable	7,003		7,003
Capital leases payable	14,257		14,257
Revenue bonds payable	235,000		235,000
Total current liabilities	<u>335,164</u>	<u>2,439</u>	<u>337,603</u>
Noncurrent liabilities:			
Notes payable	7,282		7,282
Capital leases payable	14,913		14,913
Revenue bonds payable	1,590,000		1,590,000
Accrued compensable absences payable	11,994		11,994
Customer deposits	154,395		154,395
Total noncurrent liabilities	<u>1,778,584</u>	<u>0</u>	<u>1,778,584</u>
Total liabilities	<u>2,113,748</u>	<u>2,439</u>	<u>2,116,187</u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,359,493	997,008	2,356,501
Restricted for debt service	175,713		175,713
Unrestricted net assets	333,380	(4,712)	328,668
Total net assets	<u>\$ 1,868,586</u>	<u>\$ 992,296</u>	<u>\$ 2,860,882</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Funds		
	Water, Sewer & Sanitation Fund	Abilene Water Line Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for sales and services:			
Water sales - retail	\$ 988,962	\$	\$ 988,962
Water sales - wholesale	6,414		6,414
Sewer charges	470,467		470,467
Sanitation charges	319,453		319,453
Penalties on accounts	47,383		47,383
Other services	13,257		13,257
Intergovernmental revenue		18,471	18,471
Other revenue	5,170		5,170
Total operating revenues	<u>1,851,106</u>	<u>18,471</u>	<u>1,869,577</u>
OPERATING EXPENSES:			
Personnel services - salaries and wages	297,832	32,581	330,413
Personnel services - employee benefits	109,911	11,223	121,134
Purchased professional and technical services	11,270		11,270
Administrative cost allocation	322,000	4,000	326,000
Operations, maintenance and repairs	162,295	4,227	166,522
General insurance	30,120	500	30,620
Supplies	7,631		7,631
Utilities	85,652	14,606	100,258
Water purchases	49,414		49,414
Landfill expenses	311,386		311,386
Depreciation	227,460	51,750	279,210
Bad debts	13,241		13,241
Other expenses	25,739	724	26,463
Total operating expenses	<u>1,653,951</u>	<u>119,611</u>	<u>1,773,562</u>
Operating income	<u>197,155</u>	<u>(101,140)</u>	<u>96,015</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest revenue	3,269		3,269
Intergovernmental grant revenue	19,677		19,677
Interest expense	(100,487)		(100,487)
Total non-operating revenues (expenses)	<u>(77,541)</u>	<u>0</u>	<u>(77,541)</u>
Income before transfers	<u>119,614</u>	<u>(101,140)</u>	<u>18,474</u>
TRANSFERS IN (OUT):			
Transfers in	125,000		125,000
Transfers out			0
Net transfers in (out)	<u>125,000</u>	<u>0</u>	<u>125,000</u>
Change in net assets	244,614	(101,140)	143,474
Net assets - beginning	1,623,972	1,093,436	2,717,408
Prior period adjustment			0
Net assets - ending	<u>\$ 1,868,586</u>	<u>\$ 992,296</u>	<u>\$ 2,860,882</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Funds		
	Water, Sewer & Sanitation Fund	Abilene Water Line Fund	Total Enterprise Funds
Cash flows from operating activities:			
Cash received from customers	\$ 1,799,102	\$	\$ 1,799,102
Cash payments to employees for services	(401,267)	(43,804)	(445,071)
Cash payments to other suppliers for goods and services	(1,010,968)	(24,711)	(1,035,679)
Other operating cash receipts (payments)	18,427	18,471	36,898
Net cash provided (used) by operating activities	<u>405,294</u>	<u>(50,044)</u>	<u>355,250</u>
Cash flows from non-capital financing activities:			
Proceeds from property taxes for debt service	125,000		125,000
Proceeds from increased customer deposits	3,525		3,525
Net interfund borrowing activity	(111,021)	70,441	(40,580)
Net cash provided by non-capital financing activities	<u>17,504</u>	<u>70,441</u>	<u>87,945</u>
Cash flows from capital and related financing activities:			
Proceeds from investments for debt service	9,253		9,253
Proceeds from federal grants	134,377		134,377
Acquisition of capital assets	(541,601)		(541,601)
Debt service principal payments	(265,149)		(265,149)
Debt service interest and fiscal agent fee payments	(101,188)		(101,188)
Net cash used for capital and related financing activities	<u>(764,308)</u>	<u>0</u>	<u>(764,308)</u>
Cash flows from investing activities:			
Interest and dividends on investments	3,269		3,269
Net cash provided by investing activities	<u>3,269</u>	<u>0</u>	<u>3,269</u>
Net increase (decrease) in cash and cash equivalents	(338,241)	20,397	(317,844)
Cash and cash equivalents - beginning of year	480,647	(22,670)	457,977
Cash and cash equivalents - end of year	<u>\$ 142,406</u>	<u>\$ (2,273)</u>	<u>\$ 140,133</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 197,155	\$ (101,140)	\$ 96,015
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	227,460	51,750	279,210
Amortization	10,042		10,042
Change in assets and liabilities:			
Decrease (increase) in receivables	(33,577)		(33,577)
Increase (decrease) in accounts payable	(2,262)	(654)	(2,916)
Increase (decrease) in accrued wages payable	6,476	0	6,476
Net cash provided (used) by operating activities	<u>\$ 405,294</u>	<u>\$ (50,044)</u>	<u>\$ 355,250</u>

