

OFFICIAL STATEMENT

Dated August 16, 2005

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Series 2005 Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2005 Bonds are not private activity bonds. See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE SERIES 2005 BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$13,370,000
CITY OF KELLER, TEXAS
(Tarrant County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2005

Dated Date: August 15, 2005

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$13,370,000 City of Keller, Texas General Obligation Refunding Bonds, Series 2005 (the "Series 2005 Bonds") will accrue from August 15, 2005 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2006, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Series 2005 Bonds 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 Series 2005 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Series 2005 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2005 Bonds. See "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A. (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Series 2005 Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, and the Series 2005 Bond Ordinance passed by the City Council of the City, and are direct obligations of the City of Keller, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Series 2005 Bonds (the "Series 2005 Bond Ordinance" and together with the Series 2005A Ordinance, the "Ordinances") (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Series 2005 Bonds will be used to (i) refund a portion of the City's outstanding general obligation debt in order to lower the overall debt service requirements of the City, and (ii) to pay the costs of issuance related to the sale of the Series 2005 Bonds. See "SCHEDULE I - Schedule of Refunded Obligations".



Payment of the principal of and interest on the Series 2005 Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 2005 Bonds.

MATURITY SCHEDULE

CUSIP Prefix (1): 487684

Table with 11 columns: Amount, Maturity, Rate, Yield, CUSIP Suffix (1), Amount, Maturity, Rate, Yield, CUSIP Suffix (1). Rows show bond amounts from \$95,000 to \$1,015,000 with corresponding maturity dates from 2006 to 2013 and yields from 2.770% to 4.200%.

(Accrued Interest from August 15, 2005 to be added)

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

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Series 2005 Bonds having stated maturities on and after February 15, 2016, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Series 2005 Bonds and Series 2005A Bonds - Series 2005 Bonds Optional Redemption").

SEPARATE ISSUES . . . The Series 2005 Bonds are being offered by the City concurrently with the "City of Keller, Texas, Combination Tax and Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A" (the "Series 2005A Bonds"), under a common Official Statement, and such Series 2005 Bonds and Series 2005A Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Series 2005 Bonds and Series 2005A Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

LEGALITY . . . The Series 2005 Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fisher & Newsom, P.C., Bond Counsel, Austin, Texas (see Appendix C, "Form of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Series 2005 Bonds will be available for delivery through The Depository Trust Company on September 21, 2005.

MORGAN KEEGAN & COMPANY

SOUTHWEST SECURITIES

A.G. EDWARDS & SONS

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OFFICIAL STATEMENT

Dated August 16, 2005

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Series 2005A Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2005A Bonds are not private activity bonds. See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

THE SERIES 2005A BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$17,400,000
CITY OF KELLER, TEXAS
(Tarrant County)

COMBINATION TAX AND TAX INCREMENT REINVESTMENT ZONE REVENUE REFUNDING BONDS, SERIES 2005A

Dated Date: August 15, 2005

Due: August 15, as shown below

PAYMENT TERMS . . . Interest on the \$17,400,000 City of Keller, Texas Combination Tax and Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds") will accrue from August 15, 2005 (the "Dated Date"), will be payable August 15 and February 15 of each year, commencing February 15, 2006, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. . . .

AUTHORITY FOR ISSUANCE . . . The Series 2005A Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, and the Series 2005A Bond Ordinance passed by the City Council of the City and constitute direct obligations of the City of Keller, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax levied on all taxable property within the City, levied within the limits prescribed by law, and (ii) a subordinate lien on and pledge of the Tax Increments deposited into the Tax Increment Fund established for the City's Reinvestment Zone Number One (the "Zone"), as provided in the ordinance authorizing the Series 2005A Bonds (the "Series 2005A Bond Ordinance" and together with the Series 2005 Ordinance the "Ordinances") (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Series 2005A Bonds will be used to (i) refund a portion of the City's outstanding general obligation payable from a combination of a pledge of ad valorem taxes and a subordinate lien and pledge of the Tax Increments of the City's Reinvestment Zone Number One in order to lower the overall debt service requirements of the City, (see "Schedule II - Schedule of Refunded Obligations"), and (ii) to pay the costs of issuance related to the sale of the Series 2005A Bonds.



Payment of the principal of and interest on the Series 2005A Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 2005A Bonds.

MATURITY SCHEDULE

CUSIP Prefix (1): 487684

Table with 10 columns: Amount, Maturity, Rate, Yield, CUSIP Suffix (1), Amount, Maturity, Rate, Yield, CUSIP Suffix (1). Rows show bond amounts and maturities from 2009 to 2018.

(Accrued Interest from August 15, 2005 to be added)

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

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Series 2005A Bonds having stated maturities on and after August 15, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Series 2005 Bonds and Series 2005A Bonds - Series 2005A Bonds Optional Redemption").

SEPARATE ISSUES . . . The Series 2005A Bonds are being offered by the City concurrently with the "City of Keller, Texas, General Obligation Refunding Bonds, Series 2005" (the "Series 2005 Bonds"), under a common Official Statement, and such Series 2005A Bonds and Series 2005 Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Series 2005A Bonds and Series 2005 Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

LEGALITY . . . The Series 2005A Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fisher & Newsom, P.C., Bond Counsel, Austin, Texas (see Appendix C, "Form of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Series 2005A Bonds will be available for delivery through The Depository Trust Company on September 21, 2005.

MORGAN KEEGAN & COMPANY

SOUTHWEST SECURITIES

A.G. EDWARDS & SONS

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

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

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

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

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

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

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES 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.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

The Obligations are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Obligations 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.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of this 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 Series 2005 Bonds and Series 2005A Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY**..... The City of Keller, Texas is a political subdivision and municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 19 square miles (see "INTRODUCTION - Description of the City").
- AUTHORITY FOR ISSUANCE**..... The Series 2005 Bonds and Series 2005A Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and, respectively, the Series 2005 Bond Ordinance and Series 2005A Bond Ordinance passed by the City Council of the City (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Authority for Issuance").
- RATINGS**..... The Series 2005 Bonds and the Series 2005A Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") based upon the commitment of MBIA Insurance Corporation to deliver municipal bond insurance policies for the Series 2005 Bonds and Series 2005A Bonds concurrently with the delivery of such Bonds. The presently outstanding tax supported debt of the City is rated "A2" by Moody's and "A+" by S&P. The City also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies (see "OTHER INFORMATION - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Series 2005 Bonds and Series 2005A Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2005 Bonds and Series 2005A Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Series 2005 Bonds and Series 2005A Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Series 2005 Bonds and Series 2005A Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2005 Bonds and Series 2005A Bonds (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Book-Entry-Only System").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Series 2005 Bonds and Series 2005A Bonds will be excludable from gross income for federal income tax purposes under existing law and the Series 2005 Bonds and Series 2005A Bonds are not private activity bonds. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.
- PAYMENT RECORD**..... The City has never defaulted in payment of its general obligation tax debt.

THE SERIES 2005 BONDS

- THE SERIES 2005 BONDS**..... The \$13,370,000 General Obligation Refunding Bonds, Series 2005 (the "Series 2005 Bonds") are to mature on February 15 in the years 2006 through 2020 (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Description of the Series 2005 Bonds and the Series 2005A Bonds").
- PAYMENT OF INTEREST**..... Interest on the Series 2005 Bonds accrues from August 15, 2005, and is payable February 15, 2006, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Description of the Series 2005 Bonds and Series 2005A Bonds").

SECURITY FOR THE SERIES 2005 BONDS. The Series 2005 Bonds constitute direct obligations of the City, payable from a direct and continuing ad valorem tax levied, within the limit prescribed by law, on all taxable property located within the City (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Security and Source of Payment").

SERIES 2005 BONDS REDEMPTION. The City reserves the right, at its option, to redeem Series 2005 Bonds having stated maturities on and after February 15, 2016, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Series 2005 Bonds Optional Redemption").

USE OF SERIES 2005 BONDS PROCEEDS. Proceeds from the sale of the Series 2005 Bonds will be used to (i) refund a portion of the City's outstanding general obligation debt payable from a pledge of ad valorem taxes in order to lower the overall debt service requirements of the City, and (ii) to pay the costs of issuance related to the sale of the Series 2005 Bonds. See "SCHEDULE I - Schedule of Refunded Obligations".

THE SERIES 2005A BONDS

THE SERIES 2005A BONDS The \$17,400,000 Combination Tax and Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds") are to mature on August 15 in the years 2009 through 2018 (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Description of the Series 2005 Bonds and the Series 2005A Bonds").

PAYMENT OF INTEREST Interest on the Series 2005A Bonds accrues from August 15, 2005, and is payable February 15, 2006, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Description of the Series 2005 Bonds and Series 2005A Bonds").

SECURITY FOR THE SERIES 2005A BONDS. The Series 2005A Bonds constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a subordinate lien on and pledge of the Tax Increments of the City's Reinvestment Zone Number One (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Security and Source of Payment").

SERIES 2005A BONDS REDEMPTION. The City reserves the right, at its option, to redeem the Series 2005A Bonds having stated maturities on and after August 15, 2015 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at a price equal to the principal amount of the Series 2005A Bonds called for redemption plus accrued interest to the fixed date for redemption (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Series 2005A Bonds Optional Redemption").

USE OF SERIES 2005A BOND PROCEEDS. Proceeds from the sale of the Series 2005A Bonds will be used to (i) refund a portion of the City's outstanding general obligation debt payable from a combination of a pledge of ad valorem taxes and a subordinate lien and pledge of the Tax Increments of the City's Reinvestment Zone Number One in order to lower the overall debt service requirements of the City, and (ii) to pay the costs of issuance related to the sale of the Series 2005A Bonds. See "SCHEDULE II - Schedule of Refunded Obligations".

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Net Tax Debt Outstanding at End of Year	Per Capita Funded Tax Debt	Ratio Funded	
						Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2001	28,066	\$ 1,622,068,109	\$ 57,795	\$ 34,439,909	\$ 1,227	2.12%	99.77%
2002	29,913	1,943,992,842	64,988	41,016,532	1,371	2.11%	100.12%
2003	30,925	2,292,171,343	74,120	40,342,584	1,305	1.76%	99.92%
2004	31,814	2,500,916,238	78,611	44,331,888	1,393	1.77%	100.41%
2005	34,224	2,670,171,962	78,020	41,971,141 ⁽¹⁾	1,226	1.57%	98.66% ⁽²⁾

(1) Projected, includes the Series 2005 Bonds and Series 2005A Bonds. Excludes the Refunded Obligations.

(2) Collections for part year only, through July 1, 2005.

For additional information regarding the City, please contact:

Lyle H. Dresher
City Manager
City of Keller
P.O. Box 770
Keller, Texas 76244
(817) 743-4010

David K. Medanich
Laura Alexander
or First Southwest Company
777 Main Street, Suite 1200
Fort Worth, Texas 76102
(817) 332-9710

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Julie A. Tandy Mayor	5 Years	May, 2007	Flight Attendant - American Airlines
Steve Trine Councilmember	4 Years	May, 2007	Engineering Program Manager
Jim Badalamenti Councilmember	1 Year	May, 2006	Local Business Owner
Russell Lake Councilmember	2 Years	May, 2006	President - Lake Sound
Sheryl Roberts Councilmember	Newly Appointed	May, 2006	CEO & Principal, CCS Holdings, L.P.
Mitch Holmes Councilmember	2 Years	May, 2007	Civil Engineer

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Lyle H. Dresher	City Manager	9 1/2 Years ⁽¹⁾
Johnny Phifer	Director of Finance	9 1/2 Years ⁽²⁾
Sheila Stephens	City Secretary	32 1/2 Years
Ed Ilschner	Director of Public Works	4 1/2 Years ⁽³⁾

- (1) Previously served as City Manager for other cities for 28 years.
 (2) Previously served as Director of Finance for other cities for 12 years.
 (3) Previously served 19 years in similar position for other government entities.

CONSULTANTS AND ADVISORS

Certified Public Accountants Rutledge Crain & Company, PC
 Arlington, Texas

Bond Counsel Fisher & Newsom, P.C.
 Austin, Texas

Financial Advisor First Southwest Company
 Fort Worth, Texas

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OFFICIAL STATEMENT

RELATING TO

\$13,370,000
CITY OF KELLER, TEXAS
GENERAL OBLIGATION
REFUNDING BONDS, SERIES 2005

\$17,400,000
CITY OF KELLER, TEXAS
COMBINATION TAX AND TAX INCREMENT
REINVESTMENT ZONE REVENUE
REFUNDING BONDS, SERIES 2005A

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$13,370,000 City of Keller, Texas, General Obligation Refunding Bonds, Series 2005 (the "Series 2005 Bonds") and \$17,400,000 City of Keller, Texas, Combination Tax and Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds" and together with the Series 2005 Bonds, the "Obligations"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Series 2005 Bond Ordinance and Series 2005A Bond Ordinance (collectively, the "Ordinances") to be adopted on the date of sale of the Series 2005 Bonds and Series 2005A Bonds which will authorize the issuance of the Series 2005 Bonds and Series 2005A Bonds, respectively, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Series 2005 Bonds and Series 2005A Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Fort Worth, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical service), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2000 Census population for the City was 27,345, while the estimated 2005 population is 33,112. The City covers approximately 18.17 square miles.

PLAN OF FINANCING

PURPOSE Proceeds from the sale of the Obligations will be used to (i) refund a portion of the City's outstanding general obligation debt (the "Refunded Obligations") in order to lower the overall debt service requirements of the City (see "SCHEDULE I and SCHEDULE II - Schedule of Refunded Obligations") and (ii) to pay the costs of issuance related to the sale of the Obligations.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective maturity dates or redemption dates of such Refunded Obligations, from funds to be deposited pursuant to separate escrow agreements with respect to the Series 2005 Bonds and the Series 2005A Bonds (the "Escrow Agreements") between the City and The Bank of New York Trust Company, N.A. (the "Escrow Agent"). The Ordinances provide that from the proceeds of the sale of the Series 2005 Bonds and the Series 2005A Bonds received from the Underwriters, together with other funds of the City, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective maturity dates or redemption dates. Such funds will be held by the Escrow Agent in special escrow accounts (the "Escrow Funds") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreements, the Escrow Funds are irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

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

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

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

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Series 2005 Bonds and Series 2005A Bonds will be applied as follows:

Sources:	Series 2005 Bonds	Series 2005A Bonds
Par Amount	\$ 13,370,000.00	\$ 17,400,000.00
Net Original Issue Premium	3,206.80	707,108.30
Accrued Interest	52,847.38	76,950.00
	\$ 13,426,054.18	\$ 18,184,058.30
 Uses:		
Deposit to Escrow Fund	\$ 13,123,858.93	\$ 17,800,956.02
Deposit to Interest and Sinking Fund	52,847.38	76,950.00
Costs of Issuance ⁽¹⁾	249,347.87	306,152.28
Total Uses of Funds	\$ 13,426,054.18	\$ 18,184,058.30

(1) Including Underwriters' Discount and Insurance Premium.

THE SERIES 2005 BONDS AND SERIES 2005A BONDS

DESCRIPTION OF THE SERIES 2005 BONDS AND SERIES 2005A BONDS . . . The Series 2005 Bonds are dated August 15, 2005, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest on the Series 2005 Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2006 until maturity or prior redemption. The Series 2005A Bonds are dated August 15, 2005, and mature on August 15 in each of the years and in the amounts shown on page 3 hereof. Interest on the Series 2005A Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2006 until maturity or prior redemption. The definitive Series 2005 Bonds and Series 2005A Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Series 2005 Bonds and Series 2005A Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Series 2005 Bonds and Series 2005A Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2005 Bonds and Series 2005A Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Obligations are being issued pursuant to the Constitution and general laws of the State of Texas, particularly, Texas Government Code, Chapter 1207, and the Ordinances passed by the City Council.

SECURITY AND SOURCE OF PAYMENT . . .

The Series 2005 Bonds . . . The principal of and interest on the Series 2005 Bonds is payable from a continuing direct annual ad valorem tax levied by the City, levied within the limits prescribed by law, upon all taxable property in the City.

The Series 2005A Bonds . . . The principal of and interest on the Series 2005A Bonds is payable from a continuing direct annual ad valorem tax levied by the City, levied within the limits prescribed by law, upon all taxable property in the City. Additionally, the Series 2005A Bonds are payable from and secured by a pledge of the Tax Increments on deposit in the Tax Increment Fund, such pledge being subordinate to: (i) any future bonds or obligations issued by the City that by the express terms thereof have a prior lien on and pledge of the Tax Increment Fund; and (ii) any bonds or other obligations heretofore or hereafter issued by the Taxing Units and secured by a levy of ad valorem taxes upon all taxable property in the Taxing Units for which the levy and collection of ad valorem taxes has been insufficient for the payment thereof. See "TAX INCREMENT REINVESTMENT ZONE".

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

SERIES 2005 BONDS OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Series 2005 Bonds having stated maturities on and after February 15, 2016, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at a price equal to the principal amount of the Series 2005 Bonds called for redemption plus accrued interest to the fixed date for redemption. If less than all of the Series 2005 Bonds are to be redeemed, the City shall determine the maturity or maturities and amounts thereof to be redeemed. If less than all the Series 2005 Bonds of any maturity are to be redeemed, the City shall direct the Paying Agent/Registrar (or DTC while the Series 2005 Bonds are in Book-Entry-Only form) to call by lot the Series 2005 Bonds, or portions thereof, within such maturity or maturities and in such principal amounts for redemption. If a Series 2005 Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2005 Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

SERIES 2005A BONDS OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Series 2005A Bonds having stated maturities on and after August 15, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2015, or any date thereafter, at a price equal to the principal amount of the Series 2005A Bonds called for redemption plus accrued interest to the fixed date for redemption. If less than all of the Series 2005A Bonds are to be redeemed, the City shall determine the maturity or maturities and amounts thereof to be redeemed. If less than all the Series 2005A Bonds of any maturity are to be redeemed, the City shall direct the Paying Agent/Registrar (or DTC while the Series 2005A Bonds are in Book-Entry-Only form) to call by lot the Series 2005A Bonds, or portions thereof, within such maturity or maturities and in such principal amounts for redemption. If a Series 2005A Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2005A Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Obligations, 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 Obligations 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, THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

AMENDMENTS TO THE ORDINANCES . . . In the Ordinances, the City has reserved the right, without the consent of or notice to any Owner, from time to time and at any time, to amend the Ordinances in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City, with the written consent of Owners holding a majority in aggregate principal amount and Maturity Value of the Series 2005 Bonds or Series 2005A Bonds, respectively, then outstanding affected thereby, may amend, add to, or rescind any of the provisions of the respective Series 2005 Ordinance or Series 2005A Ordinance; provided that, without the consent of all Owners of then outstanding Series 2005 Bonds or Series 2005A Bonds, respectively, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Series 2005 Bonds or Series 2005A Bonds, reduce the principal amount or Maturity Value thereof, redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Series 2005 Bonds or Series 2005A Bonds, (ii) give any preference to any the Series 2005 Bond or Series 2005A Bond over any other Bond of such series, or (iii) reduce the aggregate principal amount or Maturity Value of Obligations required for consent to any such amendment, addition or rescission.

DEFESANCE . . . The Ordinances provides that the City may discharge its obligations to the registered owners of any or all of the Obligations to pay principal, interest and redemption price thereon in any manner permitted by current law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Obligations to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the City payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Obligations; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than

AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Obligations. If any of such Obligations are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinances.

Upon such deposit as described above, such Obligations 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 Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations 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 Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations 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 authorizes.

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

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

DTC will act as securities depository for the Obligations. The Obligations 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 Obligation will be issued for each maturity of the Obligations, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("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 Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations 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 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. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 Obligations at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Obligations 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, Obligations will be printed and delivered.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT. In reading this Official Statement it should be understood that while the Obligations 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 Obligations, 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 Ordinances 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 Underwriters.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Obligations will be issued to the respective holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A. In the Ordinances, 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 Obligations 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 Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

PAYMENT . . . Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Obligations will be delivered to the registered owners and thereafter the Obligations 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. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate designated amount as the Obligations surrendered for exchange or transfer. See "THE SERIES 2005 BONDS AND SERIES 2005A BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation 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 Obligation.

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

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 Obligation 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.

OBLIGATIONHOLDERS' REMEDIES . . . The Ordinances establish as an "Event of Default" (i) the failure to make payment of principal of or interest on the Obligations when due, and (ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, the failure of which materially, adversely affects the rights of the Owner, including but limited to, their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City. Under State law there is no right to the acceleration of maturity of the Obligations. Although a registered owner of Obligations could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Obligations, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinances do not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition its creditors under Chapter 9 of the U.S. Bankruptcy Code. The enforcement of a claim for payment of principal of or interest on the Obligations or the enforcement of other covenants of the City contained in the Ordinances would be subject to the applicable provisions of federal bankruptcy laws and to other laws affecting the rights of creditors of political subdivisions generally. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are subject to bankruptcy and other laws affecting creditors' rights or remedies generally.