The accompanying notes are an integral part of this statement.

CITY OF CLYDE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED SEPTEMBER 30, 2009

I. Summary of significant accounting policies

The City of Clyde, Texas (the "City") is a general law city in which citizens elect the mayor at large and five council members. The financial statements of the City are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting entity

For financial reporting purposes, the City includes all funds and account groups for which the City is considered to be financially accountable. The criteria used by the City for including activities in preparing its financial statements are in conformity with GASB Statement 14, "The Financial Reporting Entity."

The accompanying financial statements present the City's primary government and component unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The Clyde Economic Development Corporation (the "CEDC") is a non-profit corporations specifically governed by sections 4A and 4B of the Development Corporation Act of 1979, Tex. Rev. Civ. Stat. Ann. Art 5190.6. The CEDC was organized exclusively for the purposes of benefitting and accomplishing public purposes of the City by promoting, assisting and enhancing economic development activities for the City as provided by the Development Corporation Act of 1979. The CEDC does not meet the criteria for blending and is, therefore, reported discretely using a government fund type.

B. Government-wide and fund financial statements

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City and its component unit(s) nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charged for use of the public swimming pool, fines, sanitation charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. Fund accounting

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

2. **Water, Sewer and Sanitation Enterprise Fund** - The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund.

3. **Abilene Water Line Enterprise Fund** - The City's activities of water distribution through the water line built from Abilene to provide water for the cities of Clyde and Baird.

The City reports the following non-major governmental funds:

4. **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The City reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, and water/sewer pipe fittings. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized 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.

4. The City's policy does permit employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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.

Buildings, furniture and equipment of the City and the component units is depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	50
Building Improvements	Various
Infrastructure	30
Vehicles	2-15
Equipment	3-10
Technology Equipment	3

6. 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 represent tentative management plans that are subject to change.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The City Secretary submits an annual budget to the City Council in accordance with the City Charter. In August, the City Council adopts annual fiscal year budgets for specified City funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

B. Excess of expenditures over appropriations by more than \$2,500:

Fire department (\$61,840)

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

City Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2009, the City had the following investments.