TAX INCREMENT REINVESTMENT ZONE

Article VIII, Section 1-g of the Texas Constitution and the Tax Increment Financing Act, Chapter 311, V.T.C.A. Tax Code (the "TIF Act") authorize municipalities in the State to establish one or more tax increment financing reinvestment zones for development or redevelopment of the territory within the zones.

The TIF Act provides that the municipality may appoint a board of directors for a reinvestment zone to develop a project plan and financing plan for the zone and may delegate to the board certain management duties relating to the zone. Project costs, including financing costs, within the zone may be paid from tax increments collected by each of the taxing units in the zone. The amount of a taxing unit's tax increment ("Tax Increment") for a year is the amount of property taxes levied by the unit for that year on the captured appraised value of real property taxable by the unit (the "Captured Appraised Value") and located in the zone. The Captured Appraised Value is the total appraised value of the property for a year, less the tax increment base of the unit. The tax increment base of a taxing unit is the total appraised value of all real property taxable by the unit and located in the zone in the year in which the City created the zone. Participation by a taxing unit in a reinvestment is discretionary with such taxing unit, and it may decide to deposit all or none, or a portion, of its tax increments into the fund and retain for its own purposes the remainder. A taxing unit cannot reduce the amount of its participation once the financing plan has been implemented.

On December 1, 1998, the Keller City Council adopted an ordinance (the "Zone Ordinance") creating Tax Increment Financing Reinvestment Zone Number One, City of Keller, Texas (the "Zone") by designating a contiguous geographic area in the jurisdiction of the City as a reinvestment zone to promote development or redevelopment in the Zone. The Zone Ordinance described the boundaries of the Zone, created a board of directors for the Zone, established a tax increment fund (the "Tax Increment Fund") for the Zone and found that public works and improvements to be undertaken in the Zone would significantly enhance the value of all taxable real property in the Zone and would be of general benefit to the City.

The Zone Ordinance further provides that the Zone shall take effect on January 1, 1999, and shall expire on December 31, 2018, or such earlier date that Keller determines that the Zone should be terminated due to insufficient private investment, accelerated private investment or other good cause, or such time as all project costs and obligations secured by Tax Increments and the interest thereon, have been paid in full.

The Board of Directors of the Zone (the "Board") is comprised of nine members, who serve two year terms. The City appoints five members and the chairman of the Board. Each of the other Taxing Units may appoint one member of the Board, or may waive its right to make such appointment. The Board serves to present non-binding recommendations to the City Council for its review. The recommendations pertain to development and redevelopment in the Zone pursuant to a project plan and reinvestment zone financing plan (the "Plans") prepared for the Zone. The project plan shows existing uses and conditions of real property in the Zone and provides a map of proposed improvements to and uses of such property. The reinvestment zone financing plan describes the estimated project costs of the Zone and lists the type, number, and location of all proposed public improvements within the Zone. The Board prepared the Plans and submitted them to the City Council for its review. The City Council approved the Plans.

The Zone has been established in an effort to stimulate full development of the Keller Town Center. The Town Center is the "central business district" for the community and is to be created by development of a City Hall, a plaza, public parking, a public park and amphitheater, and street and utility improvements. This development is expected to stimulate private development of retail shops, restaurants, professional offices, higher density residential and an assisted living facility. The Zone project and financing plans include construction of a new Town Hall, a natatorium (swimming pool) to be used jointly with Keller Independent School District, and other public facilities. The Zone encompasses approximately 340 acres located generally in the center of the City. The City, Tarrant County, Tarrant County College, Tarrant County Hospital District and Keller Independent School District (the "Taxing Units") participate in the Zone. Each Taxing Unit determines the level of its participation with respect to the amount of its tax increment that it will contribute to the tax increment fund for paying the costs of projects, or to pay debt service of obligations issued to finance the projects, under the project and financing plans. The amount of a Taxing Unit's tax increment for a year is the amount of property taxes levied by the Taxing Unit for that year on the captured appraised value of real property taxable by the Taxing Unit and located in the Zone. The captured appraised value is the total taxable appraised value of the property for a year, less the tax increment base value of the Taxing Unit. The tax increment base value for a Taxing Unit is the total appraised value of all real property taxable by the Taxing Unit and located in the Zone as of January 1 of the year in which the City created the Zone. The City has agreed to contribute 100% of its tax increments to the tax increment fund; therefore, taxes collected by the City on the captured appraised value will be paid by the City to the tax increment fund and will not be available for payment of operating expenses or debt payments, except to the extent the tax increment is needed to prevent a default in the payment of the City's tax-supported debt. The City's tax increment base value for the Zone was \$10,996,633, and the captured appraised value of property in the Zone for tax year 2004 is \$67,393,182.

The City has issued an aggregate of \$32,655,000 principal amount of certificates of obligation (Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 1999, Series 2000 and Series 2001, collectively the "Zone COs") to fund improvements in the Zone. The Zone COs are payable from and secured by (a) an annual ad valorem tax levied by the City and (b) a pledge of the tax increments on deposit in the tax increment fund, such pledge being subordinate to: (i) any future bonds or obligations issued by the City that by the express terms thereof have a prior lien on and pledge of the tax increment fund; and (ii) any bonds or other obligations issued by the Taxing Units and secured by a levy of ad valorem taxes upon all taxable property in the Taxing Units for which the levy and collection of ad valorem taxes has been insufficient for the payment thereof. To the extent funds on deposit in the tax increment fund are not sufficient to pay debt service on the Zone COs, the City will be required to levy an ad valorem tax to pay debt service on the Zone COs. The City anticipates that sufficient funds will be available in the tax increment fund to pay debt service on the Zone COs for the fiscal year ending September 30, 2005. The sufficiency of the tax increment fund to pay debt service on the Zone COs in subsequent years will depend on, among other factors, development in the Zone and corresponding increases in the captured appraised value in the Zone. The City cannot predict whether such development will occur in a timely manner to provide sufficient tax increments to pay debt service on the Zone COs or whether a tax levy may be necessary at some time in the future to pay debt service on the Zone COs. A portion of the Zone COs will be refunded by the Series 2005A Bonds. See Schedule II herein. See Tables 1, 8 and 10 for information regarding the Zone COs.

MBIA has committed to deliver its separate insurance policies with respect to the Obligations (collectively, the "Policy"). The following information has been furnished for use in this Official Statement by MBIA. Such information has not been independently verified by the City or the Underwriters and is not guaranteed as to completeness or accuracy by the City or the Underwriters and is not to be construed as a representation of the City or the Underwriters. Reference is made to Appendix D for a specimen of the policy.

INSURANCE

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

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

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

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

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

MBIA INSURANCE CORPORATION

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

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

REGULATION

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

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

FINANCIAL STRENGTH RATINGS OF MBIA

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

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

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

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

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

MBIA FINANCIAL INFORMATION

As of December 31, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2005 MBIA had admitted assets of \$10.7 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2005 and for the six month periods ended June 30, 2005 and June 30, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Tarrant Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code (the "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 Article VIII, Section 1-b, 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; and (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, Article VIII, Section 1-b, 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 Article VIII, Section 2, 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.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

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

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

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

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The difference between any increase in the assessed valuation of taxable real property in the TIF in excess of the base value of taxable real property in the TIF is known as the "Incremental Value," and during the existence of the TIFs, taxes levied by the City against

the Incremental Value in the TIFs are restricted to paying project and financing costs within the TIFs and are not available for the payment of other obligations of the City, including the Series 2005 Bonds. The Tax Increments of the Tax Increment Financing Reinvestment Zone Number One, City of Keller, Texas, are pledged to the payment of the Series 2005A Bonds. For a discussion of the Tax Increment Financing Zones and the City's participation in the Tax Increment Financing Reinvestment Zone Number One, see "Tax Increment Reinvestment Zone" herein.

The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council must 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." A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are 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 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 a 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 of \$40,000.

The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

On August 3, 2004, the City Council adopted a resolution to implement the tax freeze for the residence homestead of the disabled and persons sixty-five years of age or older. The freeze was effective with the January 1, 2004 tax roll and the tax levied for the 2005/06 fiscal year. City administration does not believe that the implementation of this tax freeze will have a material adverse financial impact on the City. See Table 1 for a listing of the amounts of the exemptions described above.

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

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

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

The City has taken action to tax freeport property.

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

The City has created a tax increment financing zone.

The City has adopted a tax abatement policy but has not entered into any tax abatement agreements. Under the policy, a project may qualify for an abatement if it is expected to result in an increase in the appraised value of the property and is expected to prevent the loss of or retain employment or create new employment. Abatements may be granted up to 50% of the additional value generated by the project for a maximum of ten years, with the amount of abatement depending on expected capital investment by the applicant and the number of jobs to be created and applied on a declining scale after the first year.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2004/05 Market Valuation Established by Tarrant Appraisal District		\$ 2,803,153,190
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 46,141,724	
Over 65 Years of Age/Disabled	38,946,339	
Disabled Veterans Exemptions	1,511,000	
Open-Space Land Use Reductions	46,373,678	
Lost to Prorated Absolute Exemptions	<u>8,487</u>	<u>132,981,228</u>
2004/05 Taxable Assessed Valuation ⁽¹⁾		\$ 2,670,171,962
Certified 2005/06 Taxable Assessed Valuation		\$ 2,818,680,240
City Funded Debt Payable from Ad Valorem Taxes (as of 7-1-05)		
General Obligation Bonds	\$ 7,640,000 ⁽²⁾	
Tax and System Certificate of Obligation Debt	80,515,000 ⁽²⁾	
The Series 2005A Bonds	17,400,000	
The Series 2005 Bonds	<u>13,370,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 118,925,000
Less Self-Supporting Debt: ⁽³⁾		
Tax Increment Reinvestment Zone General Obligation Debt		\$ 33,010,000 ⁽⁴⁾
Crime Control Prevention District General Obligation Debt		2,945,000
Development Corporation General Obligation Debt		18,500,000
Water and Sewer System General Obligation Debt		<u>22,478,863 ⁽⁵⁾</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 41,991,137
Interest and Sinking Fund as of 7-1-05		\$ 1,557,426
Ratio Total Funded Debt to Taxable Assessed Valuation		4.45%
Ratio Net Funded Debt to Taxable Assessed Valuation		1.57%

2005 Estimated Population - 34,224
 Per Capita Taxable Assessed Valuation - \$78,020
 Per Capita Total Funded Debt \$3,475
 Per Capita Net Funded Debt - \$1,227

- (1) Includes \$67,393,182 captured appraised value in the City's tax increment financing reinvestment zone (see "Tax Information- Tax Increment Financing Reinvestment Zone Number One" herein).
- (2) Excludes the Refunded Obligations.
- (3) 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.
- (4) Includes the Series 2005A Bonds.
- (5) Includes a portion of the Series 2005 Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2005		2004		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$2,253,064,989	80.38%	\$2,089,530,024	79.35%	\$1,880,181,045	77.83%
Real, Residential, Multi-Family	23,953,440	0.85%	23,966,800	0.91%	25,688,340	1.06%
Real, Vacant Lots/Tracts	55,663,897	1.99%	57,023,890	2.17%	62,650,371	2.59%
Real, Acreage (Land Only)	21,516,617	0.77%	20,773,287	0.79%	19,743,797	0.82%
Real, Farm and Ranch Improvements	70,668,949	2.52%	78,066,569	2.96%	81,873,041	3.39%
Real, Commercial and Industrial	206,248,508	7.36%	188,200,270	7.15%	165,659,281	6.86%
Real and Tangible Personal, Utilities	33,913,499	1.21%	32,625,029	1.24%	33,459,833	1.39%
Tangible Personal, Commercial	71,064,969	2.54%	69,318,569	2.63%	53,568,633	2.22%
Tangible Personal, Industrial	3,026,564	0.11%	3,018,375	0.11%	4,414,019	0.18%
Tangible Personal, Other	-	0.00%	-	0.00%	40,000	0.00%
Tangible Personal, Mobile Homes	198,121	0.01%	236,760	0.01%	257,693	0.01%
Real Property, Inventory	63,833,637	2.28%	70,484,742	2.68%	88,088,052	3.65%
Total Appraised Value Before Exemptions	\$2,803,153,190	100.00%	\$2,633,244,315	100.00%	\$2,415,624,105	100.00%
Adjustments	-		(3,355,349)		2,545,547	
Less: Total Exemption/Reductions	(132,981,228)		(128,972,728)		(125,998,309)	
Taxable Assessed Value	<u>\$2,670,171,962</u>		<u>\$2,500,916,238</u>		<u>\$2,292,171,343</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2002		2001	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$1,588,851,421	76.80%	\$1,361,761,715	78.05%
Real, Residential, Multi-Family	13,863,490	0.67%	9,877,120	0.57%
Real, Vacant Lots/Tracts	63,531,022	3.07%	59,967,485	3.44%
Real, Acreage (Land Only)	18,645,457	0.90%	20,981,679	1.20%
Real, Farm and Ranch Improvements	90,904,037	4.39%	80,226,327	4.60%
Real, Commercial and Industrial	126,693,254	6.12%	89,453,420	5.13%
Real and Tangible Personal, Utilities	37,773,628	1.83%	26,666,503	1.53%
Tangible Personal, Commercial	54,422,062	2.63%	46,092,475	2.64%
Tangible Personal, Industrial	1,784,645	0.09%	2,666,374	0.15%
Tangible Personal, Other	230,582	0.01%	201,839	0.01%
Tangible Personal, Mobile Homes	309,549	0.01%	149,090	0.01%
Real Property, Inventory	71,906,277	3.48%	46,790,445	2.68%
Total Appraised Value Before Exemptions	\$2,068,915,424	100.00%	\$1,744,834,472	100.00%
Adjustments	(1,516,143)		(11,196,167)	
Less: Total Exemptions/Reductions	(123,406,439)		(111,570,196)	
Taxable Assessed Value	<u>\$1,943,992,842</u>		<u>\$1,622,068,109</u>	

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

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2001	28,066	\$ 1,622,068,109	\$ 57,795	\$ 34,439,909	2.12%	\$ 1,227
2002	29,913	1,943,992,842	64,988	41,016,532	2.11%	1,371
2003	30,925	2,292,171,343	74,120	40,342,584	1.76%	1,305
2004	31,814	2,500,916,238	78,611	44,331,888	1.77%	1,393
2005	34,224	2,670,171,962	78,020	41,971,141 ⁽¹⁾	1.57%	1,226

(1) Projected, includes the Series 2005 Bonds and Series 2005A Bonds. Excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2001	\$ 0.44300	\$ 0.29095	\$ 0.15205	\$ 7,172,665	98.67%	99.77%
2002	0.43800	0.28065	0.15735	8,514,689	98.80%	100.12%
2003	0.43800	0.28249	0.15551	10,039,710	98.88%	99.92%
2004	0.43800	0.29912	0.13888	10,954,013	99.23%	100.41%
2005	0.44413	0.29765	0.14648	11,838,583	97.55% ⁽¹⁾	98.66% ⁽¹⁾

(1) Collections for part year only, through July 1, 2005.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2004/05 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
PR Town Center LP	Multi-Family Development/Town Center	\$ 18,900,000	0.71%
Lowe's Home Centers Inc.	Retail Store	15,585,953	0.58%
Regency Centers LP	Retail Shopping Center/Town Center	12,150,000	0.46%
Home Depot USA Inc.	Retail Store	12,060,677	0.45%
PR Keller Partners LP	Multi-Family Development	11,550,000	0.43%
Oncor Electric Delivery Co.	Electric Utility	10,369,840	0.39%
Margaux Keller Dev Ltd.	Retail Shopping Center	9,703,510	0.36%
General Telephone Company of the Southwest	Telephone Utility	8,219,160	0.31%
Kohl's Department Store Inc.	Retail Store	7,901,200	0.30%
Wal-Mart Real Estate Business	Real Estate	7,873,809	0.29%
		<u>\$ 114,314,149</u>	<u>4.28%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE SERIES 2005 BONDS AND SERIES 2005A BONDS – Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY⁽¹⁾

2005 Net Debt Service Requirement ⁽²⁾	\$ 4,860,921
\$0.1839 Tax Rate at 99.00% Collection Produces	\$ 4,861,342
Net Maximum Debt Service Requirement, 2005 ⁽²⁾	\$ 4,860,921
\$0.1839 Tax Rate at 99.00% Collection Produces	\$ 4,861,342
2005 Total Debt Service Requirement ⁽³⁾	\$ 11,747,038
\$0.4444 Tax Rate at 99.00% Collection Produces	\$ 11,747,582
Gross Maximum Total Debt Service Requirement, 2007 ⁽³⁾	\$ 12,622,024
\$0.4775 Tax Rate at 99.00% Collection Produces	\$ 12,622,570

(1) Includes the Series 2005 Bonds and Series 2005A Bonds. Excludes the Refunded Obligations.

(2) Net of self-supporting debt service.

(3) Includes self-supporting debt service.

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 bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2004/05	2004/05	Total	Estimated	City's
	Taxable				Tax
	Assessed	Rate	As of 7-1-05	Applicable	Funded Debt
	Value				As of 7-1-05
City of Keller	\$ 2,670,171,962	\$ 0.444130	\$ 41,991,137 ⁽¹⁾	100.00%	\$ 41,991,137
Keller Independent School District	6,630,965,629	1.697500	494,528,496	41.43%	204,883,156
Tarrant County	88,843,439,332	0.272500	175,615,000	2.94%	5,163,081
Tarrant County College District	89,102,371,181	0.139380	66,755,000	2.94%	1,962,597
Tarrant County Hospital District	88,483,439,332	0.235397	1,190,000	2.94%	34,986
Total Direct and Overlapping Funded Debt					\$ 254,034,957
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					9.51%
Per Capita Overlapping Funded Debt					\$7,423

(1) Includes the Series 2005 Bonds and Series 2005A Bonds, less self-supporting debt and Refunded Obligations.