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1 Year	1-5	6-10	More Than 10
Certificates of Deposit	\$142,840	\$142,840			
Total	\$142,840	\$142,840			

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally

recognized statistical rating organizations (NRSROs). As of September 30, 2009, the City's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This included securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

B. Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund balances and transfers

Interfund balances are as follows:

Fund	Due From	Due To	Purpose	Current?
Water, Sewer & Sanitation Fund	\$177,912		Operating transfers	Yes
General Fund		\$177,912	Operating transfers	Yes
Total	\$177,912	\$177,912		

Transfers are as follows:

Fund	Transfer In	Transfer Out	Purpose
Water, Sewer & Sanitation Fund	\$125,000		Allocation of tax for bond payments
General Fund		\$125,000	Allocation of tax for bond payments
Total	\$125,000	\$125,000	

E. Disaggregation of receivables and payables

Receivables at September 30, 2009 were as follows:

	Property Taxes	Accounts	Other	Total Receivables
Governmental Activities:				
General Fund	\$18,011		\$29,620	\$47,631
Total Governmental Activities	\$18,011		\$29,620	\$47,631
Business-type Activities:				
Water, Sewer & Sanitation Fund		\$170,446		\$170,446
Total Business-type Activities		\$170,446		\$170,446

Payables at September 30, 2009 were as follows:

	Accounts	Salaries and Benefits	Interest	Total Payables
Governmental Activities:				
General Fund	\$40,163	\$26,532	\$1,441	\$68,136
Total Governmental Activities	\$40,163	\$26,532	\$1,441	\$68,136
Business-type Activities:				
Water, Sewer & Sanitation Fund	\$47,826	\$18,794	\$14,723	\$81,343
Total Business-type Activities	\$47,826	\$18,794	\$14,723	\$81,343

F. Capital asset activity

Capital asset activity for the City for the year ended September 30, 2009, was as follows:

	Balance 9/30/08	Additions	Deletions	Balance 9/30/09
Governmental activities:				
Land	\$ 320,528			\$ 320,528
Buildings and improvements	871,034			871,034
Machinery and equipment	1,059,505	\$ 210,559		1,270,064
Infrastructure	4,358,949	208,893		4,567,842
Totals	6,610,016	419,452		7,029,468
Less accum depreciation for:				
Buildings and improvements	284,508	23,460		307,968
Machinery and equipment	608,002	116,749		724,751
Infrastructure	2,061,377	144,429		2,205,806
Total accum depreciation	2,953,887	284,638		3,238,525
Governmental activities capital assets, net	\$3,656,129	\$ 134,814		\$3,790,943
Business-type activities:				
Land	\$163,154			\$163,154
Buildings and improvements	1,218,362			1,218,362
Machinery and equipment	503,049			503,049
Infrastructure	6,557,434	\$ 223,228		6,780,662
Totals	8,441,999	223,228		8,665,227
Less accum depreciation for:				
Buildings and improvements	489,872	24,367		514,239
Machinery and equipment	267,325	39,523		306,848
Infrastructure	3,389,141	215,320		3,604,461
Total accum depreciation	4,146,338	279,210		4,425,548
Business-type activities capital assets, net	\$ 4,295,661	\$ (55,982)		\$ 4,239,679

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

Governmental activities:

General government	\$ 9,947
Senior citizens	1,972
Library	3,104
Police	28,259
Municipal court	4,544
Fire	55,681
Parks and recreation	8,506
Code enforcement	4,175
Animal control	3,732
Streets	164,718
Total depreciation expense - governmental activities	<u>\$ 284,638</u>

Business-type activities:

Water	\$ 92,086
Sewer	133,475
Sanitation	1,899
Abilene Water Line	51,750
Total depreciation expense - business-type activities	<u>\$ 279,210</u>

G. Long-term obligations

Revenue bonds

The City issued Waterworks and Sewer System Junior Lien Revenue Bonds, Series 1972, at 4.0% interest, maturing on January 10 and July 10 of each year through 2012. The bond covenants require monthly deposits of principal and interest to the interest and sinking fund to insure that sufficient funds are available for the next principal and interest payments. As of September 30, 2009, bond principal in the amount of \$90,000 was outstanding and the City had deposits of \$28,548.

Additionally, the bond covenants require the City to maintain a reserve fund with a balance of \$25,000. The balance at September 30, 2009 was \$32,739.

In June, 2006, the City issued Combination Tax and Revenue Refunding Bonds, Series 2006, at interest rates ranging from 3.5% to 4.15%. The original principal amount of the 2006 bonds issued was \$1,980,000. The proceeds from the bond issue were used to pay off bonds and tax notes that were originally issued in 1997, 1999 and 2002 at interest rates ranging from 5.0% to 5.5%. Payments of principal and interest are due on February 1 and August 1 of each year through 2016. As of September 30, 2009, bond principal of \$1,355,000.

Certificates of obligation

In June, 2006, the City issued Certificates of Obligation, Series 2006 in the principal amount of \$115,000, with interest rates ranging from 4.3% to 5.25%. Payments of principal and interest are due on September 1 and March 1 of each year through 2021. As of September 30, 2009, principal of \$98,000 was outstanding.

In August, 2008, the City issued Certificates of Obligation, Series 2008A in the principal amount of \$265,000, with an interest rate of 4.75%. Payments of principal and interest are due on February 15 and August 15 of each year through 2018. As of September 30, 2009, principal of \$246,000 was outstanding.

In August, 2008, the City issued Certificates of Obligation, Series 2008B in the principal amount of \$145,000, with an interest rate of 7.0%. Payments of principal and interest are due on February 15 and August 15 of each year through 2018. As of September 30, 2009, principal of \$134,000 was outstanding.

Notes payable

The Water, Sewer and Sanitation Fund issued a five-year note in the amount of \$33,871, at 5.75% interest, payable in annual installments of \$7,768 beginning March 1, 2007. The note is secured by a 1998 Ford truck and a 1991 International dump truck. As of September 30, 2009, principal of \$14,285 was outstanding.

The City issued a nine-year note payable for a State Infrastructure Board loan of \$120,000 in 2002, at 4.1% interest, for right-of-way acquisition and utility relocation at F.M. 604 overpass. Annual payments total \$14,941 due April 1 of each year until 2011. As of September 30, 2009, principal of \$28,089 was outstanding.

The City acquired a ten-year note payable to finance the purchase of two fire brush trucks in March, 2009. Total amount financed was \$148,000 at 4.95% interest payable in monthly installments of \$1,570. At September 30, 2009, principal of \$122,857 was outstanding.

A summary of changes in general long-term debt for the year ended September 30, 2009 is as follows:

Description	Amounts Outstanding 10/1/08	Issued	Retired	Amounts Outstanding 9/30/09	Amounts Due Within One Year
Governmental activities:					
Notes payable	\$145,310	\$148,000	\$ 44,363	\$248,947	\$39,680
Accrued compensable absences	21,911	24,681	21,911	24,681	0
Total Governmental Activities	\$167,221	\$172,681	\$66,274	\$273,628	\$39,680
Business-type activities:					
Revenue and tax bonds	\$2,070,000		\$ 245,000	\$1,825,000	\$235,000
Capital leases	42,800		13,630	29,170	14,257
Notes payable	20,803		6,518	14,285	7,003
Accrued compensable absences	13,812	\$11,994	13,812	11,994	0
Customer deposits	150,870	34,040	30,516	154,394	0
Total Business-type Activities	\$2,298,285	\$46,034	\$309,476	\$2,034,843	\$256,260

H. Capital leases

The City entered into a capital lease agreement for a backhoe loader from Key Government Finance. The lease was executed in March, 2007, with a total capitalized purchase totaling \$71,429 at an annual interest rate of 4.6%. Annual payments are \$15,599 with final maturity in March, 2012.

A summary of changes in general long-term capital leases payable for the year ended September 30, 2009 is as follows:

Payee	Interest Rate Payable	Amounts Outstanding 10/01/08	Issued	Retired	Amounts Outstanding 09/30/09
Key Government Finance	4.6%	\$42,800		\$13,630	\$29,170
		\$42,800	\$0	\$13,630	\$29,170

I. Debt service requirements - bonds, notes and capital leases

The annual debt service requirements to maturity for long-term notes payable as of September 30, 2009 are as follows:

Governmental Activities			
Year Ending September 30,	Principal	Interest	Total
2010	\$ 32,734	\$ 11,722	\$ 44,456
2011	33,964	10,225	44,189
2012	21,325	8,655	29,980
2013	22,073	7,581	29,654
2014	22,847	6,475	29,322
2015-2019	95,004	15,267	110,271
2020-2021	21,000	1,126	22,126
	\$248,947	\$61,051	\$309,998
Business-type Activities			
Year Ending September 30,	Principal	Interest	Total
2010	\$ 241,947	\$ 78,652	\$ 320,599
2011	247,338	68,262	315,600
2012	255,000	57,625	312,625
2013	235,000	47,410	282,410
2014	245,000	37,395	282,395
2015-2018	615,000	48,130	663,130
	\$1,839,285	\$337,474	\$2,176,759