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service ⁽¹⁾		The Series 2005 Bonds ⁽²⁾		The Series 2005A Bonds ⁽³⁾		Total Outstanding Debt Service	Less: TIF Requirements ⁽⁴⁾	Less: Development Corporation Requirements	Less: Crime Control Prevention District Requirements	Less: Water and Sewer System Requirements ⁽⁵⁾	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest							
2005	\$ 6,170,000	\$ 5,577,038	\$ -	\$ -	\$ -	\$ -	\$ 11,747,038	\$ 2,040,819	\$ 1,054,606	\$ 1,407,850	\$ 2,382,842	\$ 4,860,921	
2006	7,085,000	3,625,537	95,000	527,049	-	769,500	12,102,086	2,166,287	1,243,306	1,516,600	2,388,185	4,787,708	
2007	7,875,000	3,358,444	95,000	524,080	-	769,500	12,622,024	2,752,703	1,500,256	1,517,425	2,440,763	4,410,877	
2008	6,850,000	3,068,057	185,000	519,530	-	769,500	11,392,088	3,091,480	1,495,094	-	2,439,058	4,366,455	
2009	7,025,000	2,771,549	300,000	511,274	205,000	769,500	11,582,323	3,614,047	1,495,250	-	2,171,794	4,301,231	37.24%
2010	6,585,000	2,478,781	885,000	490,536	215,000	762,325	11,416,643	3,646,135	1,497,544	-	2,141,547	4,131,416	
2011	5,910,000	2,204,649	920,000	457,799	690,000	754,263	10,936,710	3,678,450	1,497,869	-	2,119,187	3,641,204	
2012	4,910,000	1,956,446	965,000	422,455	2,035,000	728,388	11,017,288	3,717,750	1,506,509	-	2,127,562	3,665,467	
2013	4,360,000	1,776,307	1,015,000	384,061	2,120,000	652,075	10,307,444	3,745,837	1,385,275	-	1,899,258	3,277,074	
2014	4,215,000	1,602,988	1,245,000	338,861	2,215,000	567,275	10,184,124	3,778,188	1,386,225	-	1,571,602	3,448,110	64.88%
2015	3,920,000	1,434,381	1,305,000	287,861	2,310,000	478,675	9,735,918	3,788,281	1,384,800	-	1,385,029	3,177,808	
2016	4,100,000	1,263,808	1,365,000	234,461	2,410,000	380,500	9,753,769	3,790,919	1,388,806	-	1,378,004	3,196,039	
2017	3,805,000	1,088,823	1,425,000	177,593	2,535,000	260,000	9,291,415	3,798,250	1,385,169	-	1,381,416	2,726,581	
2018	3,960,000	912,513	1,345,000	120,283	2,665,000	133,250	9,136,046	3,801,000	1,388,694	-	1,379,377	2,566,975	
2019	3,150,000	726,106	1,210,000	67,586	-	-	5,153,693	-	1,389,088	-	1,379,989	2,384,616	85.03%
2020	3,295,000	579,465	1,015,000	21,315	-	-	4,910,780	-	1,386,988	-	1,382,844	2,140,949	
2021	3,200,000	428,708	-	-	-	-	3,628,708	-	1,387,206	-	899,375	1,342,127	
2022	3,355,000	277,579	-	-	-	-	3,632,579	-	1,384,613	-	900,625	1,347,341	
2023	2,800,000	135,563	-	-	-	-	2,935,563	-	1,388,900	-	899,875	646,788	
2024	1,420,000	35,500	-	-	-	-	1,455,500	-	-	-	902,000	553,500	100.00%
	<u>\$ 93,990,000</u>	<u>\$ 35,302,242</u>	<u>\$ 13,370,000</u>	<u>\$ 5,084,745</u>	<u>\$ 17,400,000</u>	<u>\$ 7,794,750</u>	<u>\$ 172,941,736</u>	<u>\$ 47,410,146</u>	<u>\$ 26,546,197</u>	<u>\$ 4,441,875</u>	<u>\$ 33,570,330</u>	<u>\$ 60,973,187</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt. Excludes the Refunded Obligations.
- (2) Average life of the issue - 9.439 years. Interest on the Series 2005 Bonds has been calculated at the rates illustrated on the cover page hereof.
- (3) Average life of the issue - 9.876 years. Interest on the Series 2005A Bonds has been calculated at the rates illustrated on page 3 hereof.
- (4) Includes the Series 2005A Bonds.
- (5) Includes a portion of the Series 2005 Bonds.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-05		\$ 4,860,921 ⁽¹⁾
Interest and Sinking Fund, 9-30-04	\$ 610,095	
Budget Interest and Sinking Fund Tax Levy	3,835,000	
Budgeted Transfers	1,129,795	
Other Income	22,800	
Estimated Investment Income	<u>50,000</u>	<u>5,647,690</u>
Estimated Balance, 9-30-05		\$ 786,769

(1) Net of self-supporting debt.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-04	\$ 3,981,968
Less: Revenue Bonds Requirements, 2005 Fiscal Year	<u>0</u>
Balance Available for Other Purposes	\$ 3,981,968
System General Obligation Bond Requirements, 2005 Fiscal Year	<u>2,382,842</u>
Balance	\$ 1,599,126
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Budgeted Funds Available for Debt Service from Tax Increment Reinvestment	
Zone Revenue (TIRZ) collected for Fiscal Year 2004/05	\$ 2,166,074
TIRZ General Obligation Bond Requirements, 2005 Fiscal Year	<u>2,040,819</u>
Balance	\$ 125,255
Percentage of TIRZ General Obligation Bonds, Self-Supporting	100.00%
Budgeted Funds Available for Debt Service from Keller Development	
Corporation collected for Fiscal Year 2004/05	\$ 2,460,494
KDC General Obligation Bond Requirements, 2005 Fiscal Year	<u>1,054,606</u>
Balance	\$ 1,405,888
Percentage of KDC General Obligation Bonds, Self-Supporting	100.00%
Budgeted Funds Available for Debt Service from Crime Control	
Prevention District collected for Fiscal Year 2004/05	\$ 5,450,000
CCPD General Obligation Bond Requirements, 2005 Fiscal Year	<u>1,407,850</u>
Balance	\$ 4,042,150
Percentage of CCPD General Obligation Bonds, Self-Supporting	100.00%

(1) It is the City's current policy to provide these payments from the respective revenue sources; this policy is subject to change in the future.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . The City does not have any authorized but unissued general obligation debt.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing additional general obligation debt within the next twelve month period. The City does not have any authorized but unissued general obligation debt.

TABLE 11 - OTHER OBLIGATIONS

The City has entered into certain capital lease agreements. The following is a schedule of future minimum lease payments as of September 30, 2004.

Due Fiscal Year Ending September 30,	Scheduled Annual Payment
2005	\$ 105,048
2006	105,048
2007	105,048
2008	105,048
2009	105,048
2010- 2014	<u>525,240</u>
	\$ 1,050,480
Less Interest	<u>(225,480)</u>
	<u>\$ 825,000</u>

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".)

FINANCIAL INFORMATION

TABLE 12 – CHANGES IN NET ASSETS ⁽¹⁾

	<u>Fiscal Year Ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
Revenues:		
<u>Program Revenues</u>		
Charges for Services	\$ 5,987,201	\$ 4,587,207
Operating Grants and Contributions	218,851	8,321
Capital Grants and Contributions	402,644	46,497
<u>General Revenues</u>		
Property Taxes	12,217,245	10,865,819
Other Taxes	7,966,635	7,145,965
Investment Earnings	412,998	357,284
Total Revenues	<u>\$ 27,205,574</u>	<u>\$ 23,011,093</u>
Expenses:		
General Government	\$ 3,357,345	\$ 4,606,067
Planning & Community Development	984,186	962,273
Public Safety	8,625,240	8,376,754
Public Works	4,621,754	4,721,525
Recreation and Leisure	5,332,567	4,341,738
Interest on Long-Term Debt	4,555,553	3,883,471
Unallocated Amortization	-	66,058
Non-Departmental	<u>745,630</u>	<u>-</u>
Total Expenses	<u>\$ 28,222,275</u>	<u>\$ 26,957,886</u>
Increase in Net Assets		
before transfers	\$ (1,016,701)	\$ (3,946,793)
Transfers	<u>2,162,960</u>	<u>1,745,055</u>
Increase (decrease) in	\$ 1,146,259	\$ (2,201,738)
Net Assets		
	-	-
Net Assets - October 1	<u>23,453,418</u>	<u>25,655,156</u>
Net Assets - September 30	<u>\$ 24,599,677</u>	<u>\$ 23,453,418</u>

(1) In fiscal year ended September 30, 2003, the City implemented Government Accounting Standards Board Statement No. 34 ("GASB 34").

TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

Revenues	Fiscal Year Ended September 30,				
	2004	2003	2002	2001	2000
Total Property Tax	\$ 7,562,530	\$ 6,530,245	\$ 5,543,445	\$ 4,753,437	\$ 4,001,075
Sales Tax	2,869,276	2,684,998	2,481,882	2,076,989	1,753,767
Franchise/Other Local Tax	2,375,766	2,205,786	1,997,496	1,825,346	1,542,975
Permits, Licenses and Fees	2,223,221	1,967,962	2,098,686	2,552,022	2,808,133
Intergovernmental Revenue	731,720	705,560	193,421	23,536	21,746
Charges for Services	182,441	196,176	193,076	128,251	110,725
Fines and Warrants	813,480	732,943	610,568	673,637	657,998
Interest on Investments	47,549	36,632	115,093	260,842	227,187
Miscellaneous	136,041	60,911	117,909	86,270	83,356
Donations	102,964	95,756	-	35,457	25,063
Total Revenues	\$ 17,044,988	\$ 15,216,969	\$ 13,351,576	\$ 12,415,787	\$ 11,232,025
Expenditures:					
General Government	\$ 2,403,052	\$ 2,393,047	\$ 2,140,178	\$ 1,758,063	\$ 1,670,176
Police Department	4,535,718	4,383,073	3,763,423	3,130,558	2,575,030
Public Works Department	1,650,381	1,768,989	1,747,382	1,384,803	1,118,935
Library	946,742	980,036	863,299	668,577	571,977
Fire Department	3,462,398	3,350,307	3,121,595	2,611,276	2,093,672
Planning and Development	957,446	938,107	937,924	783,835	662,487
Parks and Recreation	1,652,462	1,550,680	1,390,073	1,106,459	889,542
Nondepartmental	705,497	898,764	447,495	153,483	181,355
Debt Service	-	-	-	70,004	173,156
Capital Outlay	322,646	93,048	360,785	656,451	792,771
Total Expenditures	\$ 16,636,342	\$ 16,356,051	\$ 14,772,154	\$ 12,323,509	\$ 10,729,101
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 408,646	\$ (1,139,082)	\$ (1,420,578)	\$ 92,278	\$ 502,924
Operating Transfers In	1,188,500	966,590	536,595	319,095	205,040
Operating Transfers Out	(193,030)	(166,571)	(98,205)	(177,848)	(131,085)
Note Proceeds	-	-	-	94,333	-
Increase (decrease) in Fund Balance	\$ 1,404,116	\$ (339,063)	\$ (982,188)	\$ 327,858	\$ 576,879
Beginning Fund Balance	2,335,931	2,722,500	3,704,688	3,443,485	2,866,606
Adjustments	-	(49,318)	-	-	-
Residual Equity Transfer	-	1,812	-	(66,655)	-
Ending Fund Balance	\$ 3,740,047	\$ 2,335,931	\$ 2,722,500	\$ 3,704,688	\$ 3,443,485

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. 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. In January of 1992, 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 parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation for the aforementioned purposes. In November, 2001, the voters approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8th of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code. Collections for the additional sales tax went into effect April 1, 2002. Said sales tax is collected solely for the benefit of the Keller Crime Control and Protection District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighths of one percent (1/8th of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. Collections for the additional sales tax commenced April 1, 2004. Said sales tax is collected solely for the repair, rehabilitation and reconstruction of existing streets and may be pledged to secure payment of sales tax revenue bond issues.

Fiscal Year Ended 9/30	2% Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2001	\$ 2,076,989	28.96%	\$ 0.1280	\$ 74
2002	2,481,882	29.15%	0.1277	83
2003	2,618,730	26.08%	0.1142	85
2004	2,836,843	25.90%	0.1134	89
2005 ⁽²⁾	2,491,603	21.05%	0.0933	73

(1) Excludes the one-half cent Keller Development Corporation sales tax, the 3/8 cent Keller Crime Control Prevention District sales tax, and the 1/8 cent street maintenance tax.

(2) Collections for part year only, through July 1, 2005.

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.000¢
Economic and Community Development	0.500¢
City Sales & Use Tax	1.000¢
Crime Control Prevention	0.375¢
Street Maintenance Tax ⁽¹⁾	0.125¢
State Sales & Use Tax	<u>6.250¢</u>
Total	8.250¢

(1) Approved by voters November 2003, effective April 1, 2004.

FINANCIAL POLICIES

Basis of Accounting. . . The City’s accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenues susceptible to accrual are property taxes, franchise taxes and sales taxes and are recognized as revenue when measurable. However, the City has established an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. As a result only ad valorem taxes collected are actually recognized as revenue. Gross receipts of taxes, license, charges for services, fines and miscellaneous revenues are recorded as revenue when received because they are generally not measurable until received.

Proprietary Fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Transfers are recognized in the period in which the interfund receivable and payable arise.

Budgetary Procedures . . . The City adopts an annual appropriated budget for the General Fund, the Water and Sewer Fund, Debt Service Fund and the Drainage Utility Fund. All annual appropriations lapse at fiscal year end. The budget is legally enacted through passage of an ordinance after public hearings are conducted for the purpose of obtaining taxpayer comments. Project lengths financial plans are adopted for capital improvement program funds.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. 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 that are issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or 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 806-1 et. seq.) or with the State Security Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years but the City retains ultimate responsibility as fiduciary of its assets. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers

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

ADDITIONAL PROVISIONS . . . Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or 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 no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 14 - CURRENT INVESTMENTS

As of July 1, 2005, the City's investable funds were invested in the categories listed above. As of such date, 100% of the City's portfolio will mature within six months. The market value of the investment portfolio was approximately 99.69% of its purchase price.

<u>Description</u>	<u>Percent</u>	<u>Purchase Price</u>	<u>Market Value</u>
Investment Pools	42.58%	\$ 15,059,957	\$ 15,059,957
Agency Discounts	53.74%	19,006,498	19,115,030
Money Market Funds	3.68%	1,301,364	1,301,364
	<u>100.00%</u>	<u>\$ 35,367,819</u>	<u>\$ 35,476,351</u>

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bond Counsel, interest on the Obligations will be excludable from gross income under Section 103(a) of the Internal Revenue Code of 1986, as amended, and applicable regulations, published rulings and court decisions (collectively, the "Code"). Furthermore, in the opinion of Bond Counsel, the Obligations will not be "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Obligations will not be treated as a preference item under the alternative minimum tax provisions of the Code as applicable to individuals and corporations, except that interest on the Obligations will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. The statutes, applicable regulations, published rulings of the Internal Revenue Service and court decisions on which such opinions are based are subject to change.

These opinions are dependent in part on future compliance by the City with certain post-issuance requirements of the Code, including the arbitrage rebate requirements. Failure to comply with such requirements may cause the interest on the Obligations to be includable in gross income retroactive to the date of issue. In this connection, various covenants and representations will be made by the City in the documents authorizing the issuance of the Obligations that are designed to provide assurance of compliance with such requirements, and for purposes of its opinions, Bond Counsel will assume compliance by the City therewith. In addition such opinions are based upon representations and certifications of the City pertaining to the use, expenditure and investment of the proceeds of the Obligations.

Except as described above, Bond Counsel expresses no opinion with respect to any other federal, state or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Obligations.

Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations such as the Obligations may result in collateral federal tax consequences to, among others, certain insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals seeking earned income tax credit, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and S corporations with subchapter C earnings and profits. Prospective purchasers should consult their own tax advisors as to the applicability to these and other such collateral consequences to their particular circumstances. The forms of Bond Counsel's opinions are set forth in Appendix C hereto.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that thereafter may come to Bond Counsel's attention or reflect changes in any law that thereafter may occur or become effective.

Furthermore, Bond Counsel's opinions are an expression of professional judgment and not a guarantee of result. No ruling has been sought from the Internal Revenue Service (the "Service"), and Bond Counsel's opinions are not binding on the Service. The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Obligations. If an audit is commenced, under current procedures the Service will treat the Issuer as the taxpayer and the owners of the Obligations would have no right to participate in the audit process. In responding to or defending an audit with respect to the Obligations, the Issuer may have different or conflicting interest from the owners of the Obligations.

TAX ACCOUNTING TREATMENT OF DISCOUNT OBLIGATIONS . . . The initial public offering price to be paid for certain Obligations may be less than the principal amount payable on such Obligation at maturity (the "Discount Obligations"). An amount equal to the difference between the initial public offering price of the Discount Obligation (assuming that a substantial amount of the Discount Obligations of that maturity are sold to the public at such price) and the principal amount payable at maturity constitutes interest, or original issue discount, to the initial purchaser of such Discount Obligations. Original issue discount may also result from an initial purchaser's payment of accrued interest on Obligations which have an initial interest payment period longer than one year. A portion of such interest, allocable to the holding period of such Discount Obligations by the initial purchaser, will, upon the disposition of such Discount Obligations (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Obligation, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Obligations.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by the Tax Reform Act of 1986, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, certain insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals seeking earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or who have paid or incurred certain expenses allocable to tax-exempt obligations.

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Obligations 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 Discount Obligations should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Obligations.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 14 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2005. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State and approved by and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

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

The Municipal Advisory Council of Texas ("MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filings. The central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Obligations.

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 Obligations, if such event is material to a decision to purchase or sell Obligations: (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 Obligations; (7) modifications to rights of holders of the Obligations; (8) Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID . . . The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. 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 with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Obligations are rated "Aaa" by Moody's and "AAA" by S&P through insurance policies to be issued by MBIA. The presently outstanding tax supported debt of the City is rated "A2" by Moody's and "A+" by S&P. The City also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending or, to its knowledge, threatened litigation or other proceeding against the City that would have a material adverse financial impact upon the City, its operations or its financial statements.

REGISTRATION AND QUALIFICATION OF SERIES 2005 BONDS AND SERIES 2005A BONDS FOR SALE

The sales of the Series 2005 Bonds and Series 2005A Bonds have 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 Series 2005 Bonds and Series 2005A Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2005 Bonds or Series 2005A Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Series 2005 Bonds or Series 2005A Bonds under the securities laws of any jurisdiction in which the Series 2005 Bonds and Series 2005A Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2005 Bonds and Series 2005A Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations 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 Obligations 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 Obligations be assigned a rating of "A" or its equivalent as to investment quality by a

national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Obligations 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

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Series 2005 Bonds and Series 2005A Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that each Initial Obligation is a valid and binding obligation of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel to the effect that the Series 2005 Bonds and Series 2005A Bonds issued in compliance with the provisions of the Series 2005 Bond Ordinance and Series 2005A Bond Ordinance are valid and legally binding obligations of the City and the interest on such Series 2005 Bonds and Series 2005A Bonds is excludable from gross income for federal income tax purposes under existing law and the Series 2005 Bonds and Series 2005A Bonds are not private activity bonds, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX C – Forms of Bond Counsel's Opinions". Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Series 2005 Bonds and Series 2005A Bonds in the Official Statement under the captions "PLAN OF FINANCING" (except under the subcaptions "Sources and Uses of Proceeds"), "The Series 2005 Bonds and Series 2005A Bonds" (except for the subcaption "Book-Entry-Only System" and "Obligationholder's Remedies"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for under the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Series 2005 Bonds and Series 2005A Bonds for Sale", "Legal Investments and Eligibility to Secure Public Fund in Texas", and "Legal Matters" under the caption "OTHER INFORMATION" and is of the opinion that the information relating to the Series 2005 Bonds and Series 2005A Bonds and the Ordinances contained therein fairly and accurately describe the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2005 Bonds and Series 2005A Bonds are contingent on the sale and delivery of the Series 2005 Bonds and Series 2005A Bonds. The legal opinion will accompany the Series 2005 Bonds and Series 2005A Bonds deposited with DTC or will be printed on the Series 2005 Bonds and Series 2005A Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel to the Underwriters. The legal fees to be paid Counsel to the Underwriters for services rendered in connections with the issuance of the Series 2005 Bonds and Series 2005A Bonds are contingent on the sale and delivery of the Series 2005 Bonds and Series 2005A Bonds.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City 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.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and 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 Obligations, 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 DISCLAIMER

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

obligation to update any such forward-looking statements. The City' actual results could differ materially from those discussed in such forward-looking statements.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2005 Bonds from the City, at an underwriting discount of \$87,587.91. The Underwriters will be obligated to purchase all of the Series 2005 Bonds if any Series 2005 Bonds are purchased. The Series 2005 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2005 Bonds into investment trusts) at prices lower than the public offering prices of such Obligations, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2005A Bonds from the City, at an underwriting discount of \$112,128.36. The Underwriters will be obligated to purchase all of the Series 2005A Bonds if any Series 2005A Bonds are purchased. The Series 2005A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2005A Bonds into investment trusts) at prices lower than the public offering prices of such Obligations, and such public offering prices may be changed, from time to time, by the Underwriters.

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

APPROVAL OF OFFICIAL STATEMENT

The Ordinances will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Series 2005 Bonds and Series 2005A Bonds by the Underwriters.

/s/ JULIE A. TANDY
Mayor
City of Keller, Texas

ATTEST:

/s/ SHEILA STEPHENS
City Secretary

**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2005
SCHEDULE OF REFUNDED OBLIGATIONS**

Combination Tax and Revenue Certificates of Obligation, Series 1997

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
7/1/1997	2/15/2008	4.90%	\$ 85,000	\$ 85,000
	2/15/2009	5.00%	90,000	90,000
	2/15/2010	5.10%	95,000	95,000
	2/15/2011	5.10%	100,000	100,000
	2/15/2014	5.25%	345,000	345,000
	2/15/2017	5.40%	410,000	410,000
			<u>\$ 1,125,000</u>	<u>\$ 1,125,000</u>

The 2008 – 2017 maturities will be redeemed prior to original maturity on February 15, 2007 at par, plus accrued interest, if any.

Combination Tax and Revenue Certificates of Obligation, Series 1998

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
4/1/1998	2/15/2009	4.60%	\$ 110,000	\$ 110,000
	2/15/2010	4.65%	115,000	115,000
	2/15/2011	4.75%	120,000	120,000
	2/15/2012	4.85%	125,000	125,000
	2/15/2013	4.90%	135,000	135,000
	2/15/2014	5.00%	140,000	140,000
	2/15/2016	5.00%	310,000	310,000
	2/15/2018	5.00%	340,000	340,000
			<u>\$ 1,395,000</u>	<u>\$ 1,395,000</u>

The 2009 – 2018 maturities will be redeemed prior to original maturity on February 15, 2008 at par, plus accrued interest, if any.

Combination Tax and Revenue Certificates of Obligation, Series 1998A

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
12/1/1998	2/15/2014	4.70%	\$ 185,000	\$ 185,000
	2/15/2015	4.70%	200,000	200,000
	2/15/2016	4.70%	210,000	210,000
	2/15/2017	4.70%	220,000	220,000
	2/15/2018	4.70%	235,000	235,000
	2/15/2019	4.70%	240,000	240,000
			<u>\$ 1,290,000</u>	<u>\$ 1,290,000</u>

The 2014 – 2019 maturities will be redeemed prior to original maturity on February 15, 2009 at par, plus accrued interest, if any.

Combination Tax and Revenue Certificates of Obligation, Series 1999A

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
12/1/1999	2/15/2010	5.20%	\$ 370,000	\$ 370,000
	2/15/2011	5.25%	390,000	390,000
	2/15/2012	5.30%	415,000	415,000
	2/15/2013	5.40%	445,000	445,000
	2/15/2014	5.50%	470,000	470,000
	2/15/2015	5.60%	500,000	500,000
	2/15/2016	5.70%	530,000	530,000
	2/15/2017	5.75%	565,000	565,000
	2/15/2018	5.80%	600,000	600,000
	2/15/2019	5.85%	635,000	635,000
	2/15/2020	5.85%	675,000	675,000
			<u>\$ 5,595,000</u>	<u>\$ 5,595,000</u>

The 2010 – 2020 maturities will be redeemed prior to original maturity on February 15, 2009 at par, plus accrued interest, if any.

Combination Tax and Revenue Certificates of Obligation, Series 2000

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
7/15/2000	2/15/2010	5.00%	\$ 210,000	\$ 210,000
	2/15/2011	5.00%	225,000	225,000
	2/15/2012	5.10%	235,000	235,000
	2/15/2013	5.20%	250,000	250,000
	2/15/2014	5.30%	270,000	270,000
	2/15/2015	5.35%	285,000	285,000
	2/15/2016	5.40%	300,000	300,000
	2/15/2017	5.50%	320,000	320,000
	2/15/2018	5.55%	340,000	340,000
	2/15/2019	5.60%	360,000	360,000
	2/15/2020	5.60%	385,000	385,000
			<u>\$ 3,180,000</u>	<u>\$ 3,180,000</u>

The 2010 – 2020 maturities will be redeemed prior to original maturity on February 15, 2009 at par, plus accrued interest, if any.

**COMBINATION TAX AND TAX INCREMENT REINVESTMENT
ZONE REVENUE REFUNDING BONDS, SERIES 2005A
SCHEDULE OF REFUNDED OBLIGATIONS**

Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 1999

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
7/1/1999	8/15/2011	5.100%	\$ 470,000	\$ 470,000
	8/15/2012	5.100%	510,000	510,000
	8/15/2013	5.150%	540,000	540,000
	8/15/2014	5.200%	565,000	565,000
	8/15/2015	5.250%	595,000	595,000
	8/15/2016	5.300%	625,000	625,000
	8/15/2017	5.300%	660,000	660,000
	8/15/2018	5.300%	695,000	695,000
			<u>\$ 4,660,000</u>	<u>\$ 4,660,000</u>

The 2011 – 2018 maturities will be redeemed prior to original maturity on August 15, 2009 at par, plus accrued interest, if any.

Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2000

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
10/1/2000	8/15/2006	5.125%	\$ 750,000	\$ 650,000
	8/15/2007	5.125%	990,000	450,000
	8/15/2008	5.750%	1,045,000	250,000
	8/15/2012	5.000%	1,300,000	1,300,000
	8/15/2013	5.125%	1,370,000	1,370,000
	8/15/2014	5.250%	1,455,000	1,455,000
	8/15/2015	5.375%	1,535,000	1,535,000
	8/15/2016	5.400%	1,625,000	1,625,000
	8/15/2017	5.500%	1,715,000	1,715,000
	8/15/2018	5.500%	1,810,000	1,810,000
			<u>\$ 13,595,000</u>	<u>\$ 12,160,000</u>

The 2006 – 2008 maturities will be redeemed on the original maturity date.

The 2012 – 2018 maturities will be redeemed prior to original maturity on August 15, 2010 at par, plus accrued interest, if any.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION AND HISTORY . . . The City of Keller, Texas (the "City") is a retail center located in Tarrant County, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is a part of the "Metroplex" of North Central Texas, which includes the Cities of Dallas and Fort Worth with a total population exceeding 4.5 million.

The City was incorporated in 1955 under the general laws of the State of Texas and the current charter was approved by the voters in 1982. The City is a home rule city and operates under the Council/Manager form of government. The Council is composed of a mayor and five councilmembers elected at large. All City residents vote for all six places. The councilmembers are elected for two-year staggered terms and elections are held annually in May.

Policy-making and carrying out those duties imposed by the terms and provisions of the City Charter are the responsibility of, and are vested in, the City Council. The City Council is required by the charter to appoint a City Manager to serve as the chief administrative and executive officer of the City. The duties of the City Manager include the appointment of City department heads and administering City affairs.

POPULATION . . . The City has noted significant population increases in the past decade . . . the 1970 Census was 1,474 . . . the 1980 Census was 4,156 . . . the 1990 Census was 13,683 . . . the 2000 Census was 27,345 and the estimated 2005 population is 34,224.

ECONOMICS . . . The City has a staff of approximately 316 full-time employees, including 70.5 in the police department and 46.5 in the fire department. There are currently 14 local banks serving the City. These banks include, The American Bank, Bank of America, Bank One (2), First Financial Bank, Frost National Bank, Northwest Bank, Compass Bank, Regions Bank, Washington Mutual, Wells Fargo Bank (2), and Woodforest National Bank (2).

Keller is a part of the Dallas/Fort Worth Metroplex which has maintained a very strong economy and is ranked as one of the fastest growing cities in the Metroplex. The City is located mid-way between the Dallas/Fort Worth International Airport and Alliance Airport. A favorable personal and corporate tax climate, excellent schools, favorable right to work laws and a strong continuing commitment to business have made the City and State positive areas in which businesses can locate.

In order to keep pace with the rapid residential growth and expanding commercial areas, infrastructure improvements have continued to be a high priority. Rufe Snow Drive, a primary arterial roadway extending from IH-820 in North Richland Hills northward to the center of Keller at Farm Market (FM) Road 1709 (Keller Parkway), has been reconstructed by completing a new 4-lane roadway with landscaped medians, turn lanes, traffic signals, and sidewalks. With the completion of this improvement, a new neighborhood commercial intersection was created at the intersection of North Tarrant Parkway and Rufe Snow Drive, and has resulted in the opening of Lowe's Home Improvement Center, McDonald's, a Kroger Signature Store, CVS Pharmacy, Wal-Mart Neighborhood Market, Woodforest National Bank, and approximately 50,000 square feet of additional retail/commercial space. The final segment of the expansion and improvement of U.S. Highway 377 beginning at the terminus of the completed southern phase and extending north to State Highway 170 is anticipated to be under construction in late 2005. Completion of this highway segment will provide a new 6-lane divided highway along Keller's western boundary that will extend from the southern city limits of Keller to the north city limits, thus completing a major north/south arterial roadway from IH-820 to SH 170 and SH 114. In addition, the new portion of U.S. Highway 377 will provide improved access to several miles of commercial frontage totaling approximately 170 acres. Continued improvements in the commercial corridors have resulted in an increase in commercial and industrial market values between 2003 and 2004 of 9%.

A 2.5 million gallon water distribution elevated water storage facility was completed in September 2002, and has significantly improved the City's water storage and pressure necessary to meet the growing water supply demand from mostly residential development. The water storage project is a joint project with the neighboring Town of Westlake, whereby the Town of Westlake is contributing forty percent of the cost of the facility and will receive the proportionate share (1 million gallons) of storage. A third water supply (intake) station has been constructed through negotiation and financial participation with the City of Fort Worth (contractor for the City's water supply), resulting in approximately 5 million gallons per day of additional water supply capacity. A one million gallon elevated water storage facility is currently under construction, and a 10 million gallon ground storage facility, is due to start construction in Fall 2005, with miscellaneous distribution improvements also anticipated in 2005 and 2006. These improvements will be satisfactory to meet the water supply demand of the City to build-out. A water conservation plan has been enacted to guide water users in ways to conserve water in an effort to reduce the need for additional utility infrastructure in the future and to conserve the regional water supply.

In December 1998 the City of Keller created the Keller Tax Increment Reinvestment Zone No. 1, that includes 583,000 square feet of retail/commercial and restaurant development; 600,000 square feet of office space; high density residential (town home) development; upscale multi-family residential development; and adult or assisted living development. The TIRZ also includes a municipal and parks/open space component with all of Town Center now being connected to the City-wide Parks Master Trail System. Development continues to increase in the Town Center. Sixty-seven upscale patio homes are nearing completion and sold; 245 upscale apartments have been completed; a Frost Bank facility opened; a medical and professional office park completed; the El Paseo Mexican restaurant completed, with several additional restaurants in the planning stages; a 188-unit over 55 adult living center scheduled for completion in 2005; and a new 5.6 acre, 240,974 square-foot mixed use retail, commercial, and residential development will commence construction in Fall 2005, with completion anticipated in December 2006. To add to the existing amenities of lakes and trails, The Keller Pointe Recreation and Aquatics Center, a 87,940 square foot recreation and

aquatic center (including outdoor leisure waters) financed by the Keller Development Corporation half-cent sales tax, opened in May 2004. The City's continued involvement in the development of the remaining mixed-use acreage in the Town Center is intended to generate over \$300 million in taxable real value at build-out.

Keller Town Hall and Town Hall Plaza were dedicated on April 19, 2002. The new 53,000 square foot facility houses the City Council chambers and approximately 65 employees of the administration, economic development, finance, utility billing and collections, parks and recreation administration, community development, public works administration and engineering, human resources, and training departments. The facility is intended to have the capacity for approximately 110 employees at build out of the City. Most importantly, the Town Hall and Plaza anchor the Keller Town Center and its Tax Increment Reinvestment Zone No. 1. Keller Independent School District constructed a 600-seat, 50-meter Natatorium (opening in March 2003), serving the educational purposes of the District, and accommodating local swim clubs/organizations, as well as the general public.

PERSONAL INCOME AND BUYING INCOME FOR TARRANT COUNTY

% of Population Whose Age is:		
18-24		9.80%
25-34		15.40%
35-49		23.70%
50 and Over		23.20%
Households		581,200
Median Household Effective Buying Income	\$	42,912
Total Effective Buying Income	\$	3,108,258,000
% of Households by EBI Group		
\$20,000 - \$34,999		21.80%
\$35,000 - \$49,999		19.60%
\$50,000 and Over		41.00%
Total Retail Sales	\$	25,876,677,000

Source: Sales and Marketing Management 2003 Survey of Buying Power, dated August, 2004.

BUILDING PERMITS ⁽¹⁾

Fiscal Year ⁽¹⁾	Non-Residential Construction ⁽²⁾		Residential Construction		Total Value
	Number of Units	Value	Number of Units	Value	
2000	68	\$ 46,625,187	591	\$ 132,333,470	\$ 178,958,657
2001	58	53,599,023	561	130,671,430	184,270,453
2002	50	31,556,767	413	115,900,460	147,457,227
2003	58	36,139,177	391	108,787,805	144,926,982
2004	57	34,691,609	363	112,154,345	146,845,954

(1) For years 2000 through 2001, calendar year numbers, excludes construction value of tax-exempt entities.

(2) Includes governmental, school and religious worship construction.

EDUCATION . . . Education is provided by the Keller Independent School District (the "District") which encompasses an area of approximately 43 square miles. The District conducts programs for K-12, and employs approximately 1,500 teachers in addition to administrative personnel and support staff. The District has 27 schools with an approximate enrollment of 23,747, and an alternate education center.

Physical facilities include:

- 4 high schools, includes alternate education center
- 4 intermediate schools
- 15 elementary schools
- 4 middle schools

Educational opportunities beyond high school are readily available. The Northeast campus of the Tarrant County College District is within short driving distance. In addition, within a 40-mile radius, there are a number of colleges and universities, including Southern Methodist University, Texas Christian University, Texas Women's University, the University of North Texas, the University of Dallas, and the University of Texas at Arlington. In addition, there are several trade, industrial and technical schools located throughout the area.

TRANSPORTATION . . . The City is served by major highways both on a north/south and east/west axis. North/south highways are SH 121, SH 26 and FM 1938. The east/west highways are IH Loop 820, SH 170 and SH 183. These major highways provide easy access to Dallas, Fort Worth and the surrounding Metroplex area.

Air service is provided by nearby Dallas/Fort Worth International Airport, the nation's fourth busiest airport, providing service to national and international destinations. Meacham Field, approximately five miles away in northern Fort Worth is a fixed base operation for private and commercial service and provides sophisticated instrument approach facilities, lighted runways, terminal facilities and fuel and maintenance services. Alliance Airport, located northwest of Keller, began limited operations in 1989, and is the first newly constructed industrial airport in the United States. The Airport is home to a new FedEx hub, BNSF Intermodal Terminal, DEA, Galaxy Aviation, and numerous company distribution facilities.

Daily rail service is provided by the St. Louis Railroad, Southwestern and a part of the Southern Pacific Railroad system. This system connects with other major rail systems and provides rail service nationwide.

Bus service is provided by Greyhound/Trailways Bus Lines with daily arrivals and departures. Connections are available in Dallas and Fort Worth for national destinations.

MEDICAL . . . Excellent health care facilities are located within minutes of the City, including four of the largest hospitals in Tarrant County. The Metroplex area is served by more than 70 hospitals which offer specialized services such as organ transplantation, major trauma care, cancer treatment, kidney dialysis and chemical dependency treatment.

MISCELLANEOUS . . . The City offers a suburban life style with varied neighborhoods. Ten lakes, within a 40 minute drive, offer boating, fishing, camping, professional sports, and picnicking facilities.

The Cities of Fort Worth and Dallas with their varied cultural opportunities of theaters, museums, zoos, botanical gardens and professional sport teams are less than a 30 minute drive from the City.

APPENDIX B

EXCERPTS FROM THE

CITY OF KELLER, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2004

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2004, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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

Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Keller, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keller, Texas, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The management's discussion and analysis and budgetary comparison information on pages 12 through 23 and 60 through 65, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Rutledge Crain & Company, PC

December 22, 2004

CITY OF KELLER, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2004 (Unaudited)

As management of the City of Keller (the City), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2004. Readers are encouraged to consider the information presented here in conjunction with additional information provided in the transmittal letter at the front of this report, and the City's financial statements, which follow this section. The City implemented Governmental Accounting Standards Board Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments in fiscal year 2003. As discussed in footnote D.5., Statement 34 allows for certain transition treatments with regard to infrastructure assets.

Financial Highlights

- The City's assets exceeded its liabilities at the close of the 2004 fiscal year by \$85,021,352 (net assets). Of this amount, \$9,746,971 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net assets increased by \$687,615, or approximately 0.8%. The net assets of governmental activities increased \$1,146,259, or approximately 4.9%. This increase in net assets resulted in part from slight increases in ad valorem (property) taxes, sales, and franchise taxes. The assets of business-type activities decreased by \$458,644, or 0.7%. The decrease was due in part to continued wet weather conditions, impacting water and wastewater revenues, combined with a reduction in developer contributions for drainage improvements.
- As of September 30, 2004, the City's governmental funds reported combined ending fund balances of \$20,177,432. Approximately 60.1% of this total amount, \$12,126,303, is unreserved and available for use within the City's designation and policies. Reservations for (1) encumbrances \$5,879,582 and (2) debt service \$1,810,510, total \$7,690,092, and represent over 38.1% of the total fund balance.
- Total cost of all the City's programs was \$41,058,415 million in 2004, compared to \$40,184,041 in 2003.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$3,343,099, or 20% of total expenditures. This represents an increase of \$1,152,809, or 52.6% from the prior fiscal year due mainly to slight increases in property, sales, and franchise taxes, combined with cost savings from maintaining vacant positions, as well as a reduction in accrued payroll.

Overview of Financial Statements

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

The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. The *fund financial statements* focus on individual parts of the City's government, reporting operations in more detail than the government-wide statements. In addition to these required elements, we have included other information such as the City's long-term debt schedules, and a statistical section, which primarily through the use of tables, presents comparative economic and financial data to provide users of this report a perspective of the City's financial performance over a number of years.

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

The *Statement of Net Assets* presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate the improvement or deterioration of the City's financial position.

CITY OF KELLER, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2004 (Unaudited)

The *Statement of Activities* presents information showing how the City's net assets changes during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

The government-wide financial statements of the City are divided into two categories:

- *Governmental activities* – These are functions such as public safety, public works, planning and development, general government, and recreation and leisure, that are principally supported by taxes and intergovernmental revenue.
- *Business-type activities* – These functions are intended to recover all or a significant portion of their costs through user fees and charges. Business-type activities of the City include Water and Sewer, and Drainage Utility operations.

The government-wide financial statements can be found in Exhibits A-1 and A-2 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 23 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the general, debt service, parks capital project, and capital projects funds, all of which are considered to be major funds. Data from the other 19 funds are combined into a single, aggregated presentation.

Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report [Exhibit C]. The basic governmental fund financial statements can be found in Exhibits A-3 and A-5 of this report.

Proprietary Funds – The City maintains only one type of proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for both the water and sewer, and drainage utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the Water and Wastewater Operations, and Drainage Utility funds, since all are considered major funds of the City.

The basic proprietary fund financial statements can be found in Exhibits A-7 through A-9 of this report.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found following the notes to the financial statements. The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Keller, assets exceeded liabilities by \$85,021,352 as of September 30, 2004.

The largest portion of the City's net assets (79.8%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (8.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (11.4%) may be used to meet the City's ongoing obligations to citizens and creditors.

Total assets of governmental activities increased by \$4,626,888, or 3.7% in fiscal year 2004. The decrease in current and other assets and corresponding increase in capital assets of governmental activities is primarily due to completed construction of The Keller Pointe Recreation and Aquatic Center and the Police facility expansion (\$11.2 million and \$3.3 million respectively spent in fiscal year 2004). Net assets of governmental activities increased \$1,146,259, or 4.9%.

Total assets of business-type activities increased by \$10,246,388, or 13%. Net assets of business-type activities decreased \$458,644, or 0.75%. There is a corresponding increase in current and other assets and noncurrent liabilities, resulting in part from the issuance of \$11.25 million in new debt obligations for water and wastewater capital improvements. Wet weather conditions, combined with the issuance of the previously mentioned \$11.25 million in new debt were major factors in the reduction of business-type net assets. An 8% water and wastewater rate increase is anticipated to be implemented in the first quarter of fiscal year 2005 to address the reduction in net assets.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

CITY OF KELLER'S CONDENSED STATEMENT OF NET ASSETS
(in thousands of dollars)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 24,874	\$ 34,251	\$ 27,457	\$ 20,019	\$ 52,331	\$ 54,270
Capital assets	105,871	91,867	61,461	58,652	167,332	150,519
Total Assets	130,745	126,118	88,918	78,671	219,663	204,789
Long term liabilities	102,239	97,528	25,639	15,534	127,878	113,062
Other liabilities	3,906	5,137	2,857	2,257	6,763	7,394
Total liabilities	106,145	102,665	28,496	17,791	134,641	120,456
Net Assets:						
Invested in capital assets, net of related debt	10,564	13,219	57,250	58,514	67,814	71,733
Restricted	6,989	5,506	472	468	7,461	5,974
Unrestricted	7,047	4,727	2,700	1,898	9,747	6,625
Total Net Assets	\$ 24,600	\$ 23,453	\$ 60,422	\$ 60,880	\$ 85,022	\$ 84,333

Analysis of the City's Operations – The following table provides a summary of the City's operations for year ended September 30, 2004. Overall the City had an increase in net assets of \$687,615.

Government Activities: Government activities increased the City's net assets by \$1,146,259, or 4.9% from the prior year. The largest change in expenses is an increase of \$990,829, or 22.8% in recreation and leisure. This increase is primarily due to the completion of The Keller Pointe Recreation and Aquatic Center, which opened for operations in June 2004. Interest on long-term debt increased by \$672,082, or 17.3% because of the new debt issued in fiscal years 2003 and 2004 to fund capital improvements. Major increases in revenues were included in fines, fees, and charges for services (\$1,399,994), and ad valorem taxes (\$1,351,425). Fines, fees, and charges for services increased primarily because of the user fees for The Keller Pointe Recreation and Aquatic Center, as mentioned earlier. Ad valorem taxes increased because of the increase in taxable values from the prior year by approximately 9.2%. Sales taxes increased by \$650,690, or 13.2%, resulting from a combination of increased economic activity and the 1/8th percent street maintenance sales tax that became effective on April 1, 2004.

Business-type Activities: Net Assets from business-type activities decreased by \$458,644 0.7%. The largest decrease (\$2,080,307) was in capital grants and contributions revenue due to fewer capital contributions from developers.

CITY OF KELLER, TEXAS

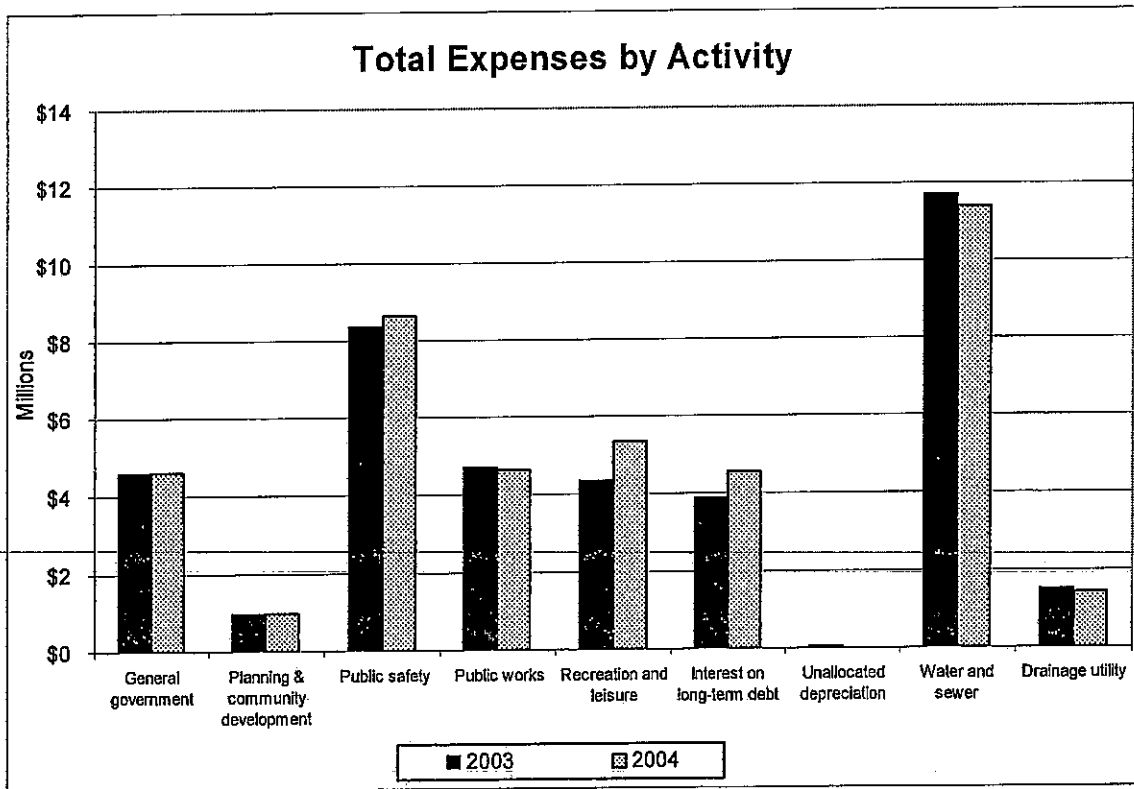
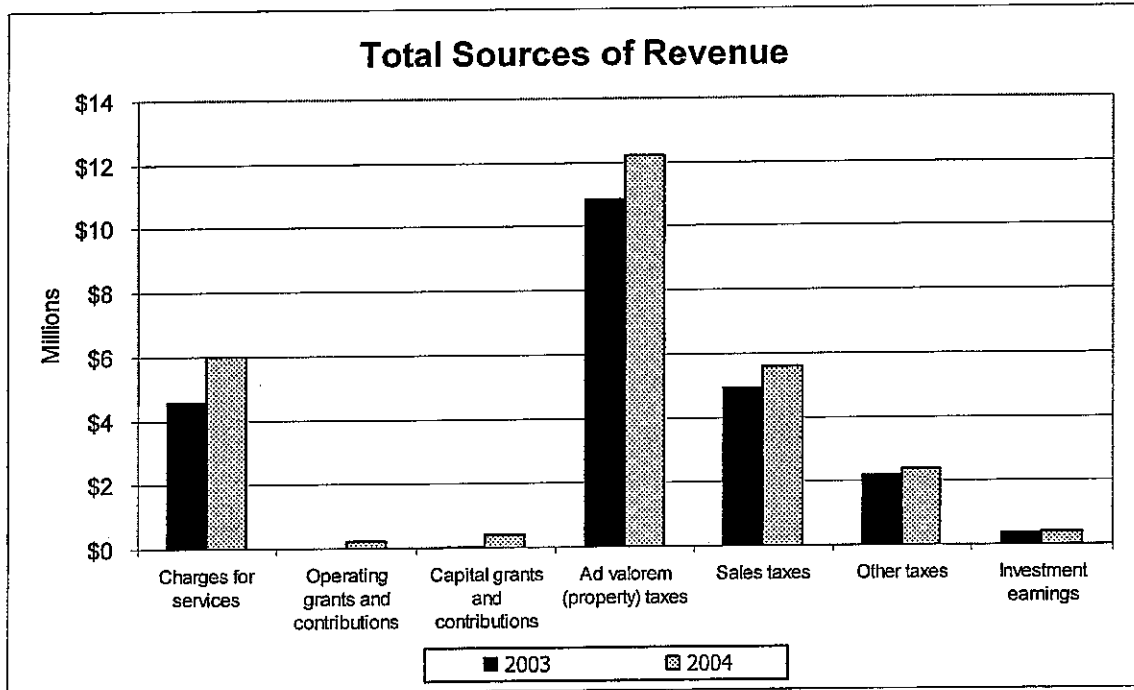
*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

CITY OF KELLER'S CHANGES IN NET ASSETS
(in thousands of dollars)

	<u>Government Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 5,987	\$ 4,587	\$ 12,920	\$ 12,775	\$ 18,907	\$ 17,362
Operating grants and contributions	219	8			219	8
Capital grants and contributions	403	47	1,267	3,347	1,670	3,394
General revenues:						
Ad valorem (property) taxes	12,217	10,866			12,217	10,866
Sales taxes	5,591	4,940			5,591	4,940
Other taxes	2,376	2,206			2,376	2,206
Investment earnings	413	357	137	167	550	525
Miscellaneous			212	283	212	283
Gain (loss) on sale/retirement of fixed assets			4	-	4	-
Total revenues	27,206	23,011	14,540	16,572	41,746	39,584
Expenses:						
General government	3,357	3,889			3,357	3,889
Planning & community development	984	962			984	962
Public safety	8,625	8,377			8,625	8,377
Public works	4,622	4,722			4,622	4,722
Recreation and leisure	5,333	4,342			5,333	4,342
Non-departmental	746	717			746	717
Interest on long-term debt	4,555	3,883			4,555	3,883
Unallocated depreciation	-	66			-	66
Water and sewer operations			11,401	11,703	11,401	11,703
Drainage utility			1,435	1,524	1,435	1,524
Total expenses	28,222	26,958	12,836	13,227	41,058	40,185
Increase (decrease) in net assets before transfers	(1,016)	(3,947)	1,704	3,345	688	(602)
Transfers in (out)	2,163	1,745	(2,163)	(1,745)	-	-
Increase (decrease) in net assets	1,147	(2,202)	(459)	1,600	688	(602)
Net assets – October 1	23,453	25,655	60,880	59,280	84,333	84,935
Net assets – September 30	\$ 24,600	\$ 23,453	\$ 60,421	\$ 60,880	\$ 85,021	\$ 84,333

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*



CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
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Financial Analysis of the City's Funds

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,177,432, a decrease of \$8,736,856 in comparison with the prior year. Approximately 40%, or \$8,008,879 of this total fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) pay for encumbrances, or liquidate contracts and purchase orders at the end of the year (\$5,879,582); 2) for special uses (\$40,580); 3) for employee benefits (\$22,036); 4) for prepaid items (\$234,695); 5) for inventory (\$21,476); and 6) to pay for debt service (\$1,810,510). Approximately 60% of the total amount (\$12,168,533) constitutes unreserved fund balance, which is available for appropriation by the City Council. A portion of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

In the general fund, the City budgeted an increase in the unreserved fund balance of \$442,340, with a total budgeted ending fund balance of \$2,683,269. The budgeted increase was part of the City's plan to maintain the current property tax rate, while also meeting the City's financial policy target balance of 13% of operating expenditures. Because actual revenues were more than budgeted revenues by \$193,768, and actual expenses being less than budgeted expenses by \$768,008, the total variance from the final budget was a positive \$761,776. Combined with the budgeted fund balance increase of \$442,340 the total increase in the actual fund balance for fiscal year 2004 was \$1,404,116, resulting in an ending balance at September 30, 2004 of \$3,740,047. Expenses were less than budget primarily because of cost savings from unfilled (frozen) positions, combined with a decrease in the accrued payroll liability of \$390,983.

As a measure of liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 20% (financial policy target = 13%) of total fund expenditures, while the total fund balance represents 22.5% of that same amount.

Enterprise Funds – The City's enterprise fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Total unrestricted net assets of enterprise funds were \$2,700,286. Unrestricted net assets of the respective funds are: Water and Wastewater-\$2,425,592, and Drainage Utility-\$274,694. The Water and Wastewater operations had an increase in net assets of \$198,794, while the Drainage Utility had a decrease in net assets of (\$657,437). The decrease in the net assets of the Drainage Utility resulted primarily from a decrease in developer contributions from the prior year.

General Fund Budgetary Highlights – In fiscal year 2004, the City Council approved revisions to the original appropriations. Although not required by official City policy or Charter, the annual budget is traditionally amended by the City Council toward the end of the fiscal year, in conjunction with the review and adoption of the subsequent year's budget. During the current year review process, all revenue sources and line-item expenditures are reviewed and adjusted to account for increases and/or decreases occurring during the year. As a result, a revised budget, which reflects the recommended changes made to the original adopted budget, is usually adopted each September. The revised budget amounts are used throughout this report as the amended adopted (final) budget.

Overall, these changes resulted in a decrease in budgeted expenditures and transfers out from the original budget of 0.1% or \$18,990, an increase in budgeted revenues and transfers in from the original budget of 0.5%, or \$92,515, and an increase in total fund balance by \$273,958 over the original adopted budget. No significant changes were made to any specific revenue or expenditures from the original adopted budget. Final budgeted expenditures reflected the continuation of the management decision not to fill vacant positions, in lieu of employee lay offs, originally initiated in January 2003.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2004, amounts to \$167,331,918 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, improvements other than buildings, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 11.2% (15.2% increase for governmental activities and 4.8% increase in business-type activities).

Major capital asset events during the current fiscal year included the following:

Completed Projects

- Substantially completed construction of The Keller Pointe Recreation and Aquatic Center (\$14,686,924, including design costs, spent to date), and funded by debt issuance backed by the Keller Development Corporation half-cent (0.5%) sales taxes
- Completed the Rapp Road improvement project (\$1,587,734, including design and engineering costs, spent to date), paid for by a combination of roadway impact fees and general obligation debt
- Substantially completed the expansion of the police facility (\$3,572,590, including design costs, spent to date) and funded by debt issuance backed by Keller Crime Control Prevention District three-eighths cent (3.75%) sales taxes
- Completed renovation of the Pearson Lane Ground Water Storage Tank (\$349,500 spent to date) and the Whitley Road Elevated Water Storage Tank (\$416,000 spent to date), funded by the Water and Wastewater Fund
- Completed the improvements to the Pearson Lane Pump Station (\$313,308 spent to date), funded by the Water and Wastewater Fund

Ongoing Projects

- Completed engineering and design of major sanitary sewer improvement project in North Keller, and awarded contracts totaling \$2,838,525 for the construction of improvements for the Marshall Branch area, with a total project construction budget of \$3.5 million, and funded by debt issuance backed by the Water and Wastewater Fund
- Traffic signalization improvements (\$72,182 spent to date on engineering and design services) with a total project budget of \$500,000
- Street improvements in the Quail Valley Subdivision with a \$543,400 project budget (\$34,530 spent to date, including engineering and design services, with a construction contract in the amount of \$521,963 awarded), to be funded from the 1/8 cent street maintenance sales tax
- The Parks at Town Center matching-grant project with the Texas Department of Parks and Wildlife – a \$1 million project budget, with \$103,106 spent to date; project consists of trail construction and installation of bridges and a playground in the area located near The Keller Pointe Recreation and Aquatic Center, Keller Town Hall, and the Keller Independent School District Natatorium
- Keller-Smithfield Road street improvements, with a total of \$606,181, spent to date, including engineering and design, (total project budget, \$4,843,194)
- Completed design and awarded construction contract (\$1,911,117 spent to date) on the Keller/Southlake 42-inch water main improvement
- Completed design and awarded construction contract (\$422,854 spent to date) on the Keller/Fort Worth water system improvements

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
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(Unaudited)*

**Capital Assets at Year-end
Net of Accumulated Depreciation
(in thousands of dollars)**

	Government Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 3,943	\$ 3,424	\$ 1,107	\$ 900	\$ 5,050	\$ 4,324
Buildings	42,750	25,048	-	63	42,750	25,111
Equipment	4,411	3,330	1,120	623	5,531	3,953
Improvements	53,829	55,649	58,452	56,817	112,281	112,466
Construction in Progress	938	4,415	782	250	1,720	4,665
Total	\$ 105,871	\$ 91,866	\$ 61,461	\$ 58,653	\$ 167,332	\$ 150,519

Additional information on the City's capital assets can be found in the notes to the financial statements.

Debt administration. At the end of the current fiscal year, the City of Keller had a total bonded debt outstanding and notes payable of \$126,606,656. Of this amount, \$101,041,478 comprises bonded debt backed by the full faith and credit of the City, and \$25,565,178 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues.

**Outstanding Debt at Year End
Bonds and Notes Payable
(in thousands of dollars)**

Type of Debt	Government Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation	\$ 14,607	\$ 10,993	\$ 7,840	\$ 8,462	\$ 22,447	\$ 19,455
Revenue Bonds	1,130	1,220	-	-	1,130	1,220
Certificates of Obligation	85,305	86,215	15,370	4,365	100,675	90,580
Contractual Obligations	-	-	2,355	2,707	2,355	2,707
Total	\$ 101,042	\$ 98,428	\$ 25,565	\$ 15,534	\$ 126,607	\$ 113,962

As of September 30, 2004, of the \$101,041, 478 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 56%, or \$56,680,000, is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1	\$32,430,000
Keller Development Corporation	20,005,000
Keller Crime Control Prevention District	4,245,000

Therefore 44%, or \$44,361,478, is backed by the full faith and credit of the City's general base.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

During the fiscal year, the City's total debt increased by \$13,545,110, or 12%. The increase was primarily due to the following:

- The City issued \$18,605,000 Certificates of Obligation in June 2004. The projects funded with the proceeds are:

Purchase furniture, fixtures, and equipment for The Keller Pointe Recreation and Aquatic Center	\$ 750,000
Keller-Smithfield Road (South) and bridge improvements	4,500,000
Rapp Road improvements (from Whitley Road to Rufe Snow Drive)	500,000
Elm Street bridge improvements	250,000
Traffic signalization improvements	500,000
Land acquisition for the Fire Department	750,000
Issuance costs, premiums and discounts	45,000
Subtotal governmental activities	7,295,000
Pearson Lane 3 million gallon ground water storage tank	1,500,000
Keller-Smithfield Road 1 million gallon elevated water storage tank	1,600,000
Knox Road water improvements	1,200,000
Keller/Southlake/Fort Worth water system improvements	2,400,000
Water meter reading improvements	1,000,000
Marshall Branch sanitary sewer improvements	3,550,000
Issuance costs, premiums and discounts	60,000
Subtotal business-type activities	11,310,000
Grand total	\$18,605,000

- The City issued \$11,565,000 General Obligation Refunding Bonds in February 2004, refunding outstanding bond issues from 1994 and 1996. The refunding issue had a net interest rate of 2.9536275%, and resulting in a present value benefit of \$763,033. The net debt of the City increased \$130,000 as a result of the refunding.
- The City entered into an installment purchase agreement for \$825,000 to fund the acquisition of a new fire truck apparatus

The City maintains favorable ratings from bond rating agencies. The City's General Obligation, Combination Tax and Revenue Certificates of Obligation ratings are as follows:

	Moody's <u>Investors Service</u>	Standard & Poor's
General obligation bonds (tax supported)	A2	A
Certificates of obligation (tax supported)	A2	A
Revenue bonds	Baa	BBB

* In September 2000, Standard & Poor's upgraded the City's tax-supported debt from A- to A. In March 2001, Moody's upgraded the City's tax-supported debt from Baa1 to A3. In November 2002, Moody's once again upgraded the City's debt to A2. In June 2004, Standard and Poor's once again upgraded the City's tax-supported debt from A to A+.

Several of the City's outstanding bonds are insured by various commercial companies, and thus are rated "Aaa" by Moody's and "AAA" by S&P.

Additional information on the City's long-term debt can be found in the notes to the basic financial statements.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2004-2005 budget, general fund revenues and transfers in were budgeted to increase by \$1,045,730 (5.8%) from the 2003-04 budget year with general property taxes comprising about 42% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations increased 6.5% over the prior year, compared to an increase of 9.2% last year. Projected increases in sales tax receipts (9%) continue in fiscal year 2004-05 because of new retail outlets being opened in Keller, and continued increases in historical growth trends. A slight increase in the amount of investment income is also projected due to the Federal Reserve Board's plans to slowly increase short-term interest rates.

These revenue projections, combined with an effort to maintain ending fund balances as required by the City's financial policies, resulted in cost-saving strategies implemented during the year. A major reduction in the general fund in personnel services resulted from the hiring freeze that was implemented by management during the 2002-03 fiscal year, and continued into the 2003-04 and 2004-05 fiscal years. A budgeted wage and benefit savings (reduction in expenditures) in the general fund of \$832,000 for fiscal year 2004-05 was included in the adopted budget, with 3 of the 16 frozen positions added back to the budget. In addition to this hiring freeze, reductions in other expenditures were made in order to maintain the required ending fund balance at September 30, 2005 of 13% of operating expenditures (actual of 13.3%). The City's property tax rate was increased by \$0.613 cents per \$100 of assessed value, to \$0.44413, an increase of 1.4%. This increase amounted to an annual increase of \$12.84 for the average residential homeowner, and is the first tax rate increase by the City in over ten years.

In the water and wastewater fund, a rate increase of 8% in both water and wastewater rates is anticipated for the first quarter of the 2004-05 fiscal year. This increase is necessary in order to generate revenues to retire the annual debt service requirements on the \$11.31 million in new debt obligations issued in 2004 to fund system-wide capital improvements.

Residential growth continues to be strong; however, commercial/retail growth is beginning to respond to the number of households, increased traffic counts and surrounding residential development outside the city limit boundary. Even though residential growth has slowed compared to previous years, it is anticipated that approximately 425 single-family permits will be issued in calendar year 2005, compared to 428 in calendar year 2004 – exceeding most communities in Northeast Tarrant County.

Commercial growth along the highway corridors and in the Keller Town Center is anticipated to be very strong in 2005. First quarter of fiscal year 2005 permit value of commercial projects under construction was \$39.54 million compared to first quarter 2004 of \$9.81 million. First quarter projects under construction include the Conservatory at Town Center, a 188-unit Over 55 Adult Living Complex, and the remainder of the Villas at Town Center, totaling 67 upscale patio homes, both comprising a large portion of approximately 685,800 square foot of commercial development under construction throughout the City.

Traffic counts on all major highway intersections have increased by approximately 2,000 vehicles per day over calendar year 2003, thus impacting the increase in commercial/retail activity along the highway corridors of U.S. Highway 377, FM 1709 (Keller Parkway) and Rufe Snow Drive.

Reconstruction of the northern section of U.S. Highway 377 from the center of the City to the North City limit boundary is anticipated to be approved for construction by the Texas Department of Transportation in August 2005 and will result in the completion of U.S. 377 through the City as a four-lane divided thoroughfare. Upon completion of the unimproved 2.4-mile roadway section, a new commercial corridor will be opened that, if developed and planned properly, will add significant real property value and taxable retail sales. By the first quarter 2006 improvements to Keller-Smithfield Road South, including bridge replacements and trail connections, will be completed that will improve the linkage of the southeastern quadrant of the City to Town Center.

All existing streets identified for rehabilitation in the Capital Improvements Plan for 2004 were improved in the first year implementation of the 1/8th of one percent local option sales tax for street maintenance and rehabilitation. Approximately \$521,000 was used to satisfy the annual capital improvement program budget.

CITY OF KELLER, TEXAS

*Management's Discussion and Analysis
For Year Ended September 30, 2004
(Unaudited)*

Town Center development and planning continues with the prospects in 2005 to include a 32-bed limited stay hospital and medical clinic; additional high-density residential development using the brownstone concept; a 5.6-acre mixed use multiple story retail, office and residential complex; restaurants; expansion of existing retail centers; and additional professional office park development.

Requests for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with general overview of the City's finances. If you have questions about this report, or need any additional information, please contact the Finance Department, P.O. Box 770, Keller, Texas 76244-0770, call (817) 743-4025, or e-mail at finance@cityofkeller.com.

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CITY OF KELLER, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Cash and cash equivalents</i>	\$ 38,758	\$ 400	\$ 39,158
<i>Investments</i>	20,150,210	2,848,042	22,998,252
<i>Receivables (net of allowances for uncollectibles):</i>	1,324,313	2,398,708	3,723,021
<i>Special assessments</i>	177,968	—	177,968
<i>Internal balances</i>	676,689	(676,689)	—
<i>Due from other governments</i>	1,258,030	119,451	1,377,481
<i>Inventories</i>	21,476	287,081	308,557
<i>Prepaid items</i>	234,695	81,764	316,459
<i>Deferred charges</i>	991,859	340,832	1,332,691
Restricted assets:			
<i>Cash</i>	—	528	528
<i>Investments</i>	—	17,888,236	17,888,236
Capital assets (net of accumulated depreciation, where applicable):			
<i>Land</i>	3,943,192	1,106,536	5,049,728
<i>Buildings</i>	42,749,808	—	42,749,808
<i>Improvements other than buildings</i>	53,827,167	58,642,434	112,469,601
<i>Machinery and equipment</i>	4,412,517	929,577	5,342,094
<i>Construction in progress</i>	938,152	782,535	1,720,687
<i>Capacity rights (net of accumulated amortization)</i>	—	4,168,437	4,168,437
Total Assets	<u>130,744,834</u>	<u>88,917,872</u>	<u>219,662,706</u>
LIABILITIES			
<i>Accounts payable</i>	2,118,223	1,754,951	3,873,174
<i>Accrued liabilities and other payables</i>	455,525	187,399	642,924
<i>Unearned revenue</i>	18,098	—	18,098
<i>Customer deposits</i>	88,448	667,641	756,089
<i>Accrued interest payable</i>	692,574	247,579	940,153
<i>Provision for litigation settlement</i>	533,270	—	533,270
Noncurrent liabilities:			
<i>Due within one year</i>	5,956,503	1,657,635	7,614,138
<i>Due in more than one year</i>	96,282,516	23,980,992	120,263,508
Total Liabilities	<u>106,145,157</u>	<u>28,496,197</u>	<u>134,641,354</u>
NET ASSETS			
<i>Invested in Capital Assets, Net of Related Debt</i>	10,564,021	57,249,543	67,813,564
Restricted For:			
<i>Debt Service</i>	1,958,389	471,846	2,430,235
<i>Capital Projects</i>	5,030,582	—	5,030,582
<i>Unrestricted</i>	7,046,685	2,700,286	9,746,971
Total Net Assets	<u>\$ 24,599,677</u>	<u>\$ 60,421,675</u>	<u>\$ 85,021,352</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
<i>General government</i>	\$ 3,357,345	\$ 284,607	\$ --	\$ --
<i>Planning & community development</i>	984,186	2,174,420	--	--
<i>Public safety</i>	8,625,240	1,461,939	215,405	--
<i>Public works</i>	4,621,754	439,972	--	290,532
<i>Recreation and leisure</i>	5,332,567	1,523,299	3,446	112,112
<i>Non-departmental</i>	745,630	102,964	--	--
<i>Interest on long-term debt</i>	4,555,553	--	--	--
Total Governmental Activities	<u>28,222,275</u>	<u>5,987,201</u>	<u>218,851</u>	<u>402,644</u>
Business-type Activities:				
Water & Wastewater Operations	11,400,743	12,180,322	--	1,151,736
Drainage Utility	1,435,397	739,953	--	115,144
Total Business-type Activities	<u>12,836,140</u>	<u>12,920,275</u>	<u>--</u>	<u>1,266,880</u>
Total Primary Government	<u>\$ 41,058,415</u>	<u>\$ 18,907,476</u>	<u>\$ 218,851</u>	<u>\$ 1,669,524</u>

General Revenues:

Property Taxes
Sales Taxes
Franchise Taxes
Alcoholic Beverage Taxes
Unrestricted Investment Earnings
Miscellaneous income
Gain on Sale of Capital Assets

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (3,072,738)		\$ (3,072,738)
1,190,234		1,190,234
(6,947,896)		(6,947,896)
(3,891,250)		(3,891,250)
(3,693,710)		(3,693,710)
(642,666)		(642,666)
(4,555,553)		(4,555,553)
<u>(21,613,579)</u>		<u>(21,613,579)</u>
	\$ 1,931,315	1,931,315
	(580,300)	(580,300)
	1,351,015	1,351,015
<u>(21,613,579)</u>	<u>1,351,015</u>	<u>(20,262,564)</u>
12,217,245	—	12,217,245
5,590,869	—	5,590,869
2,347,256	—	2,347,256
28,510	—	28,510
412,998	137,199	550,197
—	211,727	211,727
—	4,375	4,375
2,162,960	(2,162,960)	—
<u>22,759,838</u>	<u>(1,809,659)</u>	<u>20,950,179</u>
1,146,259	(458,644)	687,615
<u>23,453,418</u>	<u>60,880,319</u>	<u>84,333,737</u>
<u>\$ 24,599,677</u>	<u>\$ 60,421,675</u>	<u>\$ 85,021,352</u>

CITY OF KELLER, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	General Fund	Debt Service Fund
ASSETS		
<i>Cash and cash equivalents</i>	\$ 24,063	\$ --
<i>Investments</i>	--	782,859
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	507,602	47,985
<i>Accounts</i>	193,781	--
<i>Interest</i>	4,167	18,379
<i>Other</i>	96,881	22,680
<i>Special assessments</i>	--	51,768
<i>Intergovernmental</i>	539,435	--
<i>Due from other funds</i>	3,977,311	108,298
<i>Advance to other funds</i>	--	--
<i>Inventories</i>	21,476	--
<i>Prepaid items</i>	233,881	--
	<u>\$ 5,598,597</u>	<u>\$ 1,031,969</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable</i>	\$ 644,289	\$ 208
<i>Accrued liabilities and other payables</i>	263,813	--
<i>Due to other funds</i>	468,532	--
<i>Advance from other funds</i>	--	--
<i>Customer deposits</i>	12,150	--
<i>Deferred revenue</i>	334,737	113,703
<i>Compensated absences payable</i>	135,029	--
Total Liabilities	<u>1,858,550</u>	<u>113,911</u>
Fund Balances:		
Reserved Fund Balances		
<i>Reserved for encumbrances</i>	119,555	--
<i>Reserved for special uses</i>	--	--
<i>Reserved for interfund advances</i>	--	--
<i>Reserved for employee benefits</i>	22,036	--
<i>Reserved for prepaid items</i>	233,881	--
<i>Reserved for inventory</i>	21,476	--
<i>Reserved for debt service</i>	--	918,058
Unreserved, reported in:		
<i>General Fund</i>	3,343,099	--
<i>Special Revenue Funds</i>	--	--
<i>Capital Projects Funds</i>	--	--
Total Fund Balances	<u>3,740,047</u>	<u>918,058</u>
	<u>\$ 5,598,597</u>	<u>\$ 1,031,969</u>

The accompanying notes are an integral part of this statement.

Parks Capital Project	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 14,696	\$ 38,759
5,295,331	7,024,798	7,047,223	20,150,211
--	--	312,038	867,625
--	--	--	193,781
692	21,601	8,637	53,476
84	8,707	81,079	209,431
--	--	126,200	177,968
--	--	718,594	1,258,029
--	9,250	2,941,162	7,036,021
--	--	42,250	42,250
--	--	--	21,476
--	--	814	234,695
<u>\$ 5,296,107</u>	<u>\$ 7,064,356</u>	<u>\$ 11,292,693</u>	<u>\$ 30,283,722</u>
\$ 513,626	\$ --	\$ 960,100	\$ 2,118,223
--	17,874	173,839	455,526
4,813,577	849,947	227,276	6,359,332
--	--	42,250	42,250
--	--	76,298	88,448
--	--	456,335	904,775
--	--	2,707	137,736
<u>5,327,203</u>	<u>867,821</u>	<u>1,938,805</u>	<u>10,106,290</u>
--	4,208,828	1,551,199	5,879,582
--	--	40,580	40,580
--	--	42,250	42,250
--	--	--	22,036
--	--	814	234,695
--	--	--	21,476
--	--	892,452	1,810,510
--	--	--	3,343,099
--	--	4,061,253	4,061,253
(31,096)	1,987,707	2,765,340	4,721,951
<u>(31,096)</u>	<u>6,196,535</u>	<u>9,353,888</u>	<u>20,177,432</u>
<u>\$ 5,296,107</u>	<u>\$ 7,064,356</u>	<u>\$ 11,292,693</u>	<u>\$ 30,283,722</u>

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CITY OF KELLER, TEXAS
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2004**

Total fund balances - governmental funds balance sheet	\$ 20,177,432
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	105,870,836
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	503,669
Payables for bond principal which are not due in the current period are not reported in the funds.	(100,724,535)
Payables for capital leases which are not due in the current period are not reported in the funds.	(825,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(692,574)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(551,748)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	1,374,867
Payables for litigation settlements which are not due in the current period are not reported in the funds.	<u>(533,270)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 24,599,677</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund	Debt Service Fund
	<u> </u>	<u> </u>
Revenues:		
<i>Taxes</i>	\$ 12,807,572	\$ 3,519,262
<i>Permits, licenses and fees</i>	2,223,221	--
<i>Intergovernmental</i>	731,720	--
<i>Charges for services</i>	182,441	--
<i>Fines</i>	813,480	--
<i>Special assessments and impact fees</i>	--	17,457
<i>Donations</i>	102,964	--
<i>Interest income</i>	47,549	162,269
<i>Miscellaneous</i>	136,041	--
Total revenues	<u>17,044,988</u>	<u>3,698,988</u>
Expenditures:		
Current:		
<i>General government</i>	2,403,052	--
<i>Planning & community development</i>	957,446	--
<i>Public safety</i>	7,998,116	--
<i>Public works</i>	1,650,381	--
<i>Recreation and leisure</i>	2,599,204	--
<i>Non-departmental</i>	705,497	1,751
Capital outlay	322,646	--
Debt service:		
<i>Principal</i>	--	2,661,781
<i>Interest and fiscal charges</i>	--	1,843,865
<i>Bond issuance costs</i>	--	132,211
Total expenditures	<u>16,636,342</u>	<u>4,639,608</u>
Excess (deficiency) of revenues over (under) expenditures	408,646	(940,620)
Other financing sources (uses):		
<i>Transfers in</i>	1,188,500	1,308,598
<i>Transfers out</i>	(193,030)	--
<i>Debt issue proceeds</i>	--	11,125,000
<i>Bond premium</i>	--	292,474
<i>Bond discount</i>	--	(59,838)
<i>Payment to refunded bond escrow agent</i>	--	(11,359,207)
<i>Capital lease proceeds</i>	--	--
Total other financing sources (uses)	<u>995,470</u>	<u>1,307,027</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,404,116	366,407
Fund balances, October 1	<u>2,335,931</u>	<u>551,651</u>
Fund balances, September 30	<u>\$ 3,740,047</u>	<u>\$ 918,058</u>

The accompanying notes are an integral part of this statement.

Parks Capital Project	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 4,036,345	\$ 20,363,179
--	--	237,000	2,460,221
--	--	358,605	1,090,325
--	--	1,083,090	1,265,531
--	--	97,859	911,339
--	--	433,393	450,850
--	20,694	46,285	169,943
68,261	32,779	134,249	445,107
--	--	158,421	294,462
<u>68,261</u>	<u>53,473</u>	<u>6,585,247</u>	<u>27,450,957</u>
4,375	--	670,771	3,078,198
--	--	--	957,446
--	--	102,433	8,100,549
--	--	86,614	1,736,995
--	--	1,183,552	3,782,756
--	--	--	707,248
11,660,452	1,446,176	5,976,090	19,405,364
--	--	1,260,000	3,921,781
--	--	2,788,467	4,632,332
--	37,820	--	170,031
<u>11,664,827</u>	<u>1,483,996</u>	<u>12,067,927</u>	<u>46,492,700</u>
(11,596,566)	(1,430,523)	(5,482,680)	(19,041,743)
--	--	3,756,898	6,253,996
--	(408,899)	(3,489,107)	(4,091,036)
755,000	6,540,000	--	18,420,000
--	--	--	292,474
--	--	--	(59,838)
--	--	--	(11,359,207)
--	--	848,500	848,500
<u>755,000</u>	<u>6,131,101</u>	<u>1,116,291</u>	<u>10,304,889</u>
(10,841,566)	4,700,578	(4,366,389)	(8,736,854)
<u>10,810,470</u>	<u>1,495,957</u>	<u>13,720,277</u>	<u>28,914,286</u>
<u>\$ (31,096)</u>	<u>\$ 6,196,535</u>	<u>\$ 9,353,888</u>	<u>\$ 20,177,432</u>

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CITY OF KELLER, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds	\$ (8,736,854)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	19,134,675
The depreciation of capital assets used in governmental activities is not reported in the funds.	(5,206,926)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(14,924)
Certain tax increment financing district revenues are deferred in the funds. This is the change in these amounts	113,486
Certain revenue from ambulance activity in SOA is deferred in the funds.	(293,984)
Certain revenue from assessments in the SOA is deferred in the funds.	(41,938)
Developer capital contributions in the SOA are not reported as revenue in the funds.	269,838
Debt premiums/discounts received/paid in the funds are deferred in the SNA.	(292,474)
Payments in the funds to bond escrow agents are deferred in the SNA.	11,699,262
Receipt of debt proceeds in the funds is not a revenue in the SOA.	(19,268,500)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,981,620
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(207,651)
(Increase) decrease in accrued interest from beginning of period to end of period.	76,780
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(66,151)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,146,259</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
SEPTEMBER 30, 2004

	Enterprise Fund <u>Water & Wastewater Operations</u>	Enterprise Fund <u>Drainage Utility</u>	Total Enterprise Funds
ASSETS			
Current Assets:			
<i>Cash and cash equivalents</i>	\$ 400	\$ —	\$ 400
<i>Investments</i>	2,690,455	157,587	2,848,042
Receivables (net of allowances for uncollectibles):			
<i>Accounts</i>	2,210,919	43,731	2,254,650
<i>Interest</i>	47,642	268	47,910
<i>Other</i>	94,671	1,477	96,148
<i>Intergovernmental</i>	119,451	—	119,451
<i>Due from other funds</i>	459,490	274,568	734,058
<i>Advance to other funds</i>	175,000	—	175,000
<i>Inventories</i>	287,081	—	287,081
<i>Prepaid items</i>	81,721	43	81,764
Total Current Assets	<u>6,166,830</u>	<u>477,674</u>	<u>6,644,504</u>
Noncurrent Assets			
Restricted assets:			
<i>Cash</i>	528	—	528
<i>Investments</i>	17,888,236	—	17,888,236
Total Restricted Assets	<u>17,888,764</u>	<u>—</u>	<u>17,888,764</u>
Property, Plant and Equipment			
<i>Land</i>	1,106,536	—	1,106,536
<i>Improvements other than buildings</i>	59,414,533	16,944,651	76,359,184
<i>Machinery and equipment</i>	1,231,576	492,330	1,723,906
<i>Construction in progress</i>	782,535	—	782,535
<i>Accumulated Depreciation</i>	(13,360,290)	(5,150,789)	(18,511,079)
Net Property, Plant and Equipment	<u>49,174,890</u>	<u>12,286,192</u>	<u>61,461,082</u>
<i>Capacity rights (net of accumulated amortization)</i>	4,168,437	—	4,168,437
<i>Deferred charges</i>	340,832	—	340,832
Total Noncurrent Assets	<u>53,684,159</u>	<u>12,286,192</u>	<u>65,970,351</u>
Total Assets	<u>77,739,753</u>	<u>12,763,866</u>	<u>90,503,619</u>
LIABILITIES			
Current Liabilities:			
<i>Accounts payable</i>	1,746,087	8,864	1,754,951
<i>Accrued liabilities and other payables</i>	179,786	7,613	187,399
<i>Compensated absences payable</i>	61,946	11,503	73,449
<i>Due to other funds</i>	1,410,747	—	1,410,747
<i>Advance from other funds</i>	—	175,000	175,000
<i>Accrued interest payable</i>	247,579	—	247,579
<i>Customer deposits</i>	667,641	—	667,641
<i>Current portion of certificates of obligation</i>	405,000	—	405,000
<i>Current portion of general obligation bonds</i>	811,013	—	811,013
<i>Current portion of contractual obligations</i>	368,173	—	368,173
Total Current Liabilities	<u>5,897,972</u>	<u>202,980</u>	<u>6,100,952</u>
Noncurrent Liabilities			
<i>Certificates of obligation</i>	14,965,000	—	14,965,000
<i>Contractual obligations</i>	1,986,726	—	1,986,726
<i>General obligations</i>	7,029,266	—	7,029,266
Total Noncurrent Liabilities	<u>23,980,992</u>	<u>—</u>	<u>23,980,992</u>
Total Liabilities	<u>29,878,964</u>	<u>202,980</u>	<u>30,081,944</u>
NET ASSETS			
<i>Invested in capital assets, net of related debt</i>	44,963,351	12,286,192	57,249,543
<i>Restricted</i>	471,846	—	471,846
<i>Unrestricted</i>	2,425,592	274,694	2,700,286
Total net assets	<u>\$ 47,860,789</u>	<u>\$ 12,560,886</u>	<u>\$ 60,421,675</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Enterprise Fund <u>Water & Wastewater Operations</u>	Enterprise Fund <u>Drainage Utility</u>	Total Enterprise Funds
OPERATING REVENUES:			
<i>Charges for services -water</i>	\$ 8,748,360	\$ --	\$ 8,748,360
<i>Charges for services - sewer</i>	3,213,164	--	3,213,164
<i>Charges for services - drainage</i>	--	739,953	739,953
<i>Tap and connection fees</i>	157,192	--	157,192
<i>Inspection fees</i>	61,605	--	61,605
Total Operating Revenues	<u>12,180,321</u>	<u>739,953</u>	<u>12,920,274</u>
OPERATING EXPENSES:			
<i>Personnel services</i>	1,900,741	361,208	2,261,949
<i>Operating and maintenance costs</i>	414,511	49,720	464,231
<i>Contractual services and other</i>	2,669,060	110,551	2,779,611
<i>Wholesale water purchases</i>	3,564,969	--	3,564,969
<i>Depreciation and amortization</i>	2,054,881	903,452	2,958,333
Total Operating Expenses	<u>10,604,162</u>	<u>1,424,931</u>	<u>12,029,093</u>
Operating Income (Loss)	<u>1,576,159</u>	<u>(684,978)</u>	<u>891,181</u>
NON-OPERATING REVENUES (EXPENSES):			
<i>Interest income</i>	134,893	2,305	137,198
<i>Gain from disposal of assets</i>	5,005	--	5,005
<i>Miscellaneous income</i>	211,030	68	211,098
<i>Interest and fiscal charges</i>	(705,996)	--	(705,996)
<i>Bad debt recovery (expense)</i>	(25,725)	(10,466)	(36,191)
<i>Loss from disposal of assets</i>	(59,130)	--	(59,130)
<i>Miscellaneous expense</i>	(5,730)	--	(5,730)
Total Non-operating Revenues (Expenses)	<u>(445,653)</u>	<u>(8,093)</u>	<u>(453,746)</u>
Net Income (Loss) before Capital Contributions and Transfers	<u>1,130,506</u>	<u>(693,071)</u>	<u>437,435</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
<i>Capital Contributions</i>	1,151,738	115,144	1,266,882
<i>Transfers out</i>	(2,083,450)	(79,510)	(2,162,960)
Total Capital Contributions and Transfers	<u>(931,712)</u>	<u>35,634</u>	<u>(896,078)</u>
Change in Net Assets	198,794	(657,437)	(458,643)
Total Net Assets - October 1	<u>47,661,995</u>	<u>13,218,323</u>	<u>60,880,318</u>
Total Net Assets, September 30	<u>\$ 47,860,789</u>	<u>\$ 12,560,886</u>	<u>\$ 60,421,675</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Enterprise Funds		
	Water & Wastewater Operations	Drainage Utility	Totals
Cash Flows from Operating Activities:			
<i>Cash received from customers and users</i>	\$ 12,117,491	\$ 722,967	\$ 12,840,458
<i>Cash payments to suppliers for goods and services</i>	(6,441,617)	(183,661)	(6,625,278)
<i>Cash payments to employees for services</i>	(1,891,638)	(361,998)	(2,253,636)
Net Cash Provided (Used) by Operating Activities	<u>3,784,236</u>	<u>177,308</u>	<u>3,961,544</u>
Cash Flows from Non-capital Financing Activities:			
<i>Transfers to other funds</i>	(2,083,450)	(79,510)	(2,162,960)
<i>Cash received from other funds</i>	874,965	175,000	1,049,965
<i>Cash paid to other funds</i>	(345,363)	(211,644)	(557,007)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,553,848)</u>	<u>(116,154)</u>	<u>(1,670,002)</u>
Cash Flows from Capital and Related Financing Activities:			
<i>Proceeds received from debt issuance</i>	22,875,000	--	22,875,000
<i>Acquisition or construction of capital assets</i>	(4,303,858)	(38,869)	(4,342,727)
<i>Principal payments on debt</i>	(12,843,784)	--	(12,843,784)
<i>Interest paid</i>	(499,594)	--	(499,594)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>5,227,764</u>	<u>(38,869)</u>	<u>5,188,895</u>
Cash Flows from Investing Activities:			
<i>Purchase of investments</i>	(7,274,470)	--	(7,274,470)
<i>Investment sales proceeds</i>	1,428,237	30,263	1,458,500
<i>Investment interest received</i>	134,893	2,305	137,198
Net Cash Provided (Used) for Investing Activities	<u>(5,711,340)</u>	<u>32,568</u>	<u>(5,678,772)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,746,812</u>	<u>54,853</u>	<u>1,801,665</u>
Cash and cash equivalents - beginning	2,911,091	83,646	2,994,737
Restricted cash and cash equivalents - beginning	5,190,027	--	5,190,027
	<u>8,101,118</u>	<u>83,646</u>	<u>8,184,764</u>
Cash and cash equivalents - ending	2,364,960	138,499	2,503,459
Restricted cash and cash equivalents - ending	7,482,970	--	7,482,970
	<u>\$ 9,847,930</u>	<u>\$ 138,499</u>	<u>\$ 9,986,429</u>
Cash	\$ 400	\$ --	\$ 400
Investments classified as cash equivalents	2,364,560	138,499	2,503,059
	<u>\$ 2,364,960</u>	<u>\$ 138,499</u>	<u>\$ 2,503,459</u>
Restricted cash	\$ 528	\$ --	\$ 528
Restricted investments classified as cash equivalents	7,482,442	--	7,482,442
	<u>\$ 7,482,970</u>	<u>\$ --</u>	<u>\$ 7,482,970</u>

	Enterprise Funds		
	Water & Wastewater Operations	Drainage Utility	Totals
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities:			
Operating income (loss)	\$ 1,576,159	\$ (684,978)	\$ 891,181
Adjustments to reconcile operating income to net cash			
Provided by Operating Activities			
<i>Depreciation and amortization</i>	2,054,881	903,452	2,958,333
<i>Provision for Uncollectible Accounts</i>	(25,725)	(10,466)	(36,191)
<i>Miscellaneous income (expense)</i>	205,300	68	205,368
<i>Gain (loss) from asset disposal</i>	(54,125)	--	(54,125)
(Increase) decrease in assets			
<i>Accounts receivable</i>	(287,303)	(6,588)	(293,891)
<i>Due from other governments</i>	978	--	978
<i>Prepaid items</i>	(81,721)	(43)	(81,764)
<i>Inventory</i>	(54,582)	--	(54,582)
Increase (decrease) in liabilities:			
<i>Accounts payable</i>	511,053	(13,164)	497,889
<i>Accrued liabilities and other payables</i>	(102,967)	(10,183)	(113,150)
<i>Due to other governments</i>	--	--	--
<i>Customer deposits</i>	33,185	--	33,185
<i>Compensated absences</i>	9,103	(790)	8,313
Total Adjustments	<u>2,208,077</u>	<u>862,286</u>	<u>3,070,363</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,784,236</u>	<u>\$ 177,308</u>	<u>\$ 3,961,544</u>
Noncash Investing, Capital, and Financing Activities			
<i>Developer contributions of infrastructure</i>	1,151,738	115,144	1,266,882
	<u>\$ 1,151,738</u>	<u>\$ 115,144</u>	<u>\$ 1,266,882</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keller, Texas, was incorporated in 1955. The City operates under the Council-Manager form of government as adopted by a home rule charter approved November 16, 1955. The City provides a full range of municipal services including public safety (police and fire), highway and streets, parks and recreation, health and social services, planning and zoning, and general administrative services. In addition, the City provides water and sewer service, and storm water drainage as proprietary functions of the City.

The accounting policies of the City of Keller, Texas, conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the City's financial statements.

The City of Keller is a home rule municipality governed by an elected mayor and five member City Council who appoint a city manager. The City's (primary government) financial statements include its component units. The accompanying general purpose financial statements comply with the provisions of the GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the "primary government") is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Blended Component Units

Keller Development Corporation (KDC) - The City created the Keller Development Corporation for the purpose of implementing its Parks Master Plan and appointed a seven member board of directors, four of whom are required to be members of the City Council. The remaining three members are residents of the City. All board members are appointed by the City Council. KDC is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of KDC, the assets of KDC will be distributed to the City. KDC is blended as a governmental fund into the primary government.

Keller Tax Increment Finance Reinvestment Zone #1 (TIF) - The City created the Keller Tax Increment Finance Reinvestment Zone #1 to encourage the accelerated development of the Keller Town Center area in the City. The 12-member Board of Directors is comprised of five members of the Keller City Council, the Mayor of Keller, three members representing the Keller Independent School District, and one member appointed from the governing bodies of the three respective Tarrant County entities. The TIF was established through the cooperative efforts of the City of Keller, the Keller Independent School District, Tarrant County, the Tarrant County College District and the Tarrant County Hospital District. These entities comprise all of the overlapping taxing entities within the City. Debt obligations issued and backed by the TIF are to be repaid from property tax levies, based on the incremental increase in the real property values from the base year (1998).

Since the TIF Board of Directors act primarily in an advisory role to the Keller City Council, who exercise the ultimate financial control over the recommendations of the TIF, the financial information of the TIF is blended as a governmental fund into the primary government.

Keller Crime Control Prevention District (KCCPD) - In accordance with Section 363 of the Texas Local Government Code, the City Council appointed a temporary KCCPD board, who then developed and proposed a two-year financial plan to the residents of the City for a public vote. On November 6, 2001, the residents of the City, by referendum, approved an additional three-eighths of one percent (0.375%) sales and use tax to be used for public safety crime control and prevention programs, including public safety equipment, and improvements to public safety facilities. Following voter approval of KCCPD, a board of directors was officially appointed by the City Council, and the two-year budget was then adopted by the board and City Council. By statute, the life of KCCPD cannot exceed five years without re-authorization by another referendum. The additional sales tax became effective in April 2002.

Since the KCCPD board acts primarily in an advisory role to the Keller City Council, who exercises the ultimate financial control over the recommendations of the board, the financial information for KCCPD is blended as a governmental fund into the primary government.

Separate financial statements for the component units are not prepared.

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

The Parks and the Capital Project capital project funds account for the acquisition or construction of general fixed assets.

The City reports the following major proprietary funds:

The Water and Wastewater Operations and the Drainage Utility funds operate the water distribution system, the wastewater collection system and storm water control.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have

the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer and Drainage Utility enterprise funds are charges to customers for sales and services. These funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-backed securities; (4) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance fund, or its successor, (B) secured by obligations that are described by Section 2256.009(a) of the Texas Public Funds Investment Act, including mortgage-backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage-backed securities of the nature described in Section 2256.009(b) of the Act, (C) secured in any other manner and amount provided by law for deposits of the City; or, (5) eligible local government investment pools which invest in instruments and follow practices allowed by current law as defined in Section 2256.016 of the Texas Public Funds Investment Act; (6) regulated no-load money market mutual funds that are (A) registered with and regulated by the Securities and Exchange Commission; (B) having a dollar-weighted average portfolio of ninety (90) days or less; (C) the investment objectives include the maintenance of a stable net asset value of one dollar (\$1.00) per share; and (D) the fund is continuously rated no lower than "AAA" or its equivalent rating by at least one nationally recognized rating service; and (7) repurchase agreements, reverse repurchase agreements, bankers' acceptances and commercial paper, to the extent they are contained in the portfolios of approved public funds investment pools in which the City invests.

Investments maturing within one year of date of purchase are stated at cost or amortized cost; all other investments are stated at fair value which is based on quoted market prices.

2. Receivables and payables

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

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

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

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

Property taxes are levied on October 1 by the City based on the January 1 property values as assessed by the Tarrant Appraisal District. Taxes are due without penalty until January 31, of the next calendar year. After January 31 the City has an enforceable lien with respect to both real and personal property. Under state law, property taxes levied on real property constitute a perpetual lien on the real property which cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property can be deemed uncollectible by the City.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

4. Restricted assets

Restricted assets include certain cash proceeds of enterprise fund revenue bonds because their use is limited by applicable bond covenants. Accumulated impact fees are restricted for debt service or construction of water or wastewater system. Assets are also restricted for payments of principal and interest due on certain water and wastewater debt.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, sidewalks, bridges, underground structures and piping, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Generally, capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings and building improvements	30 to 50 years
Improvements other than buildings	10 to 40 years
Water and sewer system infrastructure	40 to 50 years
Storm drainage system infrastructure	20 years
Capacity rights	40 years
Furniture and fixtures	3 – 10 years
Machinery and equipment	3 – 10 years

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective upon implementation; Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. The retroactive

CITY OF KELLER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2004

reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The City elected to implement the general provisions of GASBS No. 34 in 2003 and implement the retroactive infrastructure provisions in stages:

2005:

- City constructed infrastructure – 1980 through 1995
- Developer contributed infrastructure – 1980 through 1988

6. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits up to specified limits. Vacation benefits are accrued at 6.67/10.00/13.34 hours per month for employees with less than 5/10/or more than 10 years of service, respectively. Non-exempt employees may accrue up to 40 hours while exempt employees may accrue up to 320 hours. Sick leave is accrued at 8.0 hours per month without limitation. Upon termination or retirement, any accumulated sick leave expires. Unused compensatory time for nonexempt employees is paid on termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund type 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 straight line method which approximate the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Fund equity

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The government fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "other long-term assets are not available to pay for current-period expenditures and are deferred in the funds." The details of this \$1,374,867 difference are as follows:

Bonds issuance costs	\$ 991,860
Ambulance receivables	207,057
Deferred revenue - special assessments	<u>175,950</u>
	<u>\$ 1,374,867</u>

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash

At year end, the carrying amount of the City's cash on hand and deposits was \$39,686 and the bank balance was \$901,615. All of the bank balance was covered by federal deposit insurance and collateral pledged by the depository in the City's name and held by the City's agent.

Under a contractual agreement with Trinity River Authority, depository accounts are maintained by TRA for interest sinking, debt and construction reserves totaling \$511,218 which are separately insured or secured by collateral pledged by TRA's depository. The City's liability for its share of TRA contract revenue bonds is reduced by this amount.

Investments

The City's investments are categorized into these three categories of credit risk: (1) insured or registered, or securities held by the City or its agent in the City's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name or 3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name. At year end the City's investments were:

	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. agency discount notes	\$ 20,902,292	\$ -	\$ -	\$ 20,902,292	\$ 20,922,455
	<u>\$ 20,902,292</u>	<u>\$ -</u>	<u>\$ -</u>	20,902,292	20,922,455
Investments not subject to categorization:					
Government sponsored investment pool - TexPool				15,979,530	15,979,530
Government sponsored investment pool - LOGIC				2,721,983	2,721,983
Money market mutual fund				1,282,684	1,282,684
				<u>\$ 40,886,489</u>	<u>\$ 40,906,652</u>
Unrestricted				\$ 22,998,253	
Restricted				<u>17,888,236</u>	
				<u>\$ 40,886,489</u>	

The City is a member of two local government investment pools – TexPool and Logic.

TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Local Government Investment Cooperative (LOGIC) is also an external investment pool governed by the Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act. It is not SEC registered.

The pools use amortized cost to report net assets and share prices since that amount approximates fair value.

CITY OF KELLER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2004

B. Receivables

Receivables as of year-end for the City's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Parks Capital Project	Capital Projects	Water & Wastewater Operations	Drainage Utility	Nonmajor and Other	Total
Taxes receivable	\$ 524,658	\$ 55,993	\$ -	\$ -	\$ -	\$ -	\$ 312,038	\$ 892,689
Allowance for uncollectible taxes	(17,056)	(8,008)	-	-	-	-	-	(25,064)
	<u>507,602</u>	<u>47,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,038</u>	<u>867,625</u>
Accounts receivable	474,935	-	-	-	2,689,419	97,002	-	3,261,356
Allowance for uncollectible accounts	(281,154)	-	-	-	(478,500)	(53,271)	-	(812,925)
	<u>193,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,210,919</u>	<u>43,731</u>	<u>-</u>	<u>2,448,431</u>
Accrued interest	4,167	18,379	692	21,601	47,642	268	8,637	101,386
Other receivables	96,881	22,680	84	8,707	94,671	1,477	81,079	305,579
Allowance for uncollectible accounts	-	-	-	-	-	-	-	-
	<u>96,881</u>	<u>22,680</u>	<u>84</u>	<u>8,707</u>	<u>94,671</u>	<u>1,477</u>	<u>81,079</u>	<u>305,579</u>
Total	<u>\$ 802,431</u>	<u>\$ 89,044</u>	<u>\$ 776</u>	<u>\$ 30,308</u>	<u>\$ 2,353,232</u>	<u>\$ 45,476</u>	<u>\$ 401,754</u>	<u>\$ 3,723,021</u>

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

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$ 127,680	\$ -
Ambulance revenue receivable (General Fund)	207,057	-
Membership dues (Recreation/Aquatic Center Fund)	18,098	18,098
Delinquent property taxes receivable (Debt Service Fund)	113,703	-
Delinquent assessments (Town Center TIF I&S Fund)	312,038	-
Assessments receivable not yet due (Street Improvements Fund)	<u>126,199</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 904,775</u>	<u>\$ 18,098</u>

C. Restricted assets

Business type activities:

Restricted for water and wastewater system improvements \$ 17,888,236

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

D. Capital assets

Capital asset activity for the year ended September 30, 2004:

Primary Government

	Balance 9/30/2003	Additions	Retirements	Completed Construction	Balance 9/30/2004
GOVERNMENTAL ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$ 3,424,437	\$ 518,755	\$ -	\$ -	\$ 3,943,192
Construction in progress	4,414,930	411,690	-	(3,888,468)	938,152
Total capital assets not being depreciated	7,839,367	930,445	-	(3,888,468)	4,881,344
Capital assets, being depreciated					
Buildings	28,098,078	14,886,642	(25,500)	3,474,372	46,433,592
Improvements other than buildings	73,811,666	1,649,777	(840,017)	107,801	74,729,227
Machinery and equipment	7,809,225	1,937,649	(2,619,433)	306,295	7,433,736
Total capital assets being depreciated	109,718,969	18,474,068	(3,484,950)	3,888,468	128,596,555
Less accumulated depreciation for:					
Buildings	(3,050,297)	(633,487)	-	-	(3,683,784)
Improvements other than buildings	(18,164,514)	(3,807,702)	1,070,156	-	(20,902,060)
Machinery and equipment	(4,477,295)	(765,741)	2,221,817	-	(3,021,219)
Total accumulated depreciation	(25,692,106)	(5,206,930)	3,291,973	-	(27,607,063)
Total capital assets being depreciated, net	84,026,863	13,267,138	(192,977)	3,888,468	100,989,492
Governmental activities capital assets, net	\$ 91,866,230	\$ 14,197,583	\$ (192,977)	\$ -	\$ 105,870,836

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

General government	\$ 260,308
Planning & community development	29,309
Public safety	495,982
Public works	2,884,239
Recreation and leisure	1,537,092
	<u>\$ 5,206,930</u>

CITY OF KELLER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2004

	Balance 9/30/2003	Additions	Retirements	Completed Construction	Balance 9/30/2003
BUSINESS-TYPE ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$ 900,227	\$ 206,309	\$ -	\$ -	\$ 1,106,536
Construction in progress	249,968	532,567	-	-	782,535
Total capital assets not being depreciated	1,150,195	738,876	-	-	1,889,071
Capital assets, being depreciated					
Buildings	89,065	-	(89,065)	-	-
Improvements other than buildings	72,461,701	4,708,874	(811,391)	-	76,359,184
Machinery and equipment	1,080,366	219,183	424,357	-	1,723,906
Total capital assets being depreciated	73,631,132	4,928,057	(476,099)	-	78,083,090
Less accumulated depreciation for:					
Buildings	(26,109)	-	26,109	-	-
Improvements other than buildings	(15,644,674)	(2,578,130)	506,054	-	(17,716,750)
Machinery and equipment	(457,786)	(223,158)	(113,385)	-	(794,329)
Total accumulated depreciation	(16,128,569)	(2,801,288)	418,778	-	(18,511,079)
Total capital assets being depreciated, net	57,502,563	2,126,769	(57,321)	-	59,572,011
Business-type activities capital assets, net	\$ 58,652,758	\$ 2,865,645	\$ (57,321)	\$ -	\$ 61,461,082

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

Construction commitments

The City has active construction projects as of September 30, 2004. The projects include land acquisition, public safety building, recreation/aquatic center, street construction, park improvements, water system improvements, and sewer system improvements.

Land acquisition, building construction, street and park improvements are being financed by bond proceeds, park development fees, combination tax and revenue certificates of obligation (general purposes) and self supporting combination tax and revenue certificates of obligation (KDC, KCCPD, and street maintenance sales tax). The commitment for water system improvements and sewer system improvements are being financed by self supporting bonds, combination tax and revenue certificates of obligation, and water and sewer impact fees.

	Spent to Date	Remaining Commitment
Miscellaneous Municipal Court Improvements	\$ -	\$ 2,950
Miscellaneous street improvements - general purpose	-	22,400
Bridge deck replacement, Greenbelt Trail	-	26,085
Miscellaneous Town Hall improvements	-	11,226
Miscellaneous water system improvements	8,200	2,697
Pearson Lane Pump Station water system improvements	32,575	11,500
Keller/Southlake/Fort Worth water system improvements	2,333,971	79,529
Katy Road water system improvements	237,959	74,450
Knox Road water system improvements	94,590	824,677
North Keller sanitary sewer improvements	589,025	2,652,912
Water system elevated and ground storage improvements	85,767	180,233
Miscellaneous drainage improvements	-	32,009
Miscellaneous park improvements	67,264	10,847
The Parks at Town Center improvements	100,536	693,381
Police facility expansion	3,590,906	1,147,710
Keller-Smithfield Road improvements	597,053	3,728,810
Elm Street Bridge improvements	73,500	222,572
Rapp Road street improvements	1,403,981	116,820
Traffic signalization improvements	45,646	142,599
Pearson Lane street improvements	156,234	83,038
Miscellaneous street improvements - street maintenance sales tax	-	521,963
Construction of the The Keller Pointe Recreation and Aquatic Center facility	14,316,227	102,237
Total	<u>\$ 23,733,434</u>	<u>\$ 10,690,645</u>

CITY OF KELLER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2004

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2004, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 3,977,307	\$ 468,532
Debt Service Fund	108,298	-
Parks Capital Project	-	4,813,577
Capital Projects	9,250	849,947
Nonmajor governmental funds	2,941,162	227,272
Water & Wastewater Operations	459,490	1,410,747
Drainage Utility	274,568	-
	<u>\$ 7,770,075</u>	<u>\$ 7,770,075</u>

The interfund balances above represent unsettled overdrafts of pooled cash and interfund loans as shown below:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
Nonmajor governmental funds	\$ 42,250	\$ 42,250
Water and Wastewater Operations	175,000	-
Drainage Utility	-	175,000
	<u>\$ 217,250</u>	<u>\$ 217,250</u>

Interfund transfers:

	<u>Transfers To Other Funds</u>	<u>Transfers From Other Funds</u>
General Fund	\$ 193,030	\$ 1,188,500
Debt Service Fund	-	1,308,598
Capital Projects Fund	408,899	
Nonmajor governmental funds	3,489,107	3,756,898
Water & Wastewater Operations	2,083,450	-
Drainage Utility	79,510	-
	<u>\$ 6,253,996</u>	<u>\$ 6,253,996</u>

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

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

E. Long-term debt

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

General Debt Currently Outstanding:

Purpose	Original Amount	Year of Issue	Final Maturity	Average Annual Payment	Interest Rate	Balance 9/30/2004
GOVERNMENTAL TYPE ACTIVITIES DEBT						
General Obligation Bonds:						
City						
Improvements	\$ 1,150,000	1981	2020	\$ 72,320	5.00%	\$ 795,000
Refunding	2,297,976	1999	2020	168,745	3.75% - 5.00%	2,106,478
Refunding	700,000	2002	2014	76,142	3.00% - 4.00%	580,000
Refunding	11,125,000	2004	2014	997,247	3.00% - 4.00%	11,125,000
						<u>14,606,478</u>
Certificates of Obligation:						
City						
Improvements	5,200,000	1996	2016	281,517	4.75% - 6.75%	525,000
Improvements	1,175,000	1996	2017	54,400	5.20% - 7.20%	100,000
Improvements	1,700,000	1997	2017	143,966	4.90% - 6.90%	1,350,000
Improvements	2,150,000	1998	2018	176,099	4.60% - 5.85%	1,775,000
Improvements	3,000,000	1998	2019	242,605	4.00% - 6.00%	2,610,000
Improvements	8,100,000	1999	2220	682,585	5.20% - 6.00%	7,150,000
Improvements	8,615,000	2002	2022	665,842	4.00% - 5.00%	8,135,000
Improvements	1,690,000	2003	2023	108,116	2.50% - 4.25%	1,570,000
Improvements	654,000	2004	2024	523,578	4.00% - 5.00%	6,540,000
Keller TIRZ (TIF)						
Improvements	6,825,000	1999	2018	695,108	5.10% - 6.10%	6,650,000
Improvements	17,095,000	2000	2018	1,868,782	5.00% - 5.75%	17,095,000
Improvements	8,735,000	2001	2018	894,572	4.25% - 5.25%	8,685,000
Keller Development Corp.						
Improvements	18,120,000	2003	2023	1,350,271	2.50% - 4.25%	18,120,000
Improvements	755,000	2004	2024	99,006	4.00% - 5.00%	755,000
Keller CCPD						
Improvements	5,245,000	2003	2023	1,480,625	2.50% - 4.25%	4,245,000
						<u>85,305,000</u>
						<u>99,911,478</u>
Revenue Bonds						
Keller Development Corp.						
Improvements	1,800,000	1992	2013	\$ 166,412	5.75% - 8.57%	1,130,000
Total Governmental Type Activities Debt						<u>101,041,478</u>

CITY OF KELLER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
Year Ended September 30, 2004

<u>Purpose</u>	<u>Original Amount</u>	<u>Year of Issue</u>	<u>Final Maturity</u>	<u>Average Annual Payment</u>	<u>Interest Rate</u>	<u>Balance 9/30/2004</u>
BUSINESS TYPE ACTIVITIES DEBT						
General Obligation Bonds:						
City						
Refunding	3,222,024	1999	2020	236,600	3.75% - 5.00%	\$ 2,953,522
Refunding	5,360,000	2002	2014	553,728	3.00% - 4.00%	4,720,000
Refunding	440,000	2004	2014	48,883	3.00% - 4.00%	440,000
						<u>8,113,522</u>
Less: bond issue discount/(premium)						20,683
Less: deferred loss on refunding						<u>(293,926)</u>
						<u>7,840,279</u>
Certificates of Obligation:						
City						
Improvements	4,575,000	2000	2020	382,408	5.00% - 6.50%	4,060,000
Improvements	11,310,000	2004	2024	888,207	4.00% - 5.00%	11,310,000
						<u>15,370,000</u>
CONTRACTUAL OBLIGATIONS						
City						
Improvements	1,137,156	1992	2013	222,494	6.3% - 6.35%	690,168
Improvements	3,679,920	1996	2011	384,871	3.60% - 5.20%	2,320,125
						<u>3,010,293</u>
Less: deferred loss on refunding						(144,176)
Less: TRA accrued interest and cash reserves						<u>(511,218)</u>
						<u>2,354,899</u>
Total Business Type Activities Debt						<u>25,565,178</u>
Total Long-Term Debt						<u>\$ 126,606,656</u>

Annual debt service requirements to maturity for general debt:

<u>Due Fiscal Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 5,679,417	\$ 6,358,660	\$ 1,240,584	\$ 1,133,292	\$ 14,411,953
2005	6,575,661	6,389,187	1,399,339	991,270	15,355,457
2006	6,868,987	6,262,579	1,511,013	932,951	15,575,530
2007	5,664,395	3,640,989	1,575,606	869,536	11,750,526
2008	5,919,417	3,384,473	1,370,584	805,143	11,479,617
2009 - 2013	30,421,851	13,028,169	6,778,149	3,128,962	53,357,131
2014 - 2018	28,118,062	5,727,672	5,141,938	1,818,371	40,806,043
2019 - 2023	10,663,688	954,150	4,466,309	531,313	16,615,460
	<u>\$ 99,911,478</u>	<u>\$ 45,745,879</u>	<u>\$ 23,483,522</u>	<u>\$ 10,210,838</u>	<u>\$ 179,351,717</u>

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

Revenue bond debt service requirements to maturity are as follows:

Due Fiscal Year Ending September 30,	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2004	\$ 95,000	\$ 71,250	\$ 388,770	\$ 149,666	\$ 704,686
2005	100,000	64,960	409,542	130,224	704,726
2006	110,000	58,080	432,332	109,335	709,746
2007	115,000	50,655	457,139	86,672	709,466
2008	125,000	42,735	483,963	62,291	713,989
2009 - 2013	585,000	80,025	838,548	73,151	1,576,724
	<u>\$ 1,130,000</u>	<u>\$ 367,705</u>	<u>\$ 3,010,293</u>	<u>\$ 611,339</u>	<u>\$ 5,119,337</u>

Capital Lease Obligation

The City acquired fire apparatus with a cost of \$825,000 subject to a capital lease obligation. The scheduled remaining payments are shown below:

Due Fiscal Year Ending September 30,	Scheduled Annual Payment
2005	\$ 105,048
2006	105,048
2007	105,048
2008	105,048
2009	105,048
2010 - 2014	525,240
	<u>1,050,480</u>
Less Interest	<u>(225,480)</u>
	<u>\$ 825,000</u>

Changes In Long-Term Liabilities

During the year ended September 30, 2004, the following changes occurred in liabilities reported in the general long-term debt account group:

Description	September 30, 2003	Additions	Retirements	September 30, 2004	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 10,092,884	\$ 11,125,000	\$ (6,611,406)	\$ 14,606,478	\$ 1,659,416
Certificates of obligation	86,214,700	7,295,000	(8,204,700)	85,305,000	4,015,000
Revenue bonds	1,220,000	-	(90,000)	1,130,000	95,000
Deferred loss on refunding	-	(534,570)	26,728	(507,842)	(26,729)
Bond premiums/discounts	197,037	241,001	(247,140)	190,898	9,419
Total bonds payable	<u>97,724,621</u>	<u>18,126,431</u>	<u>(15,126,518)</u>	<u>100,724,534</u>	<u>5,752,106</u>
Capital lease obligation	-	825,000	-	825,000	66,661
Compensated absences	605,025	827,803	(743,343)	689,485	137,736
	<u>\$ 98,329,646</u>	<u>\$ 19,779,234</u>	<u>\$ (15,869,861)</u>	<u>\$ 102,239,019</u>	<u>\$ 5,956,503</u>

CITY OF KELLER, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 Year Ended September 30, 2004

Description	September 30, 2003	Additions	Retirements	September 30, 2004	Due Within One Year
Business-type activities					
General obligation bonds	\$ 8,462,074	\$ 410,151	\$ (1,031,946)	\$ 7,840,279	\$ 811,012
Certificates of obligation	4,365,300	11,310,000	(305,300)	15,370,000	405,000
Total bonds payable	12,827,374	11,720,151	(1,337,246)	23,210,279	1,216,012
Contractual Obligations	2,706,588	-	(351,689)	2,354,899	368,174
Compensated absences	65,136	89,120	(80,807)	73,449	73,449
	<u>\$ 15,599,098</u>	<u>\$ 11,809,271</u>	<u>\$ (1,769,742)</u>	<u>\$ 25,638,627</u>	<u>\$ 1,657,635</u>

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

Advance and Current Refunding of Debt

During the year ended September 30, 2004, the City issued new Series 2004 General Obligation Refunding Bonds in the amount of \$11,565,000 which proceeds were used to current or advance refund certain existing debt. Series 1994 Combination Tax and Revenue Refunding Bonds and Series 1996A Combination Tax and Revenue Certificates of Obligation were current refunded for \$6,115,000 and \$845,000 respectively. Series 1996 and 1996B Combination Tax and Revenue Certificates of Obligation were defeased for \$3,670,000 and \$805,000, respectively. The refunding reduced total debt service payments by \$951,056 and resulted in an economic gain of \$763,033.

In previous years, the City has issued refunding bonds to provide resources to purchase U.S. Government, State and Local Government Series securities that were placed in irrevocable trusts for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. At year end, the City had \$4,515,000 of defeased debt outstanding.

Conduit Debt Obligations

Certain revenue bonds have been issued in the past to provide financial assistance to nonprofit and public entities for the acquisition and construction of educational and student housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bonds. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2004, there were two series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$34,585,000.

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Pool) which provides protection for risks of loss. Premiums are paid to the Pool which retains the risk of loss beyond the City's policy deductibles. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the City's general purpose financial statements. For the last three years, there have been no significant reductions of insurance coverage or insurance settlements in excess of insurance coverage.

B. Contingent Liabilities and Commitments

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

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

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

The City contracts for garbage disposal with a third party. Under the terms of the agreement the city bills and collects the residential billing and remits that amount to the contracting party. The contractor bills the commercial customers and remits a franchise fee to the City based on total revenues received from the contract.

C. Employee retirement systems and pension plans

The City participates in the 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), one of over 794 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 794 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2003 valuations are contained in the 2003 TMRS Comprehensive Annual Financial Report which can be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit Rate:	7%
Matching Ratio (Employer to Employee):	2-1
A Member is Vested After:	5 years
Members can retire at certain ages, based on the years of service with the Employer.	
The Service Retirement Eligibility for the Employer is:	5 years/age 60 20 years/any age

Contributions - Under the state law governing TMRS, the actuary annually determines the City contribution rate. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect, i.e. December 31, 2003 valuation is effective for rates beginning January 2005.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2003	12/31/2002	12/31/2001
Actuarial Value of Assets (A)	\$ 13,308,164	\$ 10,784,635	\$ 8,485,012
Actuarial Accrued Liability (B)	\$ 19,410,488	\$ 14,863,054	\$ 11,745,999
Percentage Funded (C) = (A)/(B)	68.6%	72.6%	72.2%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D)=(B)-(A)	\$ 6,102,324	\$ 4,078,419	\$ 3,260,987
Annual Covered Payroll (E)	\$ 10,465,624	\$ 10,162,493	\$ 8,735,986
UAAL as a Percentage of Covered Payroll (D)/(E)	58.3%	40.1%	37.3%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC) (F)	\$ 1,265,190	\$ 1,141,643	\$ 957,825
Contributions Made (F)	\$ 1,265,190	\$ 1,141,643	\$ 957,825
NPO at the End of the Period	\$ -	\$ -	\$ -

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost
	(to Accurately reflect the requirements of GASB statement No. 25 paragraphs 36e and 138)
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	None
Cost-of-Living Adjustments	None

CITY OF KELLER, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2004

D. Restatement of Prior Period Financial Statements

Prior year financial statements have been restated as follows:

	As Reported Dr/(Cr) <u>09/30/03</u>	<u>Change</u>	As Restated Dr/(Cr) <u>09/30/03</u>
Drainage Utility Fund			
Property, Plant and Equipment	\$ 17,002,810	\$ (173,302)	\$ 16,829,508
Accumulated Depreciation	(4,310,612)	17,558	(4,293,054)
Net Assets	13,374,066	(155,742)	13,218,324

To correct for excess reported capital assets.

APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

FISHER & NEWSOM, P.C.

ATTORNEYS AT LAW

3724 JEFFERSON STREET, SUITE 210
AUSTIN, TEXAS 78731
(512) 477-4121
FAX (512) 477-2860

\$13,370,000 CITY OF KELLER, TEXAS GENERAL OBLIGATION REFUNDING BONDS SERIES 2005

WE HAVE represented the City of Keller, Texas (the “City”) as its bond counsel in connection with an issue of bonds (the “Bonds”) entitled “City of Keller, Texas General Obligation Refunding Bonds, Series 2005. The Bonds are issued as fully registered bonds, mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged, all as provided in the Bonds and the ordinance authorizing the issuance of the Bonds (the “Ordinance”).

WE HAVE EXAMINED those portions of the Constitution and laws of the State of Texas considered by us relevant to this opinion, a certain Escrow Agreement (the “Escrow Agreement”) between the City and The Bank of New York Trust Company, N.A. (the “Escrow Agent”), a certain report of Grant Thornton LLP, Certified Public Accountants, a transcript of certified proceedings of the City and other documents authorizing and relating to the issuance of the Bonds, including the form of the Bonds approved in the Ordinance.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, executed and delivered in accordance with the Constitution and laws of the State of Texas and constitute valid and legally binding obligations of the City; that the Bonds are equally secured by and payable from a continuing ad valorem tax levied upon all taxable property in the City, within the limit prescribed by law, as described in the Ordinance; and that the total indebtedness of the City, including the Bonds, does not exceed any constitutional or statutory limitation.

IT IS OUR FURTHER OPINION, that the Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms; and, having relied upon the accuracy of the calculations of the aforesaid report of Grant Thornton LLP, it is our opinion that the outstanding and unpaid obligations identified in the Ordinance as being refunded, discharged, paid and retired with a portion of the proceeds of the Bonds have now been appropriately and legally defeased; and that the holders of said refunded obligations may obtain payment thereof only out of the funds provided therefor now held in trust for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement.

BASED ON THE FOREGOING, IT IS OUR FURTHER OPINION that the interest on the Bonds is excludable from gross income under Section 103(a) of the Internal Revenue Code of 1986, as amended, and applicable regulations, published rulings and court decisions (collectively, the “Code”). It is our further opinion that the Bonds will not be private activity bonds within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds will not be treated as a preference item under the alternative minimum tax provisions of the Code as applicable to individuals and corporations, except that interest on the Bonds will be included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. The statutes, applicable regulations, published rulings of the Internal Revenue Service and court decisions on which such opinions are based are subject to change.

These opinions are dependent in part on future compliance by the City with certain post-issuance requirements of the Code, including arbitrage rebate requirements. Failure to comply with such requirements may cause the interest on the Bonds to be includable in gross income retroactive to the date of issue. In this connection, various covenants and representations have been made by the City in the documents authorizing the issuance of the Bonds that are designed to provide assurance of compliance with such requirements, and for purposes of these opinions, we assume compliance therewith. In addition, such opinions are based upon representations and certifications of the City pertaining to the use, expenditure and investment of the proceeds of the Bonds.

Except as described above, we express no opinion with respect to any other federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquiring, carrying, owning or disposing the Bonds.

The foregoing opinions are an expression of professional judgment and not a guarantee of result. No ruling has been sought from the Internal Revenue Service (the “Service”) and our opinions are not binding on the Service. The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the City as the taxpayer, and the owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of the bonds as includable in gross income for federal income tax purposes.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, certain insurance companies, owners of an interest in a Financial Asset Securitization Investment Trust (FASIT), certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals seeking the earned income tax credit, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and S corporations with Subchapter C

earnings and profits. Prospective purchasers should consult their own tax advisors as to the applicability of these and other such collateral consequences to their particular circumstances.

THE OPINIONS CONTAINED HEREIN are limited to the extent that the rights of the registered owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights or remedies generally and to the extent that certain equitable remedies, including specific performance, may be unavailable.

WE HAVE ACTED AS BOND COUNSEL for the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's obligations being refunded by the Bonds, and with respect to the application to the Bonds of those provisions of the Code as to which an opinion is rendered herein and for no other reason or purpose. 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 City and have not assumed any responsibility with respect thereto.

Respectfully,

FISHER & NEWSOM, P.C.

ATTORNEYS AT LAW

3724 JEFFERSON STREET, SUITE 210
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\$17,400,000
CITY OF KELLER, TEXAS
COMBINATION TAX AND TAX INCREMENT
REINVESTMENT ZONE REVENUE REFUNDING BONDS
SERIES 2005A

WE HAVE represented the City of Keller, Texas (the “City”) as its bond counsel in connection with an issue of bonds (the “Bonds”) entitled “City of Keller, Texas Combination Tax and Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A. The Bonds are issued as fully registered bonds, mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged, all as provided in the Bonds and the ordinance authorizing the issuance of the Bonds (the “Ordinance”).

WE HAVE EXAMINED those portions of the Constitution and laws of the State of Texas considered by us relevant to this opinion, a certain Escrow Agreement (the “Escrow Agreement”) between the City and The Bank of New York Trust Company, N.A. (the “Escrow Agent”), a certain report of Grant Thornton LLP, Certified Public Accountants, a transcript of certified proceedings of the City and other documents authorizing and relating to the issuance of the Bonds, including the form of the Bonds approved in the Ordinance.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, executed and delivered in accordance with the Constitution and laws of the State of Texas and constitute valid and legally binding obligations of the City; that the Bonds are equally secured by and payable from an ad valorem tax upon all taxable property in the City, within the limit prescribed by law, together with a pledge of the tax increments deposited into the tax increment fund established for the City’s Tax Increment Financing Reinvestment Zone Number One, such pledge being subordinate to any prior lien obligations that the City has reserved the right to issue, and any bonds or other obligations issued by a taxing unit participating in such zone and secured by a levy of ad valorem taxes within such taxing unit for which the levy and collection of ad valorem taxes has been insufficient for the payment thereof; and that the total indebtedness of the City, including the Bonds, does not exceed any constitutional or statutory limitation.

IT IS OUR FURTHER OPINION, that the Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms; and, having relied upon the accuracy of the calculations of the aforesaid report of Grant Thornton LLP, it is our opinion that the outstanding and unpaid obligations identified

in the Ordinance as being refunded, discharged, paid and retired with a portion of the proceeds of the Bonds have now been appropriately and legally defeased; and that the holders of said refunded obligations may obtain payment thereof only out of the funds provided therefor now held in trust for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement.

BASED ON THE FOREGOING, IT IS OUR FURTHER OPINION that the interest on the Bonds is excludable from gross income under Section 103(a) of the Internal Revenue Code of 1986, as amended, and applicable regulations, published rulings and court decisions (collectively, the "Code"). It is our further opinion that the Bonds will not be private activity bonds within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds will not be treated as a preference item under the alternative minimum tax provisions of the Code as applicable to individuals and corporations, except that interest on the Bonds will be included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. The statutes, applicable regulations, published rulings of the Internal Revenue Service and court decisions on which such opinions are based are subject to change.

These opinions are dependent in part on future compliance by the City with certain post-issuance requirements of the Code, including arbitrage rebate requirements. Failure to comply with such requirements may cause the interest on the Bonds to be includable in gross income retroactive to the date of issue. In this connection, various covenants and representations have been made by the City in the documents authorizing the issuance of the Bonds that are designed to provide assurance of compliance with such requirements, and for purposes of these opinions, we assume compliance therewith. In addition, such opinions are based upon representations and certifications of the City pertaining to the use, expenditure and investment of the proceeds of the Bonds.

Except as described above, we express no opinion with respect to any other federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquiring, carrying, owning or disposing the Bonds.

The foregoing opinions are an expression of professional judgment and not a guarantee of result. No ruling has been sought from the Internal Revenue Service (the "Service") and our opinions are not binding on the Service. The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the City as the taxpayer, and the owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of the bonds as includable in gross income for federal income tax purposes.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, certain insurance companies, owners of an interest in a Financial Asset

Securitization Investment Trust (FASIT), certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals seeking the earned income tax credit, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and S corporations with Subchapter C earnings and profits. Prospective purchasers should consult their own tax advisors as to the applicability of these and other such collateral consequences to their particular circumstances.

THE OPINIONS CONTAINED HEREIN are limited to the extent that the rights of the registered owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights or remedies generally and to the extent that certain equitable remedies, including specific performance, may be unavailable.

WE HAVE ACTED AS BOND COUNSEL for the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's obligations being refunded by the Bonds, and with respect to the application to the Bonds of those provisions of the Code as to which an opinion is rendered herein and for no other reason or purpose. 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 City and have not assumed any responsibility with respect thereto.

Respectfully,

APPENDIX D

SPECIMEN BOND INSURANCE POLICY

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

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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

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