The Texas Water Development Board requires the disclosure of the revenue and tax supported bond debt service requirements as follows:

Revenue and Tax Bonds Debt Service			
Year Ending September 30,	Principal	Interest	Total
2010	\$ 235,000	\$ 77,831	\$ 312,831
2011	240,000	67,899	307,899
2012	255,000	57,625	312,625
2013	235,000	47,410	282,410
2014	245,000	37,395	282,395
2015-2018	615,000	48,130	663,130
	\$1,825,000	\$336,290	\$2,161,290

The annual future minimum lease requirements long-term capital leases as of September 30, 2009 are as follows:

Water, Sewer and Sanitation Fund			
Year Ending September 30,	Total Lease Payments	Less: Incremental Value of Interest	Present Value of Minimum Lease Payments
2010	\$15,599	\$1,342	\$14,257
2011	15,599	686	14,913
	<u>\$31,198</u>	<u>\$2,028</u>	<u>\$29,170</u>

J. Accumulated unpaid vacation and sick leave benefits

The City has the following accrued leave policy for vacation benefits (none for unused sick leave benefits):

Employees with less than fifteen (15) years of continuous service with the City are allowed to accrue a maximum amount of 160 hours (20 days) of vacation benefits with any days in excess of the maximum carryover amount to be used no later than the anniversary month of employment. Any excess days not used during the anniversary month are forfeited unless previously approved by the City Administrator.

Employees with at least fifteen (15) years of continuous service with the City are allowed to accrue a maximum amount of 200 hours (25 days) of vacation benefits with any days in excess of the maximum carryover amount to be used no later than the anniversary month of employment. Any excess days not used during the anniversary month are forfeited unless previously approved by the City Administrator.

K. Texas Municipal Retirement System

Plan Description -

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

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

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% repeating, transfers	100% repeating, transfers
Annuity Increases (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions -

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

The City contributes to the TMRS Plan at an actuarially determined 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 serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	\$ 141,032
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	0
4. Annual Pension Cost (APC)	141,032
5. Contributions Made	(141,032)
6. Increase (decrease) in net pension obligation	0
7. Net Pension Obligation / (Asset), beginning of year	0
8. Net Pension Obligation / (Asset), end of year	\$ 0

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/2006	12/31/2007	12/31/2008
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.5%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	N/A	2.1%	2.1%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
12/31/08	\$934,716	\$1,518,272	61.6%	\$583,556	\$814,039	71.7%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

L. OPEB - Supplemental death benefits plan

The City participates in a cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	Plan Year 2008	Plan Year 2009
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Schedule of Contribution Rates:			
Plan/Calendar year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2007	0.03%	0.03%	100.0%
2008	0.03%	0.03%	100.0%
2009	0.04%	0.04%	100.0%

M. Deferred revenues

Deferred revenue at year-end consisted of the following:

	Grant Proceeds	Net Tax Revenue	Total
General Fund	\$100,000	\$18,011	\$118,011
Total Deferred Revenue	\$100,000	\$18,011	\$118,011

N. Risk financing

The City is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for the above-described insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

O. Health care coverage

During the year ended September 30, 2009, employees of the City were covered by a health insurance plan (the "Plan"). The City paid premiums of \$238 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2009, and terms of coverage and premium costs are included in the contractual provision.

Latest financial statements for the Hendrick First Care are available for the year ended December 31, 2008, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

CITY OF CLYDE, TEXAS COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2010 IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,145,000

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

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

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

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, the interest on the Certificates (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code") and is not includable in the adjusted current earnings of corporations under section 56(g) of the Code for purposes of calculating the alternative minimum tax imposed on such corporations. In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to

be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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

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

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

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

Respectfully,

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES