

OFFICIAL STATEMENT

Dated June 15, 2004

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 Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$18,605,000
CITY OF KELLER, TEXAS
(Tarrant County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2004

Dated Date: June 15, 2004

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$18,605,000 City of Keller, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2004 (the "Certificates") will accrue from June 15, 2004, (the "Dated Date") and will be payable February 15 and August 15 of each year commencing February 15, 2005, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A. (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, 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, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for constructing and improving streets, providing drainage in connection therewith, and purchasing land and interests in land and properties necessary therefore; acquiring land for the Keller Fire Department; improving and equipping the Keller Recreation and Aquatic Center; acquiring, constructing and installing additions, extensions and improvements to the City's waterworks and sewer system; and to pay costs of issuance associated with the sale of the Certificates.



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

MATURITY SCHEDULE

CUSIP Prefix (1): 487684

Table with 10 columns: Amount, Maturity February 15, Rate, Yield, CUSIP Suffix (1), Amount, Maturity February 15, Rate, Yield, CUSIP Suffix (1). Rows show maturity amounts from 2005 to 2014.

(Accrued Interest from June 15, 2004 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 Certificates having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser 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 Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on July 21, 2004.

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

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

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the 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 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.*

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

**OFFICIAL STATEMENT SUMMARY**

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

- THE 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 18.17 square miles (see "INTRODUCTION - Description of the City").
  
- THE CERTIFICATES** ..... The Certificates are issued as \$18,605,000 Combination Tax and Revenue Certificates of Obligation, Series 2004. The Certificates are issued as serial certificates maturing February 15, 2005 through February 15, 2024 (see "THE CERTIFICATES -Description of the Certificates").
  
- PAYMENT OF INTEREST** ..... Interest on the Certificates accrues from June 15, 2004, and is payable February 15, 2005, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates," "THE CERTIFICATES - Optional Redemption,").
  
- AUTHORITY FOR ISSUANCE**..... The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, V.T.C.A. Local Government Code (the Certificate of Obligation Act of 1971), as amended and an Ordinance passed by the City Council of the City (see "THE CERTIFICATES - Authority for Issuance").
  
- SECURITY FOR THE CERTIFICATES** ..... The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "'THE CERTIFICATES – Security and Source of Payment").
  
- REDEMPTION**..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (See "THE CERTIFICATES – Optional Redemption).
  
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.
  
- USE OF PROCEEDS** ..... Proceeds from the sale of the Certificates will be used for constructing and improving streets, providing drainage in connection therewith, and purchasing land and interests in land and properties necessary therefore; acquiring land for the Keller Fire Department; improving and equipping the Keller Recreation and Aquatic Center; acquiring, constructing and installing additions, extensions and improvements to the City's waterworks and sewer system; and to pay costs of issuance associated with the sale of the Certificates.
  
- RATINGS** ..... The Certificates 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") through an insurance policy to be issued by MBIA Insurance Corporation. The presently outstanding tax supported debt of the City is rated "A2" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's, A Division of The McGraw-Hill Companies, Inc. ("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 Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

**PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**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
2000	26,400	\$ 1,347,791,867	\$ 51,053	\$ 36,481,946	\$ 1,382	2.71%	100.51%
2001	27,345	1,622,068,109	59,319	34,439,909	1,259	2.12%	99.77%
2002	28,066	1,943,992,842	69,265	41,016,532	1,461	2.11%	100.13%
2003	29,915	2,289,625,796	76,538	40,342,584	1,349	1.76%	100.34%
2004	31,814	2,504,271,587	78,716	61,648,077 <sup>(1)</sup>	1,938	2.46%	95.18% <sup>(2)</sup>

(1) Projected, includes the Certificates.

(2) Collections for part year only, through May 1, 2004.

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	or	David K. Medanich Laura Alexander First Southwest Company 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710
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**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	4 Years	May, 2005	Flight Attendant - American Airlines
Steve Trine Councilmember	3 Years	May, 2005	Engineering Program Manager
Jim Badalamenti Councilmember	Newly Elected	May, 2006	Local Business Owner
Russell Lake Councilmember	1 Year	May, 2006	President - Lake Sound
John Cooney Councilmember	1 Year	May, 2006	Retired
Mitch Holmes Councilmember	1 Year	May, 2005	Civil Engineer

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Lyle H. Drescher	City Manager	7 Years <sup>(1)</sup>
Johnny Phifer	Director of Finance	7 Years <sup>(2)</sup>
Sheila Stephens	City Secretary	28 Years
Ed Ilschner	Director of Public Works	2 Years <sup>(3)</sup>

- (1) Previously served as City Manager for other cities for 27 years.  
 (2) Previously served as Director of Finance for other cities for 11 years.  
 (3) Previously served 18 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**

**\$18,605,000**

**CITY OF KELLER, TEXAS**

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2004**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$18,605,000 City of Keller, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2004. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates, except as otherwise indicated herein.

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

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City 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 2004 population is 31,814. The City covers approximately 18.17 square miles.

**THE CERTIFICATES**

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated June 15, 2004, and mature, or are subject to redemption prior to maturity, on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest 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, commencing February 15, 2005. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance passed by the City Council.

**SECURITY AND SOURCE OF PAYMENT. . .** All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law. Additionally, the Certificates are payable from and secured by a limited pledge of surplus Net Revenues of the City's Waterworks and Sewer System, as provided in the Ordinance authorizing the Certificates.

**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.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION. . .** Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates 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, AND NOTWITHSTANDING WHETHER ONE OR MORE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. If a Certificate (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE . . .** The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal, interest and redemption price by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient to provide for the payment and/or redemption of the Certificates; 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 Certificates, 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 obligations, 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 Certificates. If any of such Certificates 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 Ordinance.

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

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative



of DTC. One fully-registered Security certificate will be issued for each maturity of the Certificates, each 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](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the Certificates are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

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

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

**Effect of Termination of Book-Entry Only System.** . . In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Certificates is discontinued by the City, printed securities certificates will be issued to the respective holders of the Certificates, as the case may be, and the respective Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance, summarized under "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 Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION** . . . In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

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

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

**BONDHOLDERS' REMEDIES** . . . The Ordinance does not establish specific events of default with respect to the Certificates. Under State law there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Certificates could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Certificates, 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 Certificates as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does 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 Ordinance, or upon any other condition. See "Book-Entry-Only System" herein for a description of the duties of the DTC with regard to ownership of Certificates. The enforcement of other covenants of the City contained in the respective ordinances would be subject to the applicable provisions of federal bankruptcy laws and to other laws affecting the rights of the creditors of political subdivisions generally. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

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

### **BOND INSURANCE**

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer 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 Bonds 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 MBIA's 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds 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 Bonds. 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 Bonds 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 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

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 Bonds 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 Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, 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 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

### **MBIA**

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. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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 Bond Insurance. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

### **MBIA Information**

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003.  
and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. 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 SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004) 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 Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004 MBIA had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### **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 Bonds, 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 Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

**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 Texas Tax Code (often referred to as 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 the 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 less 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 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, or upon presentation of a petition must call an election on whether to 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, with the minimum exemption under this provision being \$5,000. In addition, legislation passed by the Texas Legislature during the 2003 legislative session, authorizes cities to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based upon the disability or age of the owner or (2) the year the city chooses to establish the above-referenced disability or age of the owner or (2) the year the city chooses to establish the above-referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the City, the City must call an election to determine by majority vote whether to establish such a tax limitation.

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.

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

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

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

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate

calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

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

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

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

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**CITY APPLICATION OF TAX CODE . . .** The City 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.

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.

**TAX INCREMENT FINANCING REINVESTMENT ZONE NUMBER ONE . . .** In December 1998, the City Council established Tax Increment Financing Reinvestment Zone Number One, City of Keller, Texas (the "Zone") to finance public infrastructure in Keller Town Center for the purpose of stimulating retail, commercial, professional office and mixed-use residential development in accordance with a project plan and financing plan adopted for the Zone. 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 2003 is \$60,907,851.

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, 2004. 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. See Tables 1, 8 and 10 for information regarding the Zone COs.



**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2003/04 Market Valuation Established by the Tarrant Appraisal District		\$ 2,633,244,315
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 44,672,204	
Over 65 Years of Age/Disabled	34,098,604	
Disabled Veterans Exemptions	1,443,712	
Open-Space Land Use Reductions	48,748,854	
Lost to Prorated Absolute Exemptions	<u>9,354</u>	<u>128,972,728</u>
2003/04 Taxable Assessed Valuation <sup>(1)</sup>		\$ 2,504,271,587
City Funded Debt Payable from Ad Valorem Taxes (as of 5/01/04)		
General Obligation Bonds	\$ 23,415,000	
Tax and Revenue Certificate of Obligation Debt	86,130,000	
The Certificates	<u>18,605,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 128,150,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Tax Increment Reinvestment Zone General Obligation Debt	\$ 32,600,000	
Crime Control Prevention District General Obligation Debt	5,245,000	
Development Corporation General Obligation Debt	18,875,000 <sup>(3)</sup>	
Water and Sewer System General Obligation Debt	<u>24,372,419 <sup>(3)</sup></u>	
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 47,057,581
Interest and Sinking Fund Balance as of 5/1/04		\$ 1,587,091
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		5.12%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		1.88%
<p>2004 Estimated Population - 31,814  Per Capita Taxable Assessed Valuation - \$78,716  Per Capita Total Funded Debt \$4,028  Per Capita Net Funded Debt - \$1,479</p>		

(1) Includes \$60,907,851 captured appraised value in the City’s tax increment financing reinvestment zone (see “TAX INFORMATION – Tax Increment Financing Reinvestment Zone Number One” herein).

(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City’s current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

(3) Includes a portion of the Certificates.

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

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2004		2003		2002	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,089,530,024	79.35%	\$ 1,880,181,045	77.83%	\$ 1,588,851,421	76.80%
Real, Residential, Multi-Family	23,966,800	0.91%	25,688,340	1.06%	13,863,490	0.67%
Real, Vacant Lots/Tracts	57,023,890	2.17%	62,650,371	2.59%	63,531,022	3.07%
Real, Acreage (Land Only)	20,773,287	0.79%	19,743,797	0.82%	18,645,457	0.90%
Real, Farm and Ranch Improvements	78,066,569	2.96%	81,873,041	3.39%	90,904,037	4.39%
Real, Commercial and Industrial	188,200,270	7.15%	165,659,281	6.86%	126,693,254	6.12%
Real and Tangible Personal, Utilities	32,625,029	1.24%	33,459,833	1.39%	37,773,628	1.83%
Tangible Personal, Commercial	69,318,569	2.63%	53,568,633	2.22%	54,422,062	2.63%
Tangible Personal, Industrial	3,018,375	0.11%	4,414,019	0.18%	1,784,645	0.09%
Tangible Personal, Other	-	0.00%	40,000	0.00%	230,582	0.01%
Tangible Personal, Mobile Homes	236,760	0.01%	257,693	0.01%	309,549	0.01%
Real Property, Inventory	70,484,742	2.68%	88,088,052	3.65%	71,906,277	3.48%
Total Appraised Value Before Exemptions	\$ 2,633,244,315	100.00%	\$ 2,415,624,105	100.00%	\$ 2,068,915,424	100.00%
Adjustments	-		-		(1,516,143)	
Less: Total Exemption/Reductions	(128,972,728)		(125,998,309)		(123,406,439)	
Taxable Assessed Value	\$ 2,504,271,587		\$ 2,289,625,796		\$ 1,943,992,842	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2001		2000	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,361,761,715	78.05%	\$ 1,140,073,286	77.99%
Real, Residential, Multi-Family	9,877,120	0.57%	8,755,900	0.60%
Real, Vacant Lots/Tracts	59,967,485	3.44%	79,894,455	5.47%
Real, Acreage (Land Only)	20,981,679	1.20%	21,841,512	1.49%
Real, Farm and Ranch Improvements	80,226,327	4.60%	80,499,137	5.51%
Real, Commercial and Industrial	89,453,420	5.13%	52,000,070	3.56%
Real and Tangible Personal, Utilities	26,666,503	1.53%	22,346,290	1.53%
Tangible Personal, Commercial	46,092,475	2.64%	31,269,097	2.14%
Tangible Personal, Industrial	2,666,374	0.15%	1,909,352	0.13%
Tangible Personal, Other	201,839	0.01%	35,190	0.00%
Tangible Personal, Mobile Homes	149,090	0.01%	109,300	0.01%
Real Property, Inventory	46,790,445	2.68%	23,014,550	1.57%
Total Appraised Value Before Exemptions	\$ 1,744,834,472	100.00%	\$ 1,461,748,139	100.00%
Adjustments	(11,196,167)		(1,479,700)	
Less: Total Exemptions/Reductions	(111,570,196)		(112,476,572)	
Taxable Assessed Value	\$ 1,622,068,109		\$ 1,347,791,867	

**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
2000	26,400	\$ 1,347,791,867	\$ 51,053	\$ 36,481,946	2.71%	\$ 1,382
2001	27,345	1,622,068,109	59,319	34,439,909	2.12%	1,259
2002	28,066	1,943,992,842	69,265	41,016,532	2.11%	1,461
2003	29,915	2,289,625,796	76,538	40,342,584	1.76%	1,349
2004	31,814	2,504,271,587	78,716	61,648,077 <sup>(1)</sup>	2.46%	1,938

(1) Projected, includes the Certificates.

**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			
2000	\$ 0.45300	\$ 0.29282	\$ 0.16018	\$ 6,105,497	98.72%	100.51%
2001	0.44300	0.29095	0.15205	7,172,665	98.67%	99.77%
2002	0.43800	0.28065	0.15735	8,503,083	98.82%	100.13%
2003	0.43800	0.28249	0.15551	10,039,710	98.93%	100.34%
2004	0.43800	0.29912	0.13888	10,951,980	94.40% <sup>(1)</sup>	95.18%

(1) Collections for part year only, through May 1, 2004.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2003/04 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
PR Town Center LP	Multi-Family Development/Town Center	\$ 17,946,164	0.72%
Lowe's Home Centers Inc.	Retail Store	17,306,314	0.69%
PR Keller Partners LP	Multi-Family Development	13,540,599	0.54%
Home Depot USA Inc.	Retail Store	13,385,252	0.53%
Regency Centers LP	Retail Shopping Center/Town Center	12,150,000	0.49%
Oncor Electric Delivery Co.	Electric Utility	10,043,510	0.40%
Kohl's Department Store Inc.	Retail Store	8,797,492	0.35%
Margaux Keller Dev Ltd.	Retail Shopping Center	8,568,443	0.34%
General Telephone Company of the Southwest	Telephone Utility	8,167,532	0.33%
Keller-Crossing Texas Ltd. Partnership	Retail Shopping Center	6,867,805	0.27%
		<u>\$ 116,773,111</u>	<u>4.66%</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 CERTIFICATES - Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY <sup>(1)</sup>**

2004 Net Debt Service Requirement <sup>(2)</sup>	\$ 4,579,629
\$0.1848 Tax Rate at 99.00% Collection Produces	\$ 4,581,615
Net Maximum Debt Service Requirement, 2005 <sup>(2)</sup>	\$ 4,869,922
\$0.1965 Tax Rate at 99.00% Collection Produces	\$ 4,871,685
2004 Total Debt Service Requirement <sup>(3)</sup>	\$ 9,906,842
\$0.3996 Tax Rate at 99.00% Collection Produces	\$ 9,906,999
Gross Total Debt Service Requirement, 2007 <sup>(4)</sup>	\$ 13,212,143
\$0.5330 Tax Rate at 99.00% Collection Produces	\$ 13,214,290

(1) Includes the Certificates.

(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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2003/04 Taxable Assessed Value	2003/04 Tax Rate	Total Funded Debt As of 5-01-04	Estimated % Applicable	City's Overlapping Funded Debt As of 5-01-04
City of Keller	\$ 2,504,271,587	\$ 0.438000	\$ 47,057,581 <sup>(1)</sup>	100.00%	\$ 47,057,581
Keller Independent School District	5,981,682,757	1.676200	401,675,389	45.32%	182,039,286
Tarrant County	83,070,847,362	0.272500	153,200,000	2.64%	4,044,480
Tarrant County College District	85,331,193,579	0.139380	72,005,000	2.64%	1,900,932
Tarrant County Hospital District	84,645,390,170	0.235397	2,410,000	2.64%	63,624
Total Direct and Overlapping Funded Debt					\$ 235,105,903
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation . . . . .					9.39%
Per Capita Overlapping Funded Debt . . . . .					\$7,390

(1) Includes the Certificates and less self-supporting debt.

**DEBT INFORMATION**

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

Fiscal Year Ended 9/30	Outstanding Debt <sup>(1)</sup>		The Certificates <sup>(2)</sup>		Total Outstanding Debt	Less: TIF Requirements	Less: Development Corporation Requirements <sup>(3)</sup>	Less:	Less:	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest				Crime Control Prevention District Requirements	Water and Sewer System Requirements <sup>(3)</sup>		
2004	\$ 4,785,000	\$ 5,121,842			\$ 9,906,842	\$ 1,885,264	\$ 811,102	\$ 1,181,688	\$ 1,449,160	\$ 4,579,629	
2005	5,845,000	4,579,392	\$ 325,000	\$ 997,647	11,747,039	2,040,819	1,054,606	1,407,850	2,373,842	4,869,922	
2006	7,190,000	4,355,334	545,000	832,215	12,922,549	2,936,616	1,243,306	1,516,600	2,390,576	4,835,450	
2007	7,710,000	4,080,853	615,000	806,290	13,212,143	3,289,719	1,500,256	1,517,425	2,443,932	4,460,811	
2008	6,500,000	3,791,322	685,000	780,290	11,756,612	3,405,434	1,495,094	-	2,445,112	4,410,973	26.68%
2009	6,460,000	3,502,576	765,000	751,290	11,478,866	3,458,626	1,495,250	-	2,175,696	4,349,293	
2010	6,570,000	3,216,461	805,000	719,890	11,311,351	3,487,889	1,497,544	-	2,147,676	4,178,243	
2011	6,370,000	2,934,100	845,000	686,890	10,835,990	3,523,266	1,497,869	-	2,129,784	3,685,071	
2012	6,710,000	2,652,556	895,000	652,090	10,909,646	3,559,471	1,506,509	-	2,121,152	3,722,513	
2013	6,395,000	2,367,958	820,000	617,790	10,200,748	3,587,861	1,385,275	-	1,911,599	3,316,013	55.26%
2014	6,560,000	2,074,834	860,000	583,653	10,078,487	3,621,989	1,386,225	-	1,583,452	3,486,821	
2015	6,410,000	1,772,994	905,000	546,458	9,634,452	3,629,915	1,384,800	-	1,388,796	3,230,940	
2016	6,735,000	1,462,515	950,000	503,250	9,650,765	3,636,984	1,388,806	-	1,390,188	3,234,787	
2017	6,595,000	1,141,366	1,000,000	454,500	9,190,866	3,643,940	1,385,169	-	1,394,643	2,767,114	
2018	6,765,000	812,016	1,050,000	403,250	9,030,266	3,644,135	1,388,694	-	1,393,125	2,604,312	84.78%
2019	3,280,000	472,073	1,105,000	349,375	5,206,448	-	1,389,088	-	1,393,557	2,423,804	
2020	3,195,000	317,239	1,160,000	292,750	4,964,989	-	1,386,988	-	1,395,748	2,182,254	
2021	1,980,000	195,458	1,220,000	233,250	3,628,708	-	1,387,206	-	899,375	1,342,127	
2022	2,070,000	106,954	1,285,000	170,625	3,632,579	-	1,384,613	-	900,625	1,347,342	
2023	1,450,000	30,813	1,350,000	104,750	2,935,563	-	1,388,900	-	899,875	646,788	98.89%
2024	-	-	1,420,000	35,500	1,455,500	-	-	-	902,000	553,500	100.00%
	<u>\$ 109,575,000</u>	<u>\$ 44,988,656</u>	<u>\$ 18,605,000</u>	<u>\$ 10,521,752</u>	<u>\$ 183,690,408</u>	<u>\$ 49,351,928</u>	<u>\$ 27,357,299</u>	<u>\$ 5,623,563</u>	<u>\$ 35,129,912</u>	<u>\$ 66,227,707</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Average life of the issue - 11.804 years. Interest on the Certificates has been calculated at the rates illustrated on the cover page hereof.

(3) Includes a portion of the Certificates.

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

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-04 .....		\$ 4,613,730 <sup>(1)</sup>
Interest and Sinking Fund, 9-30-03 .....	\$ 555,567	
Budget Interest and Sinking Fund Tax Levy .....	3,476,000	
Budgeted Transfers .....	1,087,985	
Other Income .....	22,800	
Estimated Investment Income .....	<u>50,000</u>	<u>5,192,352</u>
Estimated Balance, 9-30-04 .....		\$ 578,622

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT <sup>(1)</sup>**

Waterworks and Sewer System Self-Supporting Debt

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-03 .....	\$ 1,918,214
Less: Revenue Bonds Requirements, 2003 Fiscal Year .....	<u>0</u>
Balance Available for Other Purposes .....	\$ 1,918,214
System General Obligation Bond Requirements, 2004 Fiscal Year .....	<u>1,449,160</u>
Balance .....	\$ 469,054
Percentage of System General Obligation Bonds, Self-Supporting .....	100.00%

Tax Increment Reinvestment Zone Self-Supporting Debt

Budgeted Funds Available for Debt Service from Tax Increment Reinvestment	
Zone Revenue (TIRZ) collected for Fiscal Year 2003/04 .....	\$ 1,911,454
TIRZ General Obligation Bond Requirements, 2004 Fiscal Year .....	<u>1,885,264</u>
Balance .....	\$ 26,190
Percentage of TIRZ General Obligation Bonds, Self-Supporting .....	100.00%

Keller Development Corporation Self-Supporting Debt

Budgeted Funds Available for Debt Service from Keller Development	
Corporation collected for Fiscal Year 2003/04 .....	\$ 3,267,618
KDC General Obligation Bond Requirements, 2004 Fiscal Year .....	<u>811,102</u>
Balance .....	\$ 2,456,516
Percentage of KDC General Obligation Bonds, Self-Supporting .....	100.00%

Crime Control Prevention District Self-Supporting Debt

Budgeted Funds Available for Debt Service from Crime Control	
Prevention District collected for Fiscal Year 2003/04 .....	\$ 5,655,000
CCPD General Obligation Bond Requirements, 2004 Fiscal Year .....	<u>1,181,688</u>
Balance .....	\$ 4,473,313
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.

(2) See "TAX INFORMATION – Tax Increment Financing Reinvestment Zone Number One" herein.

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

**TABLE 11 - OTHER OBLIGATIONS**<sup>(1)</sup>

The City has entered into certain capital lease agreements. The following is a schedule of future minimum lease payments as of October 31, 2003.

Fiscal Year Ended 9/30	Payment	Interest Paid	Principal Paid	Principal Balance
2004	\$ 104,997.14	\$ 37,966.57	\$ 67,030.57	\$ 757,969.43
2005	104,997.14	35,268.32	69,728.82	688,240.61
2006	104,997.14	32,023.84	72,973.30	615,267.31
2007	104,997.14	28,628.39	76,368.75	538,898.56
2008	104,997.14	25,074.95	79,922.19	458,976.37
2009	104,997.14	21,356.17	83,640.97	375,335.40
2010	104,997.14	17,464.36	87,532.78	287,802.62
2011	104,997.14	13,391.46	91,605.68	196,196.94
2012	104,997.14	9,129.04	95,868.10	100,328.84
2013	104,997.14	4,668.30	100,328.84	(0.00)
	<u>\$ 1,049,971.40</u>	<u>\$ 224,971.40</u>	<u>\$ 825,000.00</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 <sup>(1)</sup>**

	Fiscal Year Ended <u>9/30/2003</u>
<b>Revenues:</b>	
<u>Program Revenues</u>	
Charges for Services	\$ 4,587,207
Operating Grants and Contributions	8,321
Capital grants and contributions	46,497
<u>General Revenues</u>	
Property Taxes	10,865,819
Other taxes	7,503,249
Other	-
<b>Total Revenues</b>	<b>\$ 23,011,093</b>
<b>Expenses:</b>	
General Government	\$ 4,601,229
Planning & community development	1,539,855
Public Safety	8,376,754
Public Works	4,721,525
Recreation and leisure	3,768,994
Interest on long-term debt	3,883,471
Unallocated amortization	66,058
Non-departmental	-
<b>Total Expenses</b>	<b>\$ 26,957,886</b>
Increase in net assets before transfers	\$ (3,946,793)
Transfers	<u>1,745,055</u>
Increase (decrease) in net assets	\$ (2,201,738)
Net Assets - October 1	<u>25,655,156</u>
Net Assets - September 30	<u><u>\$ 23,453,418</u></u>

(1) For the fiscal year ended September 30, 2003, the City is implementing Government Accounting Standards Board Statement No. 34 ("GASB 34"). Governmental Activities Only.



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

Revenues	Fiscal Year Ended September 30,				
	2003	2002	2001	2000	1999
Total Property Tax	\$ 6,530,245	\$ 5,543,445	\$ 4,753,437	\$ 4,001,075	\$ 3,505,818
Sales Tax	2,684,998	2,481,882	2,076,989	1,753,767	1,217,336
Franchise/Other Local Tax	2,205,786	1,997,496	1,825,346	1,542,975	1,008,925
Permits, Licenses and Fees	1,967,962	2,098,686	2,552,022	2,808,133	2,964,743
Intergovernmental Revenue	705,560	193,421	23,536	21,746	24,196
Charges for Services	196,176	193,076	128,251	110,725	79,820
Fines and Warrants	732,943	610,568	673,637	657,998	632,688
Interest on Investments	36,632	115,093	260,842	227,187	178,076
Miscellaneous	60,911	117,909	86,270	83,356	37,618
Donations	95,756	-	35,457	25,063	29,092
<b>Total Revenues</b>	<b>\$ 15,216,969</b>	<b>\$ 13,351,576</b>	<b>\$ 12,415,787</b>	<b>\$ 11,232,025</b>	<b>\$ 9,678,312</b>
<b>Expenditures:</b>					
General Government	\$ 2,393,047	\$ 2,140,178	\$ 1,758,063	\$ 1,670,176	\$ 1,476,947
Police Department	4,383,073	3,763,423	3,130,558	2,575,030	2,234,639
Public Works Department	1,768,989	1,747,382	1,384,803	1,118,935	1,044,038
Library	980,036	863,299	668,577	571,977	456,112
Fire Department	3,350,307	3,121,595	2,611,276	2,093,672	1,789,784
Planning and Development	938,107	937,924	783,835	662,487	574,774
Parks and Recreation	1,550,680	1,390,073	1,106,459	889,542	760,081
Nondepartmental	898,764	447,495	153,483	181,355	185,584
Debt Service	-	-	70,004	173,156	140,017
Capital Outlay	93,048	360,785	656,451	792,771	252,770
<b>Total Expenditures</b>	<b>\$ 16,356,051</b>	<b>\$ 14,772,154</b>	<b>\$ 12,323,509</b>	<b>\$ 10,729,101</b>	<b>\$ 8,914,746</b>
<b>Excess (deficiency) of Revenues</b>					
Over Expenditures	\$ (1,139,082)	\$ (1,420,578)	\$ 92,278	\$ 502,924	\$ 763,566
Operating Transfers In	966,590	536,595	319,095	205,040 <sup>(2)</sup>	500,275
Operating Transfers Out <sup>(3)</sup>	(166,571)	(98,205)	(177,848)	(131,085)	(510,400)
Note Proceeds	-	-	94,333	-	-
<b>Increase (decrease) in Fund Balance</b>	<b>\$ (339,063)</b>	<b>\$ (982,188)</b>	<b>\$ 327,858</b>	<b>\$ 576,879</b>	<b>\$ 753,441</b>
Beginning Fund Balance	2,722,500	3,704,688	3,443,485	2,866,606	2,113,165
Adjustments	(49,318)	-	-	-	-
Residual Equity Transfer	1,812	-	(66,655)	-	-
<b>Ending Fund Balance</b>	<b>\$ 2,335,931</b>	<b>\$ 2,722,500</b>	<b>\$ 3,704,688</b>	<b>\$ 3,443,485</b>	<b>\$ 2,866,606</b>

(1) In previous years, payments-in-lieu of taxes paid by the Water and Wastewater and Drainage Utility Funds were classified as operating transfers. These payments are now included in Franchise Tax revenues.

(2) 1999 includes a one-time transfer of \$500,000 to the Equipment Replacement Fund.

**TABLE 13 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. 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 (3/8<sup>th</sup> 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 (1/8<sup>th</sup> of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. Collections for the additional sales tax will commence 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	Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2000	\$ 1,753,766	28.72%	\$ 0.1301	\$ 66
2001	2,076,989	28.96%	0.1280	76
2002	2,481,882	29.19%	0.1277	88
2003	2,616,965	26.07%	0.1143	87
2004 <sup>(2)</sup>	1,571,833	14.35%	0.0628	49

(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 May 1, 2004.

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 <sup>(1)</sup>	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, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (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 issued by a state or national bank, a savings bank or a state or federal credit union domiciled in the State of Texas that 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 the 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) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, 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, and (13) public funds investment pools that have an advisory board which includes participants in the pool 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 or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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 relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City or the registered principal of an investment management firm under contract with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy; (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

Under Texas law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance or resolution. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

**TABLE 14 - CURRENT INVESTMENTS**

As of May 1, 2004, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Purchase Price</u>	<u>Market Value</u>
Investment Pools	46.3%	\$ 15,832,350	\$ 15,832,350
Agency Discounts	49.9%	17,069,161	17,019,420
Money Market Funds	3.7%	1,278,415	1,278,415
	<u>100.0%</u>	<u>\$ 34,179,926</u>	<u>\$ 34,130,185</u>

As of such date, 85% of the City's investment portfolio will mature within six months. The market value of the investment portfolio was approximately 99.8% of its purchase price.

## TAX MATTERS

**TAX EXEMPTION** . . . In the opinion of Bond Counsel, interest on the Certificates 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 Certificates will not be "private activity Certificates" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Certificates 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 Certificates will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

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 Certificates 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 Certificates 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 Certificates.

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 Certificates.

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates 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, 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 to these and other such collateral consequences to their particular circumstances. The form of Bond Counsel's opinion is set forth in Appendix C hereto.

Bond Counsel's opinions are based on existing law, which is subject to change. There can be no assurance that such law or the interpretation thereof will not be changed in a manner that would adversely affect the tax treatment of the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Certificates. 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 Certificates. If an audit is commenced, under current procedures the Service will treat the Issuer as the taxpayer and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit with respect to the Certificates, the Issuer may have different or conflicting interests from the owners of the Certificates.

**TAX ACCOUNTING TREATMENT OF DISCOUNT CERTIFICATES** . . . The initial public offering price to be paid for certain Certificates may be less than the stated redemption price at maturity (as defined in Section 1272 of the Code) of such Certificate (the "Discount Certificates"). An amount equal to the difference between the initial public offering price of the Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the stated redemption price at maturity constitutes interest, or original issue discount, to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of such Discount Certificates by the initial purchaser, will, upon the disposition of such Discount Certificates (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 Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificates.

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, owners of an interest in a Financial Asset Securitization Investment Trust, S corporations with subchapter C earnings and profits, individual recipients of Social Security or

Railroad Retirement benefits, individuals seeking the 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 Certificate prior to maturity, the amount realized by the owner in excess of the basis of such Discount Certificates in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

## **OTHER INFORMATION**

### **RATINGS**

The Certificates 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") through an insurance policy to be issued by MBIA Insurance Corporation. The presently outstanding tax supported debt of the City is rated "A2" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's, A Division of The McGraw-Hill Companies, Inc. ("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 organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Certificates.

### **LITIGATION**

Except as described below, it is the opinion of the City Attorney and City Staff that there is no pending or threatened litigation against the City that would have a material adverse impact upon the City or its operations.

In litigation originally styled John W. Wilson, et al, v. City of Keller, et al, and filed in the 96th District Court, Tarrant County, Texas, cause number 96-163123-06 damages, were sought against the City for inverse condemnation resulting from downstream water and flood damage. On March 10, 2000, the trial court awarded damages in the amount of \$287,000 against the City plus interest at 10% from June, 1996. The City estimates that as of March 1, 2004, the amount of the judgment, plus accrued interest, was approximately \$559,650. The Second Court of Appeals, Fort Worth, Texas, affirmed the trial court judgment. The City has filed a petition for appeal with the Texas Supreme Court. In the event the City is unsuccessful in its appeal to the Texas Supreme Court, the City anticipates the judgment, including post-judgment interest, would be paid from the City's general fund (which includes a budget contingency reserve for fiscal year ending September 30, 2003 of approximately \$530,000) or other available funds.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and

savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

#### **LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE**

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

#### **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.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to 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 2004. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") approved by the staff of the United States Securities and Exchange Commission ("SEC") and to any state information depository ("SID") that is designated and approved by the State of Texas and by the SEC staff.

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

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

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

**MATERIAL EVENT NOTICES.** . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. Neither the Certificates nor the Ordinance make any provision for debt service reserves or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the 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 Certificates only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS.** . . The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

#### **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the issuance of the Certificates is contingent upon the issuance and delivery of the Certificates. First Southwest Company may submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

#### **INITIAL PURCHASER OF THE CERTIFICATES**

After requesting competitive bids for the Certificates, the City accepted the bid of Citigroup Global Markets Inc., (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on the inside cover page, for the Certificates, of the Official Statement at a price of the principal amount thereof plus a cash premium of \$17,700.64. The Initial Purchaser of the Certificates can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser of the Certificates. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Certificates.



**CERTIFICATION OF THE OFFICIAL STATEMENT**

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

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

JULIE A. TANDY  
Mayor  
City of Keller, Texas

ATTEST:

SHEILA STEPHENS  
City Secretary

**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 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 2004 population is 31,814.

**ECONOMICS** . . . The City has a staff of approximately 295 full-time employees, including 70 in the police department and 45 in the fire department. The City has eight banks – The American Bank, Frost Bank, Regions Bank, Wells Fargo, Washington Mutual, Northwest Bank, First American, and Bank of America - serve the City.

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 the City's priority. Rufe Snow Drive, a primary arterial roadway extending from IH-820 in North Richland Hills northward to center of Keller at FM 1709 (location of the Keller Town Center), has been reconstructed by completing a new 4-lane roadway with landscaped medians, turn lanes, traffic signals, and sidewalks. With the completion of Rufe Snow Drive, a new neighborhood commercial intersection was created at the intersection of North Tarrant Parkway that has resulted in the recent opening of a Lowe's Home Improvement Center, McDonalds, a Kroger Signature Store, CVS Pharmacy, Walmart Neighborhood Market, a future bank location, 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 SH 170 is under final design and is anticipated to be bid by the Texas Department of Transportation in August 2004. Completion of this highway segment will provide a new 6-lane divided highway along Keller's western boundary that will extend from the south city limits of Keller to the north city limits, thus completing a major highway arterial roadway from IH-820 to SH 170 and SH 114. In addition, the new U.S. Highway 377 section will provide improved access to over three miles of commercial frontage. Continued improvements in the commercial corridors have resulted in an increase in commercial tax values between 2001 and 2002 (preliminary tax value calculations) of 24.3%. There are currently 540 businesses operating in the City of Keller in December 2003.

Engineering and design is underway for a new 500,000 gallon elevated water storage facility as well as for a new 3,000,000 gallon ground storage facility with construction commencing in later 2004. Several other water distribution improvements are scheduled for 2004 as well.

The new Keller Town Hall and Town Hall Plaza was dedicated April 19, 2002. The new 53,000 square foot facility houses the City Council Chambers and approximately 60 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. Property has been leased to the Keller Independent School District for the purpose of constructing a 600-seat, 50-meter Natatorium (opening November, 2002) that will serve both the educational purposes of the District but will be made available for public use. [In December, 1998, the City of Keller created Keller Tax Increment Reinvestment Zone No. 1 that included 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 included a municipal and parks/open space component.] Development continues to increase in the Town Center whereby 67 upscale patio homes are nearly completed and sold, 245 upscale apartments have been completed, a new Frost Bank facility completed and opened, numerous restaurants in the plan development stages, and a 188 unit adult living center will begin construction May 2004. To add to the existing amenities of lakes and trails, a new 76,000 square foot recreation/aquatics center and skatepark are under construction financed by the Keller Development Corporation half-cent sales tax. The City's continued development of the City's 62 acres of property in the Town Center is intended to be the catalyst for maximizing the retail, commercial, office, and residential components of the Town Center.

The City is 35% undeveloped and is primarily a residential area whose residents are employed by major companies located within a 5-mile radius of the City limits. Several manufacturing firms are located in the Keller area, as well as a variety of commercial establishments, restaurants, shops and food stores. The City recognizes the value of commercial development to its economic base and continues to encourage commercial growth, which will be beneficial to the community.

**PERSONAL INCOME AND BUYING INCOME FOR TARRANT COUNTY**

**Tarrant County**

% of Population Whose Age is:	
18-24	9.80%
25-34	15.20%
35-49	24.10%
50 and Over	23.00%
Households	566,100
Median Household Effective Buying Income	\$ 43,048
Total Effective Buying Income	\$ 30,995,460,000
% of Households by EBI Group	
\$20,000 - \$34,999	21.90%
\$35,000 - \$49,999	19.60%
\$50,000 and Over	41.20%
Total Retail Sales	\$ 24,905,891,000

Source: Sales and Marketing Management 2000 Survey of Buying Power, dated August, 2003.

**LABOR MARKET PROFILE**

	December	Average Annual	Average Annual	Average Annual	Average Annual	Average Annual
	2003	2002	2001	2000	1999	1998
<b>Keller:</b>						
Civilian Labor Force	9,975	9,811	9,698	9,605	9,345	9,119
Unemployed	270	307	204	150	145	150
Percent of Unemployed	2.71%	3.13%	2.10%	1.56%	1.55%	1.64%
<b>Fort Worth/Arlington PMSA:</b>						
Civilian Labor Force	972,630	957,996	937,440	922,523	897,601	874,854
Unemployed	53,753	58,389	38,758	29,168	27,983	28,931
Percent of Unemployed	5.53%	6.09%	4.13%	3.16%	3.12%	3.31%
<b>Tarrant County</b>						
Civilian Labor Force	839,643	827,285	809,340	797,240	775,512	757,548
Unemployed	46,773	51,043	33,896	25,002	24,119	24,994
% of Unemployment	5.57%	6.17%	4.19%	3.14%	3.11%	3.30%

Source: Texas Employment Commission.

**BUILDING PERMITS <sup>(1)</sup>**

Fiscal Year <sup>(1)</sup>	Non-Residential Construction <sup>(2)</sup>		Residential Construction		Total Value
	Number of Units	Value	Number of Units	Value	
1999	58	\$ 22,269,150	816	\$ 162,974,000	\$ 185,243,150
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

(1) For years 1999 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 51 square miles. The District conducts programs for K-12, and employs approximately 1,200 teachers in addition to administrative personnel and support staff. The District has 25 schools with an approximate enrollment of 21,710, and an alternate education center.

Physical facilities include:

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

Education beyond the high school level is readily available. The Northeast campus of Tarrant County College is a short driving time away.

Additionally, within a radius of 40 miles, there are a number of colleges and universities including Southern Methodist University, Texas Christian University, the University of North Texas and the University of Texas in Arlington.

**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, 2003

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2003, 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.



April 12, 2004

Citizens of Keller, Honorable Mayor Julie Tandy, Members of the  
City Council, and City Manager  
City of Keller  
Keller, Texas:

The Comprehensive Annual Financial Report for the City of Keller, Texas (the City) for the fiscal year ended September 30, 2003, is hereby submitted. This report was prepared through the cooperative effort of the Finance Department and the City's independent auditor, in accordance with §103.001 of the Texas Local Government Code and Article VII, Section 15 of the Charter of the City of Keller. The purpose of the report is to provide the City Council, management, staff, the public, and other interested parties with detailed information reflecting the City's financial condition.

Full responsibility for the accuracy and reliability of the data, as well as completeness and fairness of this report, including all disclosures, rests with City management. The City has established and maintains a system of internal accounting controls designed in part to provide a reasonable assurance that assets are safeguarded against loss, theft, or unauthorized use, and that financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles (GAAP). The concept of reasonable assurance recognizes that the cost of maintaining the system of internal accounting controls should not exceed the benefits likely to be derived. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The comprehensive annual financial report (CAFR) is organized in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of principal officials, an organization chart, and other general information useful in assessing the City's financial condition.

The financial section contains the opinion of the City's independent auditor, Rutledge Crain & Company, PC, Certified Public Accountants, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended September 30, 2003, and that the financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Also included in the financial section is management's discussion and analysis (MD&A), which provides users of the basic financial statements a narrative introduction, overview, and analysis of the basic financial statements. The basic financial statements, including the accompanying notes, represent the core of the financial section. These financial statements present the financial condition of the City as a single entity, as well as the individual funds that account for the City's various governmental and business-type activities. This transmittal letter is designed to complement the MD&A, and should be read in conjunction with it.

The *statistical* section includes a variety of financial, economic, and demographic information generally presented in a table format, on a multi-year basis, with comparative information, to give users of the report a perspective on the City's performance over a number of years.

### **General Information about the City**

The City was incorporated on November 16, 1955 under the general laws of the State of Texas, and the current Home-rule 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 City Council is comprised of a mayor and five council members, who enact local legislation, determine overall City policies, pass ordinances, appoint committees, and adopt the City's budget. The Mayor and Council Members are all elected at-large on a non-partisan basis. Council members are elected for a two-year term on a rotating basis, with the Mayor and two council members elected in odd-numbered years, and the remaining three council members elected on even-numbered years. The City Manager is appointed by the Mayor and City Council and is responsible to them for proper administration of the daily affairs of the City, and appointing the heads of the various departments.

The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as the surrounding communities, with an estimated population exceeding 4.5 million. The city limits of Keller currently encompasses approximately 19 square miles.

The City provides a full range of municipal services including general government, public safety (police and fire), streets, parks and recreation, community development, planning and zoning, code enforcement, a public library, and business-type activities, such as water and sewer, and drainage utilities. Sanitation collection services are provided through private contractors; non-residential customers contract with the collection firm of their choice, while residential customers contract through the City with collection fees added to their municipal water, sewer, and drainage utility bills.

The Reporting Entity. For financial reporting purposes, the City is a primary government. As previously mentioned the City's governing body is elected by the citizens of Keller. This report includes all organizations and activities for which the elected officials exercise financial control. Included in the financial statements of the City are the activities of the Keller Development Corporation (KDC), the Keller Crime Control and Prevention District (KCCPD), and the Keller Tax Increment Reinvestment Zone No. 1 (TIRZ or TIF). Since the City Council exercises financial control over these entities, they are included within this report. The City interacts or contracts with various other governmental entities (e.g., the Keller Independent School District), but is not financially accountable for those entities.

Accounting system and budgetary control. The annual budget of the City serves as the foundation for its financial planning and control. The budget is proposed by the City Manager and adopted by the City Council in accordance with policies and procedures established by the City Charter, Council ordinances and policies. The budget is prepared and presented by fund (e.g., general fund), department (e.g., police) or function (e.g., debt service), and major cost category (e.g., personnel services). The department level within the individual fund is the legal level of control for budget expenditures. The budgetary process begins each year with the preparation of revenue estimates and budget instructions by the City's Finance Department staff, and expenditure estimates and requests by each City department. Estimates and requests are reviewed by the City Manager, and evaluated within the total financial framework of the City. The City Manager makes final decisions as to what budget recommendations are submitted to the City Council. The City Charter requires that the City Manager's proposed budget be filed with the City Secretary no later than August 15th. The City Manager's proposed budget is reviewed extensively by the City Council, along with a final public review process, including a required public hearing prior to budget adoption. The City Charter requires adoption of the City budget no later than the twenty-seventh (27th) day of the last month of the fiscal year.

Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within departments may occur with the approval of the City Manager, provided there is not an increase in overall expenditures. Transfers of budget appropriations between funds and/or departments, as well as any increase in total appropriations, require a formal budget amendment adopted by the City Council. Except for capital projects funds, all appropriations lapse at year-end and excess funds become available for re-appropriation in the subsequent year. At year end, encumbrances are recorded as a reservation of fund balance, and then re-appropriated in the subsequent year.



Near the end of each fiscal year, as the budget for the ensuing fiscal year is being considered and adopted, the City Council traditionally adopts a current year revised budget by ordinance. Although not required by City Charter or policy, this revised budget presents a more accurate picture of the City's financial position at the end of the current year than does the original adopted budget. For the fiscal year ended September 30, 2003, a revised budget was approved by the City Council on September 16, 2003. The revised budget amounts are used throughout this report where applicable in the budget to actual comparisons. The report provides comparative information on the original adopted and revised budget where applicable.

Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented as required supplementary information. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the major and non-major governmental fund sections of this report.

### Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City has experienced significant growth in the last 5 years, both in population and development. Although the pace of development has somewhat slowed since 2002, the rate of growth continues to be very positive. Several small manufacturing firms are located in the Keller area, as well as a variety of commercial establishments, restaurants, building supply stores, retail shops, and supermarkets. Undeveloped property accounts for approximately 33% of the total area in the City. The City recognizes the value of commercial development to its economic base and continues to encourage commercial growth that will be beneficial to the tax base and support the citizens' needs. Local indicators point to continued growth and stability. According to the February 2004 Keller Community Profile, Northeast Tarrant County is projected to grow twice as fast as the rest of the Metroplex, which will result in a regional population increase of over 100,000. At this time, the largest volume of retail and commercial development is occurring along the City's highway corridor of U.S. Highway 377 and Keller Parkway. In addition to retail, commercial, and industrial development, the City's tax base will be improved through the continued development of the centrally located 330 acre Keller Town Center, consisting of a mixed-use, pedestrian-oriented center of retail, office, residential, and governmental facilities. Development of the Keller Town Center will result in a concentrated center of business activity within the City, and will also serve as a focal point of community activity.

According to the Texas Workforce Commission, the City's civilian labor force was 9,975 in December 2003, compared to a total civilian labor force for Tarrant County of 839,643. Keller's unemployment rate was 2.71% compared to the Tarrant County rate of 5.57%.

The City continues to experience significant increases in population. The official census population for 1990 and 2000 was 13,683 and 27,345 respectively. The January 2003 population estimate was 31,814, representing an increase of 18,131 (133%) over 1990, and 4,469 (16.3%) increase since 2000. The following table presents Keller's official Census population since 1970, as well as the current year estimated population.

	Population	Increase (Decrease)	Percent Change
1970 Census	1,474	NA	NA
1980 Census	4,156	2,682	182.0%
1990 Census	13,683	9,527	229.2%
2000 Census	27,345	13,662	99.8%
2003 Estimate	31,814	4,469	16.3%

Since 1970, the total population increase is over 26,500, or 1,800%. This increasing population trend is anticipated to continue for several years. The City's estimated population by 2010 is 38,127. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,410,740 in 2000, an increase of over 97%.

One indicator of the strength of the local economy is sales tax revenue. The City's total sales tax rate is 1.875% of taxable sales, with one percent (1%) going to the City's general fund, one-half of one percent (0.5%) dedicated to the Keller Development Corporation, and (effective April 1, 2002), three-eighths of one percent (0.375%) dedicated to the Keller Crime Control Prevention District. The State of Texas sales tax rate is 6.25%, which results in a total sales

tax rate of 8.125%. State of Texas sales taxes are excluded from City sales tax amounts. Sales tax revenue has continued to increase each year because of new retail establishments being constructed in the City.

Another factor in measuring the local economy is its overall real market value of the City. For Keller, this trend is positive. Since 1999, the market value of property within Keller has increased 100%. Most of the increase has been the result of new residential development. Market values provide a better indication of new development than do taxable values, since taxable values are derived after deducting the various allowable exemptions. Market values provide the total estimated actual (market) values of all properties within the City. The following table provides the total market values of the City of Keller since 1999.

<u>Year Ended</u> <u>September 30</u>	<u>Total</u> <u>Market</u> <u>Value (000's)</u>	<u>Percent</u> <u>Change</u>
1999	\$ 1,270,208.1	NA
2000	1,507,879.7	18.7%
2001	1,808,569.7	19.9
2002	2,181,555.9	20.6
2003	2,539,750.8	16.4

The City's budget review for the fiscal years 2002-03 and 2003-04 identified reductions in expenditures that were necessary in order to maintain targeted fund balances in the general fund. For fiscal year 2002-03, permits, licenses, and development fees, a major source of revenue for the general fund, increased slightly from fiscal year 2001-02. In fiscal year 2001-02, these revenues declined by almost 18% from the previous year. As a result, the actual ending fund balance at September 30, 2002 was \$845,175 less than the revised (anticipated) budget amount. Since the reduction in the ending fund balance also impacted fiscal year 2002-03, action by City management was taken during fiscal year 2002-03, primarily in the form of a hiring freeze, which was implemented in an attempt to reduce expenditures, thereby increasing the ending fund balance to targeted levels. Following the decrease in revenues from permits, licenses, and development fees from fiscal 2001-02, these revenues have since stabilized, and while not increasing as in previous years, are now providing a stable source of revenue for the general fund. In order to maintain the ending fund balance at targeted levels, the hiring freeze continued in effect into the 2003-04 fiscal year. City management will continue to monitor local economic trends, in order to maintain adequate fund balance reserve levels.

In February 2004, the City was notified that a Champions of Industry award has been received. Pat Summerall Productions recently announced that the City of Keller has been selected as a "Champion City" as part of its "Champions of Industry" series. The Champions of Industry 300 Award is a coveted award limited to three hundred outstanding organizations. The award recognizes the exceptional achievements and contributions made to America by corporations, educational institutions, and government municipalities, who focus on the true meaning of entrepreneurship while maintaining the highest standards. The award Selection Committee noted the following accomplishments in the City of Keller:

- A commendable school system
- The exquisite park developments complimented by the "Hike and Bike" trails
- The dedication to preserve Keller's "country" atmosphere while accommodating new growth
- The new town center benefiting the citizens of Keller
- As a recipient of this award, the City will be able to use the publicity as a marketing tool to promote the benefits of Keller in recruiting retail, commercial and industrial developers to the City.

Long-term financial planning. The City maintains a five-year capital improvement program (CIP), with all planned capital projects reviewed annually and prioritized by the City staff and City Council. This annual review allows the City to change and adjust priorities by responding to changing growth patterns, economic conditions, or federal and state mandates. The CIP is used exclusively as a planning tool, and therefore does not commit the City to any project or project funding. The intent of the CIP is for the City staff to identify and prioritize specific capital

improvements needed during the subsequent five years. The CIP is not a capital budget, and as such provides only recommended projects and the means of financing the improvements. Recommended improvements are not approved until official action has been taken by the City Council.

The most recently updated plan is the 2003 plan that identified over \$98 million of capital improvements during the next five years (through 2008). These recommended improvements are identified by the following activities:

Water and sewer improvements	\$32.3 million (33%)
Streets and drainage improvements	23.4 million (24%)
Fire and emergency medical services	14.9 million (15%)
Municipal facilities	10.2 million (10%)
Police department	5.5 million (6%)
Parks and recreation	5.2 million (5%)
Other improvements	6.8 million (7%)

These improvements provide for new facilities and facilities expansion; land acquisition; equipment acquisition and replacement; athletic fields, parks and park facilities; and water and sewer mains, facilities, and storage facilities. The majority of these improvements (78%) are anticipated to be funded by debt obligations. Debt obligations include both self-supporting debt (e.g., water and sewer improvements), and general obligation debt (e.g., street and drainage improvements).

The Finance Department also prepares an internal five-year financial forecast for the General Fund, Debt Service Fund, and the Keller Development Corporation. The forecast is also used as an informational planning tool for the City Council, when considering the future financial impacts on operations, resulting from issuing debt obligations for capital improvements.

Cash management. The City maintains an internal cash/investment pool that is available for use by several funds. The purpose of the cash pool is to increase interest income through ease of investments transactions. Earnings from these pooled investments are distributed to the appropriate fund based on each fund's equity in the investment pool.

The investment of City funds is governed by an investment policy adopted by the City Council in accordance with State law. Under the City's policy, funds may be invested in the following types of securities:

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-related securities;
4. Collateralized certificates of deposit issued by a state or national bank domiciled in this state, a savings bank (or savings and loan association) domiciled in this state, or a federal credit union domiciled in this state and is:
  - 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 Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality; or
  - c. secured in any other manner and amount provided by law for deposits of the City.
5. Eligible local government investment pools and money market mutual funds whereby:
  - a. the pool or money market mutual fund is continuously rated no lower than "AAA" or "AAA-m" or its equivalent;
  - b. the pool marks its portfolio to market daily;
  - c. the pool's investment objectives shall be to maintain a stable net asset value of one dollar (\$1.00);
  - d. the money market mutual fund is registered with and is regulated by the Securities and Exchange Commission;
  - e. the money market mutual fund has a dollar-weighted average portfolio maturity of ninety (90) days or less; and
  - f. the investment objectives of the money market mutual fund include the maintenance of a stable net asset value of one dollar (\$1.00) per share.

The investment policy also establishes specific collateral and safekeeping requirements.

Risk management. The City provides an indemnity plan for employee group health and life insurance coverage through Blue Cross/Blue Shield of Texas. Workers' compensation and liability and property insurance coverage is provided by the Texas Municipal League Intergovernmental Risk Pool, an insurance pool established for the political subdivisions of the State of Texas. The City's worker compensation rates are determined by the State, and the Risk Pool assigns discounts and experience ratings based on the City's past claims history. Premiums are paid to the Pool, which retains a limit of loss. For risks beyond the Pool's limits of liability, the Pool obtains reinsurance for excess coverage. The City retains as a risk only the deductible amount for each policy. Unemployment compensation coverage is provided on a reimbursement basis to the Texas Workforce Commission for unemployment claims paid to former employees.

Employee's retirement system. The City provides retirement benefits for all full-time employees through a non-traditional, joint contributory, defined contribution plan in the Texas Municipal Retirement System, an agent multiple-employer public employee retirement system. Employees contribute 7% of their gross salary, and the City contributes the employer's contribution rate of 10.58% for October through December 2002, and 10.73% for calendar year 2003. The City employees also participate in the U.S. Social Security system. The City also offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, which is available to all employees, permits them to defer a portion of their salary until future years.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2002, and a reproduction of the certificate is included in this report. The City has received a Certificate of Achievement for thirteen consecutive fiscal years (FY89 through FY2002). In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

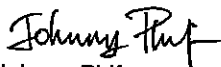
A Certificate of Achievement is valid for the period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition to the Certificate of Achievement, the City also received GFOA's Distinguished Budget Presentation Award for its fiscal year 2003 annual budget document. In order to qualify for the award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, and as an operations guide. The City has received the award for 7 consecutive years (1997 – 2003). Recognition by GFOA as evidenced by these two awards is verification of the Finance department's dedication to producing documents that effectively communicate the City's financial condition.

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance Department. Many individuals devoted extra hours and exhibited dedicated effort in ensuring the accuracy and timeliness of this report. Appreciation is expressed to the City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based. Acknowledgment is also given to representatives of Rutledge Crain & Company, PC, Certified Public Accountants for their dedicated assistance in producing this report.

Finally, our appreciation is extended to the Mayor, the members of the City Council and the City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Johnny Phifer  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Keller,  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2002

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



A handwritten signature in black ink, appearing to read "Edward Haney".

President

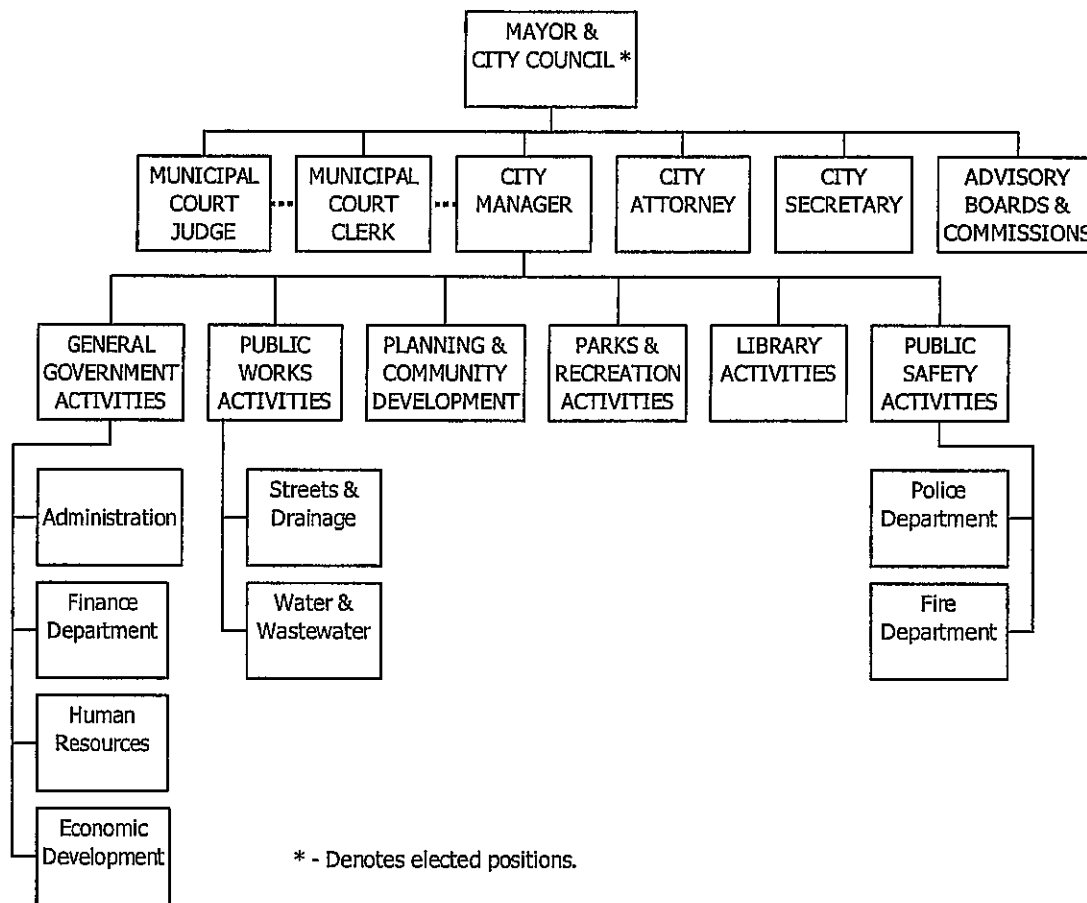
A handwritten signature in black ink, appearing to read "Jeffrey R. Ennis".

Executive Director

**CITY OF KELLER, TEXAS  
PRINCIPAL OFFICIALS**

<u>Name</u>	<u>Title</u>
<b><u>ELECTED OFFICIALS:</u></b>	
Judy A. Tandy	Mayor
Steve Trine	Council Member, Place 1 and Mayor Pro Tem
Joe McCombs	Council Member, Place 2
Russell Lake	Council Member, Place 3
John Cooney	Council Member, Place 4
Mitch Holmes	Council Member, Place 5
<b><u>APPOINTED OFFICIALS</u></b>	
Lyle H. Dresher	City Manager
Pauline Drewry	Director of Human Resources
Mark Hafner	Police Chief
Ed Ilchner	Director of Public Works
Kelly B. King	Fire Chief
Matthew A. King	Municipal Court Judge
Dona Roth Kinney	Director of Parks and Recreation
Phyllis Lee	Assistant to City Manager/Public Information Officer
Woodrow Mitchell	Director of Economic Development
Johnny L. Phifer	Director of Finance
Jeannie Roumell	Municipal Court Clerk
Shelia Stephens	City Secretary
Lisa H. Wood	Library Director
Nika Zolghadri	Director of Community Development
<b><u>OTHER APPOINTED OFFICIALS:</u></b>	
Boyle and Lowry, L.L.P.	City Attorney
First Southwest Company	Financial Advisors
Fisher & Newsom, L.L.P.	Bond Counsel

# CITY OF KELLER, TEXAS ORGANIZATION CHART



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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, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, 2003, 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.

As described in Note II. E., the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of September 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 13 through 20 and 59 through 64, 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 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*  
February 20, 2004

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## **CITY OF KELLER, TEXAS**

### *Management's Discussion and Analysis*

*For Year Ended September 30, 2003*

*(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, 2003. 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 for the first time this year. As discussed in footnote 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 2003 fiscal year by \$84,489,478 (net assets). Of this amount, \$6,625,731 (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 decreased by \$601,315. Net assets of business-type activities increased by \$1,600,423 or 2.7%, while net assets of governmental activities decreased by \$2,201,738, or 8.6%
- As of September 30, 2003, the City's governmental funds reported combined ending fund balances of \$28,914,288. Approximately 48% of this total amount, \$13,914,303, is unreserved and available for use within the City's designation and policies. Reservations for (1) encumbrances \$14,224,609 and (2) debt service \$738,238, total \$14,962,847, and represent over 52% of the total fund balance
- Total cost of all the City's programs was \$40.2 million in 2003
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$2,190,290, or 13% of total fund expenditures and transfers out

#### **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.

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).

**CITY OF KELLER, TEXAS**  
*Management's Discussion and Analysis*  
*For Year Ended September 30, 2003*  
*(Unaudited)*

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.

**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 provides 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, crime control prevention district, parks capital projects, and capital projects funds, all of which are considered to be major funds. Data from the other 18 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.

**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 Sewer, and Drainage Utility funds, since all are considered major funds of the City.

**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 after 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.

**CITY OF KELLER, TEXAS**

*Management's Discussion and Analysis*

*For Year Ended September 30, 2003*

*(Unaudited)*

**Government-wide Financial Analysis**

This year is the first year the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34. Except for capital assets, and outstanding debt, the City has not restated prior year amounts because certain prior year information is unavailable. As a result, the City is not presenting comparable columns for the Management's Discussion and Analysis (MD&A) for the prior year. However, in future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

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 \$84,489,478 as of September 30, 2003.

A major portion (85%) of the City's net assets 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 (7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (8%) may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF KELLER'S CONDENSED STATEMENT OF NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and other assets	\$ 34,251,716	\$ 20,018,721	\$ 54,270,437
Capital assets	91,866,230	58,808,504	150,674,734
Total Assets	<u>126,117,946</u>	<u>78,827,225</u>	<u>204,945,171</u>
Long term liabilities	93,605,802	14,234,650	107,840,452
Other liabilities	9,058,726	3,556,515	12,615,241
Total liabilities	<u>102,664,528</u>	<u>17,791,165</u>	<u>120,455,693</u>
Net Assets:			
Invested in capital assets, net of related debt	13,219,283	58,669,647	71,888,930
Restricted	5,506,781	468,036	5,974,817
Unrestricted	4,727,354	1,898,377	6,625,731
Total Net Assets	<u>\$ 23,453,418</u>	<u>\$ 61,036,060</u>	<u>\$ 84,489,478</u>

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for year ended September 30, 2003. The City first implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments in 2003, therefore, comparative data is not presented. Overall the City had a decrease in net assets of \$609,315.

**Government Activities:** Government activities decreased the City's net assets by \$2,201,738, or 8.6% from the prior year. Net expenses of government activities were \$22,315,861, while net general revenues were \$20,114,123. The reduction in net assets was a planned reduction by City management during the budget process cycle.

**Business-type Activities:** Net Assets from business-type activities increased by \$1,600,423 or 2.7%. Net revenues of business-type activities were \$2,895,623, while net general revenues and transfers were (\$1,295,200).

**CITY OF KELLER, TEXAS**  
*Management's Discussion and Analysis*  
*For Year Ended September 30, 2003*  
(Unaudited)

CITY OF KELLER'S CHANGES IN NET ASSETS

	Government Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Fees, fines and charges for service	\$ 4,587,207	\$ 12,774,591	\$ 17,361,798
Operating grants and contributions	8,321		8,321
Capital grants and contributions	46,497	3,347,187	3,393,684
General revenues:			
Ad valorem taxes	10,865,819		10,865,819
Sales tax	4,940,179		4,940,179
Other taxes	2,205,786		2,205,786
Interest	357,284	167,251	524,535
Miscellaneous		282,604	282,604
Total revenues	<u>23,011,093</u>	<u>16,571,633</u>	<u>39,582,726</u>
Expenses:			
General government	4,601,229		4,601,229
Planning & community development	1,539,855		1,539,855
Public safety	8,376,754		8,376,754
Public works	4,721,525		4,721,525
Recreation and leisure	3,768,994		3,768,994
Interest on long-term debt	3,883,471		3,883,471
Unallocated amortization	66,058		66,058
Water and sewer operations		11,702,639	11,702,639
Drainage utility		1,523,516	1,523,516
Total expenses	<u>26,957,886</u>	<u>13,226,155</u>	<u>40,184,041</u>
Increase in net assets before transfers	(3,946,793)	3,345,478	(601,315)
Transfers	1,745,055	(1,745,055)	-
Increase (decrease) in net assets	<u>(2,201,738)</u>	<u>1,600,423</u>	<u>(601,315)</u>
Net assets – October 1	25,655,156	59,435,637	85,090,793
Net assets – September 30	<u>\$ 23,453,418</u>	<u>\$ 61,036,060</u>	<u>\$ 84,489,478</u>

**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 \$28,914,288, an increase of \$9,250,483 in comparison with the prior year. Approximately 52%, or \$14,999,985 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 (\$14,224,609); 2) reserved for special uses (\$9,579); 3) reserved for employee benefits (\$27,559); and 4) to pay for

**CITY OF KELLER, TEXAS**  
*Management's Discussion and Analysis*  
*For Year Ended September 30, 2003*  
*(Unaudited)*

debt service (\$738,238). Approximately 48% of the total amount (\$13,914,303) 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 for a decrease in the unreserved fund balance of \$512,970, while the total budgeted fund balance at September 30, 2003 was \$2,335,931. The budgeted decrease was part of the City's plan to use fund balance in order to maintain the current property tax rate, while also offsetting revenue shortfalls resulting from a decline in investment income and development-related fees in both fiscal year 2002 and fiscal year 2003. Due to actual revenues being less than budgeted, and actual expenses being less than budgeted, the actual fund balance decrease for fiscal year 2003 was \$339,063, a difference (gain) of \$173,907 from the budgeted amount.

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 13.4% (financial policy target = 12%) of total fund expenditures, while the total fund balance represents 14.3% of that same amount.

The crime control prevention district fund has a total fund balance of \$6,384,356, of which \$2,488,859 million, or 39% is committed to pay for encumbrances, or liquidate contracts and purchase orders at the end of the year. The remaining fund balance of \$3,895,497 will be used in fiscal year 2004 to pay for the expansion of the Keller Police Department's facility.

The debt service fund has a total fund balance of \$551,651, all of which is reserved for the payment of debt service. The net increase in the debt service fund balance in 2003 was \$225,153. The increase in fund balance was primarily due to an increase in the debt service portion of the property tax levy (\$499,133), and transfers from other funds (\$240,150). However, interest and principal expenditures also increased during the year (\$627,287) as a result of new indebtedness incurred during the year.

The parks capital project fund has a total fund balance of \$10,810,469, of which \$10,076,331 is committed to pay for encumbrances, or liquidate contracts and purchase orders at the end of the year, related to the construction of the Keller Recreation and Aquatic Center facility. The unreserved portion of the fund balance (\$734,138) will be used during fiscal year 2003-2004 to complete the construction of the facility.

The capital projects fund total fund balance is \$1,495,957, which is a decrease of \$5,812,716 from the prior year. The primary reason for this decrease is due to the completion of the City's Municipal Service Center in 2003, and other capital projects funded with the issuance of debt obligations. Of the \$1,495,957 fund balance, \$870,426 (58%) is reserved to pay encumbrances, or liquidate contracts and purchase orders at the end of the year.

**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.

Unrestricted net assets of the respective funds are Water and Sewer-\$27,688,754, and Drainage Utility-\$13,072,369. These funds had a net assets increase of \$1,125,040 and \$475,383 respectively.

**General Fund Budgetary Highlights** – In fiscal year 2003, 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 budget.

Overall, these changes resulted in a decrease in budgeted expenditures from the original budget of 6.7% or \$1,206,965; and a decrease in budgeted revenues from the original budget of 3.4%, or \$574,885. The majority of the decrease in revenues was due to decreases in permit and development-related fees of \$662,000, because of early projections of a shortfall in fee revenue, resulting from a slowdown in development activity from original budget projections made in the summer of 2002 for fiscal year 2003. Major decreases in expenditures was due to a mid-year management decision to not fill vacant positions, in lieu of employee lay offs, in order to bring the fund balance

**CITY OF KELLER, TEXAS**

*Management's Discussion and Analysis*

For Year Ended September 30, 2003

(Unaudited)

up to meet the City's minimum financial targets. The reduction in expenditures impacted most of the departments in the General Fund, since most experienced some attrition during the year.

The actual revenue was 0.9% lower than the final budgeted revenue primarily due to lower collection of electric franchise taxes (\$133,909), lower investment rates for investment income (\$43,368), and lower charges for services (\$31,324). However, actual permits and development-related fees and fines exceeded final budgeted revenues by \$69,462 and 27,943 respectively.

**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, 2003, amounts to \$150,674,734 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 9.5% (15.8% increase for governmental activities and 0.9% increase in business-type activities).

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

Completed Projects

- Completion of the Municipal Service Center for a project total to date of \$5,791,830
- Completion of the Keller Independent School District Natatorium for a project total of \$9,157,491, funded with debt issuance backed by the Tax Increment Reinvestment Zone
- Completion of the Knox Road (Keller/Westlake) 2.5 million gallon elevated water storage tower for a project total to date of \$4,504,475
- Completion of phases V(a) and V(b) improvements at the Keller Sports Park for a project total to date of \$3,152,409, funded by debt issuance backed by the Keller Development Corporation half-cent (0.5%) sales taxes

Ongoing Projects

- A variety of street construction and improvement projects \$1,516,405 (including engineering and design services)
- Began construction of the \$13.1 million Keller Recreation and Aquatic Center (\$3,478,088 spent to date), with completion anticipated in the Spring of 2004, and funded by debt issuance backed by the Keller Development Corporation half-cent (0.5%) sales taxes
- Completed the design of the \$5.35 million expansion of the Keller Police Department (\$273,131 in design costs spent to date), scheduled for completion in the fourth quarter of 2004, and funded debt issuance backed by Keller Crime Control Prevention District three-eighths cent (3.75%) sales taxes
- Commenced design of major sanitary sewer improvement project in North Keller, planned for construction in mid 2004, for the Marshall Branch area, with an estimated construction cost of \$3.5 million, to be funded by an increase in sewer rates

**Capital Assets at Year-end  
Net of Accumulated Depreciation (000's)**

	Government Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 3,424	\$ 3,225	\$ 900	\$ 806	\$ 4,324	\$ 4,031
Buildings	25,048	12,841	36	43	25,084	12,884
Equipment	3,332	1,713	882	730	4,214	2,443
Improvements	55,647	54,688	56,741	51,931	112,388	106,619
Construction in Progress	4,415	6,853	250	4,798	4,665	11,651
<b>Total</b>	<b>\$ 91,866</b>	<b>\$ 79,320</b>	<b>\$ 58,809</b>	<b>\$ 58,308</b>	<b>\$ 150,675</b>	<b>\$ 137,628</b>



**CITY OF KELLER, TEXAS**  
**Management's Discussion and Analysis**  
**For Year Ended September 30, 2003**  
**(Unaudited)**

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 \$113,061,546. Of this amount, \$97,527,584 comprises bonded debt backed by the full faith and credit of the City, and \$15,533,962 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues.

**Outstanding Debt at Year End  
 Bonds and Notes Payable (000's)**

Type of Debt	Government Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation	\$ 10,093	10,991	\$ 8,462	8,901	\$ 18,555	\$ 19,892
Revenue Bonds	1,220	1,305		115	1,220	1,420
Certificates of Obligation	86,215	62,680	4,365	4,654	90,580	67,334
Contractual Obligations			2,707	3,023	2,707	3,023
Notes Payable	-	135	-	-	-	135
<b>Total</b>	<b>\$ 97,528</b>	<b>\$ 75,111</b>	<b>\$ 15,534</b>	<b>\$ 16,693</b>	<b>\$ 113,062</b>	<b>\$ 91,804</b>

During the fiscal year, the City's total debt increased by \$21,254,020, or 23%. The increase was primarily due to the following:

- The City issued \$25,055,000 Certificates of Obligation in May 2003. Approximately \$14,275,000 of the proceeds will be used to pay the cost of the Keller Recreation and Aquatic Center; \$5,350,000 used to pay for the expansion of the Keller Police facility; \$1,275,000 for miscellaneous Town Center improvements; \$400,000 for equipment replacement; \$3,525,000 for improvements to the Keller Sports Park; and \$230,000 for issuance costs, premiums, and discounts.
- The City issued \$6,060,000 General Obligation Refunding Bonds in November 2002. The refunding issue had a net interest rate of 3.573466%, and resulting in a present value benefit of \$359,517. The net debt of the City increased \$195,000 as a result of the refunding.

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 Investors Service	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. Both ratings by Moody's and Standard & Poor's were re-confirmed in May 2003.

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.

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

In the fiscal year 2003-2004 budget, General Fund revenues and transfers in were budgeted to increase by 10.6% from the 2002-03 budget year with general property taxes comprising about 41% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations increased 9.2% over the prior year. The City budgets for all funds have benefited from a strong and expanding economy, including both residential and commercial growth, from the past several years. However, for the 2002-2003 fiscal year, the City's budget was impacted by a slowing of economic growth. Projected increases in sales tax receipts continue in fiscal year 2003-04 because of new retail outlets being opened in Keller, and continued increases in historical growth trends. A decrease in the amount of investment income is also projected due to the Federal Reserve Board's decision to maintain lower 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 a hiring freeze implemented by management during the year. As a result of the hiring freeze, personnel services in the General Fund were reduced by approximately \$627,825, or 4.8% for fiscal year 2002-03. A budgeted wage and benefit savings (reduction in expenditures) in the General Fund of \$1,055,000 for fiscal year 2003-04 was included in the adopted 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, 2004 of 36 days of operations. These reductions in expenditures permitted the City to adopt the 2003-04 budget without raising the property tax rate, which remains at \$0.438 per \$100 of taxable value.

Residential growth continues to impact the City operations and the demand to expand infrastructure and municipal facilities. It is anticipated that residential growth in 2004 will be very near, or possibly exceed, the levels of 2003; however, as a result of the strong residential growth over the previous four years, commercial development has, and is increasing significantly. Residential building permits issued in calendar year 2003 totaled 413 compared with 591 permits issued in 2002. Even though residential permits decreased 26% from 2002 to 2003, building activity remains extremely strong compared to other Metroplex cities and continues to place demands on City services. Also during calendar year 2003, over 1 million square feet of commercial and retail space, valued at over \$51.2 million, was completed and occupied, including Lowe's Home Improvement Center, Michael's, financial institutions, medical offices, auto parts stores, restaurants, and office complexes, etc. Other significant commercial/retail developments along the U.S. Highway 377 and Keller Parkway (FM 1709) corridors as well as along the southern portion of Rufe Snow Drive are anticipated in the upcoming year, notwithstanding continued development in the Keller Town Center.

In the second quarter of 2004, the Keller Recreation and Aquatic Center is scheduled to open. The fiscal year 2004 budget for this facility provided a 5-month operating budget. In fiscal year 2004, the North Keller sanitary sewer improvements are anticipated to begin. A sewer rate increase of approximately 8% is anticipated in order to fund the improvements. In addition, approximately \$10 million in water improvement projects are anticipated to begin in fiscal year 2004, for which a water rate increase (undetermined at this time) will be necessary to fund the improvements.

Roadway improvement projects are planned for fiscal year 2003-04. Major improvements are planned for Keller-Smithfield Road from near the Bear Run intersection to Cherry Grove Estates, and Rapp Road from Whitley Road to Rufe Snow Drive. Texas Department of Transportation (TxDOT) plans to begin construction of the extension of U.S. Highway 377 from the center of the City, north to the City's north boundary in the fourth quarter of 2004. The extension includes a 4-lane divided highway that when completed, will open a new commercial corridor in the City.

Keller Town Center development continues with plans submitted for a 188-unit adult living center. Private financing and planning is also underway to begin construction in 2004 on a 100-unit, \$13.8 million hospital, to be followed by the construction of a medical office complex in Town Center as well.

### **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](mailto:finance@cityofkeller.com).

**CITY OF KELLER, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2003**

ASSETS	Governmental Activities	Business-type Activities	Total
<i>Cash and cash equivalents</i>	\$ 654,695	\$ 5,543	\$ 660,238
<i>Investments</i>	29,891,096	4,792,677	34,683,773
Receivables (net of allowances for uncollectibles):	1,447,854	2,104,817	3,552,671
<i>Special assessments</i>	219,098	-	219,098
<i>Internal balances</i>	183,732	(183,732)	-
<i>Due from other governments</i>	981,629	120,429	1,102,058
<i>Inventories</i>	18,608	232,499	251,107
<i>Deferred charges</i>	855,004	299,655	1,154,659
Restricted assets:			
<i>Investments</i>	-	8,321,351	8,321,351
Capital assets (net of accumulated depreciation, where applicable):			
<i>Land</i>	3,424,436	900,227	4,324,663
<i>Buildings</i>	25,047,781	36,305	25,084,086
<i>Improvements other than buildings</i>	55,647,247	56,753,586	112,400,833
<i>Machinery and equipment</i>	3,331,836	868,417	4,200,253
<i>Construction in progress</i>	4,414,930	249,969	4,664,899
Capacity rights (net of accumulated amortization)	-	4,325,482	4,325,482
<b>Total Assets</b>	<b>126,117,946</b>	<b>78,827,225</b>	<b>204,945,171</b>
<b>LIABILITIES</b>			
<i>Accounts payable</i>	2,036,176	1,257,062	3,293,238
<i>Accrued liabilities and other payables</i>	1,104,702	226,028	1,330,730
<i>Compensated absences payable</i>	605,025	65,136	670,161
<i>Customer deposits</i>	90,135	634,456	724,591
<i>Accrued interest payable</i>	767,803	74,521	842,324
<i>Provision for litigation settlement</i>	533,103	-	533,103
Noncurrent liabilities:			
<i>Due within one year</i>	3,921,782	1,299,312	5,221,094
<i>Due in more than one year</i>	93,605,802	14,234,650	107,840,452
<b>Total Liabilities</b>	<b>102,664,528</b>	<b>17,791,165</b>	<b>120,455,693</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,219,283	58,669,647	71,888,930
Restricted For:			
Debt Service	1,331,437	468,036	1,799,473
Capital Projects	4,175,344	-	4,175,344
Unrestricted	4,727,354	1,898,377	6,625,731
<b>Total Net Assets</b>	<b>\$ 23,453,418</b>	<b>\$ 61,036,060</b>	<b>\$ 84,489,478</b>

The accompanying notes are an integral part of this statement.

**CITY OF KELLER, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
<i>General government</i>	\$ 3,884,074	\$ 222,612	\$ --	\$ --
<i>Planning &amp; community development</i>	1,539,855	1,927,733	--	--
<i>Public safety</i>	8,376,754	1,697,052	8,321	--
<i>Public works</i>	4,721,525	310,608	--	46,497
<i>Recreation and leisure</i>	3,768,994	333,446	--	--
<i>Non-departmental</i>	717,155	95,756	--	--
<i>Interest on long-term debt</i>	3,883,471	--	--	--
<i>Amortization</i>	66,058	--	--	--
<b>Total Governmental Activities</b>	<u>26,957,886</u>	<u>4,587,207</u>	<u>8,321</u>	<u>46,497</u>
<b>Business-type Activities:</b>				
Water & Wastewater Operations	11,702,639	12,122,526	--	1,923,401
Drainage Utility	1,523,516	652,065	--	1,423,786
<b>Total Business-type Activities</b>	<u>13,226,155</u>	<u>12,774,591</u>	<u>--</u>	<u>3,347,187</u>
<b>Total Primary Government</b>	<u>\$ 40,184,041</u>	<u>\$ 17,361,798</u>	<u>\$ 8,321</u>	<u>\$ 3,393,684</u>

General Revenues:  
*Property Taxes*  
*Sales Taxes*  
*Franchise Taxes*  
*Unrestricted Investment Earnings*  
*Miscellaneous income*  
*Transfers*  
**Total General Revenues**  
**Change in Net Assets**  
**Net Assets - Beginning**  
  
**Net Assets - Ending**

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (3,661,462)		\$ (3,661,462)
387,878		387,878
(6,671,381)		(6,671,381)
(4,364,420)		(4,364,420)
(3,435,548)		(3,435,548)
(621,399)		(621,399)
(3,883,471)		(3,883,471)
(66,058)		(66,058)
<u>(22,315,861)</u>		<u>(22,315,861)</u>
-	\$ 2,343,288	2,343,288
-	552,335	552,335
-	2,895,623	2,895,623
<u>(22,315,861)</u>	<u>2,895,623</u>	<u>(19,420,238)</u>
10,865,819	--	10,865,819
4,940,179	--	4,940,179
2,205,786	--	2,205,786
357,284	167,251	524,535
-	282,604	282,604
1,745,055	(1,745,055)	--
<u>20,114,123</u>	<u>(1,295,200)</u>	<u>18,818,923</u>
<u>(2,201,738)</u>	<u>1,600,423</u>	<u>(601,315)</u>
<u>25,655,156</u>	<u>59,435,637</u>	<u>85,090,793</u>
<u>\$ 23,453,418</u>	<u>\$ 61,036,060</u>	<u>\$ 84,489,478</u>

**CITY OF KELLER, TEXAS**  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Crime Control Prevention District</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>			
<i>Cash and cash equivalents</i>	\$ 324,889	\$ --	\$ --
<i>Investments</i>	2,315,563	6,219,472	580,497
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	106,929	--	58,507
<i>Accounts</i>	487,765	--	--
<i>Interest</i>	4,414	5,389	18,618
<i>Other</i>	483,542	388	23,120
<i>Special assessments</i>	--	--	71,601
<i>Intergovernmental</i>	529,322	175,496	--
<i>Due from other funds</i>	23,877	--	--
<i>Inventories</i>	18,608	--	--
	<u>4,294,909</u>	<u>6,400,745</u>	<u>752,343</u>
<b>Total Assets</b>	<b>\$ 4,294,909</b>	<b>\$ 6,400,745</b>	<b>\$ 752,343</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
<i>Accounts payable</i>	\$ 534,744	\$ 7,211	\$ 470
<i>Accrued liabilities and other payables</i>	656,120	--	--
<i>Due to other funds</i>	--	9,178	57,773
<i>Customer deposits</i>	13,837	--	--
<i>Deferred revenue</i>	635,541	--	142,449
<i>Compensated absences payable</i>	118,736	--	--
<b>Total Liabilities</b>	<u>1,958,978</u>	<u>16,389</u>	<u>200,692</u>
<b>Fund Balances:</b>			
<b>Reserved Fund Balances</b>			
<i>Reserved for encumbrances</i>	118,082	2,488,859	--
<i>Reserved for special uses</i>	--	--	--
<i>Reserved for employee benefits</i>	27,559	--	--
<i>Reserved for debt service</i>	--	--	551,651
Unreserved	2,190,290	3,895,497	--
Unreserved, reported in nonmajor:			
<i>Special Revenue Funds</i>	--	--	--
<i>Capital Projects Funds</i>	--	--	--
<b>Total Fund Balances</b>	<u>2,335,931</u>	<u>6,384,356</u>	<u>551,651</u>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,294,909</b>	<b>\$ 6,400,745</b>	<b>\$ 752,343</b>

The accompanying notes are an integral part of this statement.

Parks Capital Project	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 329,808	\$ 654,697
11,373,720	2,442,326	6,959,518	29,891,096
--	--	198,551	363,987
--	--	--	487,765
15,251	5,191	12,718	61,581
1,310	8,707	17,455	534,522
--	--	147,497	219,098
--	--	276,811	981,629
235,844	--	367,234	626,955
--	--	--	18,608
<u>\$ 11,626,125</u>	<u>\$ 2,456,224</u>	<u>\$ 8,309,592</u>	<u>\$ 33,839,938</u>
\$ 811,940	\$ 534,038	\$ 147,773	\$ 2,036,176
--	272,316	182,445	1,110,881
3,716	153,913	218,643	443,223
--	--	76,298	90,135
--	--	346,047	1,124,037
--	--	2,462	121,198
<u>815,656</u>	<u>960,267</u>	<u>973,668</u>	<u>4,925,650</u>
10,076,331	870,426	670,911	14,224,609
--	--	9,579	9,579
--	--	--	27,559
--	--	186,587	738,238
734,138	625,531	--	7,445,456
--	--	1,382,419	1,382,419
--	--	5,086,428	5,086,428
<u>10,810,469</u>	<u>1,495,957</u>	<u>7,335,924</u>	<u>28,914,288</u>
<u>\$ 11,626,125</u>	<u>\$ 2,456,224</u>	<u>\$ 8,309,592</u>	<u>\$ 33,839,938</u>

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**CITY OF KELLER, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2003

Total fund balances - governmental funds balance sheet	\$ 28,914,288
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.	91,866,227
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	405,106
Payables for bond principal which are not due in the current period are not reported in the funds.	(97,527,584)
Payables for bond interest which are not due in the current period are not reported in the funds.	(767,803)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(483,827)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(533,103)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	<u>1,580,114</u>
Net assets of governmental activities - statement of net assets	<u>\$ 23,453,418</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, 2003*

	General Fund	Crime Control Prevention District	Debt Service Fund
<b>Revenues:</b>			
<i>Taxes</i>	\$ 11,421,029	\$ 923,881	\$ 3,589,933
<i>Permits, licenses and fees</i>	1,967,962	--	--
<i>Intergovernmental</i>	705,560	--	--
<i>Charges for services</i>	196,176	--	--
<i>Fines</i>	732,943	--	--
<i>Special assessments and impact fees</i>	--	--	24,542
<i>Donations</i>	95,756	--	--
<i>Interest income</i>	36,632	26,529	123,459
<i>Miscellaneous</i>	60,911	144	--
<b>Total revenues</b>	<u>15,216,969</u>	<u>950,554</u>	<u>3,737,934</u>
<b>Expenditures:</b>			
<i>General government</i>	2,393,047	--	--
<i>Planning &amp; community development</i>	938,107	--	--
<i>Public safety</i>	7,733,380	49,947	--
<i>Public works</i>	1,768,989	--	--
<i>Recreation and leisure</i>	2,530,716	--	--
<i>Non-departmental</i>	898,764	--	--
Capital outlay	93,048	273,131	--
Debt service:			
<i>Principal</i>	--	--	2,518,739
<i>Interest and fiscal charges</i>	--	--	2,035,467
<i>Bond issuance costs</i>	--	--	11,486
<b>Total expenditures</b>	<u>16,356,051</u>	<u>323,078</u>	<u>4,565,692</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(1,139,082)	627,476	(827,758)
<b>Other financing sources (uses):</b>			
<i>Operating transfers in</i>	966,590	--	1,041,425
<i>Operating transfers out</i>	(166,571)	--	--
<i>Debt issue proceeds</i>	--	5,392,897	--
<i>Refunding bonds issued</i>	--	--	705,990
<i>Payment to refunded bond escrow agent</i>	--	--	(694,504)
<b>Total other financing sources (uses)</b>	<u>800,019</u>	<u>5,392,897</u>	<u>1,052,911</u>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	(339,063)	6,020,373	225,153
Fund balances, October 1	2,673,182	363,983	326,498
Residual equity transfer	1,812	--	--
<b>Fund balances, September 30</b>	<u>\$ 2,335,931</u>	<u>\$ 6,384,356</u>	<u>\$ 551,651</u>

The accompanying notes are an integral part of this statement.

Parks Capital Project	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 2,196,423	\$ 18,131,266
--	--	98,904	2,066,866
--	1,332	158,493	865,385
--	--	5,257	201,433
--	--	57,996	790,939
--	--	274,051	298,593
--	--	47,117	142,873
38,715	64,260	111,526	401,121
466	--	226,423	287,944
<u>39,181</u>	<u>65,592</u>	<u>3,176,190</u>	<u>23,186,420</u>
--	--	482,770	2,875,817
--	--	--	938,107
--	--	5,883	7,789,210
--	--	--	1,768,989
3,716	--	361,292	2,895,724
--	--	--	898,764
5,883,770	5,878,308	4,773,142	16,901,399
--	--	140,000	2,658,739
--	--	1,804,660	3,840,127
138,117	--	--	149,603
<u>6,025,603</u>	<u>5,878,308</u>	<u>7,567,747</u>	<u>40,716,479</u>
(5,986,422)	(5,812,716)	(4,391,557)	(17,530,059)
--	--	759,771	2,767,786
--	--	(856,160)	(1,022,731)
17,539,447	--	2,091,657	25,024,001
--	--	--	705,990
--	--	--	(694,504)
<u>17,539,447</u>	<u>--</u>	<u>1,995,268</u>	<u>26,780,542</u>
11,553,025	(5,812,716)	(2,396,289)	9,250,483
(742,556)	7,308,673	9,734,025	19,663,805
--	--	(1,812)	--
<u>\$ 10,810,469</u>	<u>\$ 1,495,957</u>	<u>\$ 7,335,924</u>	<u>\$ 28,914,288</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, 2003

Net change in fund balances - total governmental funds	\$ 9,250,483
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	16,901,398
The depreciation of capital assets used in governmental activities is not reported in the funds.	(5,751,061)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	4,239
Proceeds of debt in the funds are not reported as revenue in the SOA .	(25,727,555)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,353,243
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	83,545
(Increase) decrease in accrued interest from beginning of period to end of period.	(244,339)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(71,689)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (2,201,738)</u>

The accompanying notes are an integral part of this statement.

**CITY OF KELLER, TEXAS**  
**STATEMENT OF NET ASSETS**  
**ENTERPRISE FUNDS**  
**SEPTEMBER 30, 2003**

	Enterprise Fund Water & Wastewater Operations	Enterprise Fund Drainage Utility	Total Enterprise Funds
<b>ASSETS</b>			
<b>Current Assets:</b>			
<i>Cash and cash equivalents</i>	\$ 3,696	\$ 1,847	\$ 5,543
<i>Investments</i>	4,661,526	131,151	4,792,677
<b>Receivables (net of allowances for uncollectibles):</b>			
<i>Accounts</i>	2,065,929	38,888	2,104,817
<i>Intergovernmental</i>	120,429	--	120,429
<i>Due from other funds</i>	289,127	62,924	352,051
<i>Inventories</i>	232,499	--	232,499
<b>Total Current Assets</b>	<u>7,373,206</u>	<u>234,810</u>	<u>7,608,016</u>
<b>Noncurrent Assets</b>			
<b>Restricted assets:</b>			
<i>Investments</i>	8,321,351	--	8,321,351
<b>Total Restricted Assets</b>	<u>8,321,351</u>	<u>--</u>	<u>8,321,351</u>
<b>Property, Plant and Equipment</b>			
<i>Land</i>	900,227	--	900,227
<i>Buildings</i>	62,415	--	62,415
<i>Improvements other than buildings</i>	55,172,347	17,002,810	72,175,157
<i>Machinery and equipment</i>	1,067,690	499,175	1,566,865
<i>Construction in progress</i>	249,969	--	249,969
<i>Accumulated Depreciation</i>	(11,835,517)	(4,310,612)	(16,146,129)
<b>Net Property, Plant and Equipment</b>	<u>45,617,131</u>	<u>13,191,373</u>	<u>58,808,504</u>
<i>Capacity rights (net of accumulated amortization)</i>	4,325,482	--	4,325,482
<i>Deferred charges</i>	299,655	--	299,655
<b>Total Noncurrent Assets</b>	<u>50,242,268</u>	<u>13,191,373</u>	<u>63,433,641</u>
<b>Total Assets</b>	<u>\$ 65,936,825</u>	<u>\$ 13,426,183</u>	<u>\$ 79,363,008</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
<i>Accounts payable</i>	\$ 1,235,034	\$ 22,028	\$ 1,257,062
<i>Accrued liabilities and other payables</i>	208,232	17,796	226,028
<i>Compensated absences payable</i>	52,843	12,293	65,136
<i>Due to other funds</i>	535,783	--	535,783
<i>Accrued interest payable</i>	74,521	--	74,521
<i>Customer deposits</i>	634,456	--	634,456
<i>Current portion of certificates of obligation</i>	305,300	--	305,300
<i>Current portion of general obligation bonds</i>	621,680	--	621,680
<i>Current portion of contractual obligations</i>	372,332	--	372,332
<b>Total Current Liabilities</b>	<u>4,040,181</u>	<u>52,117</u>	<u>4,092,298</u>
<b>Noncurrent Liabilities</b>			
<i>Certificates of obligation</i>	4,060,000	--	4,060,000
<i>Contractual obligations</i>	2,334,256	--	2,334,256
<i>General obligations</i>	7,840,394	--	7,840,394
<b>Total Noncurrent Liabilities</b>	<u>14,234,650</u>	<u>--</u>	<u>14,234,650</u>
<b>Total Liabilities</b>	<u>18,274,831</u>	<u>52,117</u>	<u>18,326,948</u>
<b>NET ASSETS</b>			
<i>Invested in capital assets, net of related debt</i>	45,478,274	13,191,373	58,669,647
<i>Restricted</i>	468,036	--	468,036
<i>Unrestricted</i>	1,715,684	182,693	1,898,377
<b>Total net assets</b>	<u>47,661,994</u>	<u>13,374,066</u>	<u>61,036,060</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 65,936,825</u>	<u>\$ 13,426,183</u>	<u>\$ 79,363,008</u>

**CITY OF KELLER, TEXAS****STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS - ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	Enterprise Fund Water & Wastewater Operations	Enterprise Fund Drainage Utility	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
<i>Charges for services -water</i>	\$ 8,913,917	\$ --	\$ 8,913,917
<i>Charges for services - sewer</i>	3,004,125	--	3,004,125
<i>Charges for services - drainage</i>	--	652,065	652,065
<i>Tap and connection fees</i>	167,181	--	167,181
<i>Inspection fees</i>	37,303	--	37,303
<b>Total Operating Revenues</b>	<u>12,122,526</u>	<u>652,065</u>	<u>12,774,591</u>
<b>OPERATING EXPENSES:</b>			
<i>Personnel services</i>	1,742,913	368,312	2,111,225
<i>Operating and maintenance costs</i>	514,430	64,133	578,563
<i>Contractual services and other</i>	2,303,064	233,259	2,536,323
<i>Wholesale water purchases</i>	3,853,429	--	3,853,429
<i>Wastewater services contracted</i>	141,108	--	141,108
<i>Depreciation and amortization</i>	1,885,552	852,290	2,737,842
<b>Total Operating Expenses</b>	<u>10,440,496</u>	<u>1,517,994</u>	<u>11,958,490</u>
<b>Operating Income (Loss)</b>	<u>1,682,030</u>	<u>(865,929)</u>	<u>816,101</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
<i>Interest income</i>	164,781	2,470	167,251
<i>Miscellaneous income</i>	282,511	93	282,604
<i>Interest and fiscal charges</i>	(630,221)	--	(630,221)
<i>Bad debt recovery (expense)</i>	(53,703)	(5,522)	(59,225)
<i>Loss from disposal of assets</i>	(578,219)	--	(578,219)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(814,851)</u>	<u>(2,959)</u>	<u>(817,810)</u>
<b>Net Income (Loss) before Capital Contributions and Operating Transfers</b>	<u>867,179</u>	<u>(868,888)</u>	<u>(1,709)</u>
<b>CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS:</b>			
<i>Capital Contributions</i>	1,923,401	1,423,786	3,347,187
<i>Operating transfers out</i>	(1,665,540)	(79,515)	(1,745,055)
<b>Total Capital Contributions and Operating Transfers</b>	<u>257,861</u>	<u>1,344,271</u>	<u>1,602,132</u>
<b>Change in Net Assets</b>	<u>1,125,040</u>	<u>475,383</u>	<u>1,600,423</u>
<b>Total Net Assets - October 1</b>	<u>46,536,954</u>	<u>12,898,683</u>	<u>59,435,637</u>
<b>Total Net Assets, September 30</b>	<u>\$ 47,661,994</u>	<u>\$ 13,374,066</u>	<u>\$ 61,036,060</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, 2003**

	Enterprise Funds		
	Water & Wastewater Operations	Drainage Utility	Totals
<b>Cash Flows from Operating Activities:</b>			
<i>Cash received from customers and users</i>	\$ 12,591,044	\$ 643,897	\$ 13,234,941
<i>Cash payments to suppliers for goods and services</i>	(7,213,572)	(292,460)	(7,506,032)
<i>Cash payments to employees for services</i>	(1,740,524)	(362,140)	(2,102,664)
Net Cash Provided (Used) by Operating Activities	<u>3,636,948</u>	<u>(10,703)</u>	<u>3,626,245</u>
<b>Cash Flows from Non-capital Financing Activities:</b>			
<i>Operating transfers to other funds</i>	(1,665,541)	(79,515)	(1,745,056)
<i>Cash received from other funds</i>	367,250	57,335	424,585
<i>Cash paid to other funds</i>	(53,855)	--	(53,855)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,352,146)</u>	<u>(22,180)</u>	<u>(1,374,326)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
<i>Proceeds received from debt issuance</i>	5,272,953	--	5,272,953
<i>Acquisition or construction of capital assets</i>	(2,910,795)	--	(2,910,795)
<i>Disposal of capital assets</i>	2,410,556	(18,438)	2,392,118
<i>Principal payments on debt</i>	(5,489,631)	--	(5,489,631)
<i>Interest paid</i>	(756,223)	--	(756,223)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,473,140)</u>	<u>(18,438)</u>	<u>(1,491,578)</u>
<b>Cash Flows from Investing Activities:</b>			
<i>Purchase of investments</i>	(4,885,456)	(49,352)	(4,934,808)
<i>Investment interest received</i>	310,890	3,988	314,878
Net Cash Provided (Used) for Investing Activities	<u>(4,574,566)</u>	<u>(45,364)</u>	<u>(4,619,930)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,762,904)</u>	<u>(96,685)</u>	<u>(3,859,589)</u>
Cash and cash equivalents - beginning	4,226,739	180,331	4,407,070
Restricted cash and cash equivalents - beginning	7,637,283	--	7,637,283
	<u>11,864,022</u>	<u>180,331</u>	<u>12,044,353</u>
Cash and cash equivalents - ending	2,911,091	83,646	2,994,737
Restricted cash and cash equivalents - ending	5,190,027	--	5,190,027
	<u>\$ 8,101,118</u>	<u>\$ 83,646</u>	<u>\$ 8,184,764</u>
Investments Classified as Cash Equivalents	<u>\$ 8,097,421</u>	<u>\$ 81,799</u>	<u>\$ 8,179,220</u>



	Enterprise Funds		
	Water & Wastewater Operations	Drainage Utility	Totals
<b>Reconciliation of Operating Income to Net Cash</b>			
<b>Provided by Operating Activities:</b>			
Operating income (loss)	\$ 1,682,030	\$ (865,929)	\$ 816,101
Adjustments to reconcile operating income to net cash			
<b>Provided by Operating Activities</b>			
<i>Depreciation and amortization</i>	1,885,552	852,290	2,737,842
<i>Provision for Uncollectible Accounts</i>	(53,703)	(5,522)	(59,225)
<i>Miscellaneous income (expense)</i>	282,511	93	282,604
<i>Gain (loss) from asset disposal</i>	(578,219)	—	(578,219)
<b>(Increase) decrease in assets</b>			
<i>Accounts receivable</i>	170,982	(2,739)	168,243
<i>Due from other governments</i>	(762)	—	(762)
<i>Prepaid items</i>	102,510	8	102,518
<i>Inventory</i>	56,545	—	56,545
<b>Increase (decrease) in liabilities:</b>			
<i>Accounts payable</i>	173,444	5,308	178,752
<i>Accrued liabilities and other payables</i>	(95,266)	(384)	(95,650)
<i>Due to other governments</i>	(6,852)	—	(6,852)
<i>Customer deposits</i>	15,787	—	15,787
<i>Compensated absences</i>	2,389	6,172	8,561
<b>Total Adjustments</b>	<u>1,954,918</u>	<u>855,226</u>	<u>2,810,144</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 3,636,948</u>	<u>\$ (10,703)</u>	<u>\$ 3,626,245</u>
 <b>Noncash Investing, Capital, and Financing Activities</b>			
<i>contributions of property, plant and equipment</i>	1,923,403	1,423,786	3,347,189
	<u>\$ 1,923,403</u>	<u>\$ 1,423,786</u>	<u>\$ 3,347,189</u>

The accompanying notes are an integral part of this statement.

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# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

### 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. The TIF is anticipated to fund approximately \$33 million of public improvements over the next 2-4 years, through the issuance of long term debt obligations. These debt obligations are to be repaid from property tax levies, based on the incremental increase in the 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.

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

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.

### 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 Crime Control Prevention District special revenue fund accounts for specific revenue sources from a local 3/8 cent sales tax that is legally restricted to expenditures for specified purposes.

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.

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

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

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

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."

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 \$3000 and an estimated useful life in excess of three 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.

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

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, is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 years
Water and sewer system infrastructure	50 years
Storm drainage system infrastructure	20 years
Capacity rights	40 years
Furniture	3 – 10 years
Equipment	3 – 10 years

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. 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. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The City has elected to implement the general provisions of GASBS No. 34 in the current year and implement the retroactive infrastructure provisions in stages:

2003:

- City constructed infrastructure after 1995
- Developer contributed infrastructure after 1988

2004:

- 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.

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

### 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.

### E. Implementation of Governmental Accounting Standards Board Statement 34 and 37

In June 1999 and June 2001, respectively, the GASB issued Statement No. 34, Basis Financial Statements - and Management's Discussion and Analysis for State and Local Governments, and Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus. These statements provide for the most significant change in financial reporting in over twenty years. As a part of these statements, there is a new reporting requirement regarding the City's infrastructure.

## 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:

Other long-term liabilities which are not due and payable in the current-period are deferred in the funds -

Provision for litigation settlement	\$ (533,827)
-------------------------------------	--------------

The governmental 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.

Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds -

Bonds issuance costs	\$ 855,004
Ambulance receivables	501,400
Deferred revenue - special assessments	153,407
Deferred revenue - property taxes	<u>70,393</u>
	<u>\$ 1,580,114</u>

## III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Deficit fund equity

The following fund had a deficit fund balance at September 30, 2003:

Special Revenue Funds	
Recreation/Aquatic Center	\$ 46,516

The deficit in the Recreation/Aquatic Center fund was caused by initial start-up expenditures which were not supported by revenues. The deficit will be reduced by net revenue generated in future years.



**CITY OF KELLER, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year Ended September 30, 2003

**IV. 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 \$660,240 and the bank balance was \$889,103. 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 \$511,264 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	\$ 16,182,052	\$ -	\$ -	\$ 16,182,052	\$ 16,092,210
	<u>\$ 16,182,052</u>	<u>\$ -</u>	<u>\$ -</u>	16,182,052	16,092,210
Investments not subject to categorization:					
Government sponsored investment pool - TexPool				23,352,796	23,352,796
Government sponsored investment pool - LOGIC				2,196,181	2,196,181
Money market mutual fund				1,274,095	1,274,095
				<u>\$ 43,005,124</u>	<u>\$ 42,915,282</u>
Unrestricted				<u>\$ 34,683,773</u>	
Restricted				<u>8,321,351</u>	
				<u>\$ 43,005,124</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, 2003

B. Receivables

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

	General	Crime Control Prevention District	Debt Service	Parks Capital Project	Capital Projects	Nonmajor and Other	Total
Taxes receivable	\$ 126,001	\$ -	\$ 58,507	\$ -	\$ -	\$ 198,551	\$ 383,059
Allowance for uncollectible taxes	(19,072)	-	-	-	-	-	(19,072)
	<u>106,929</u>	<u>-</u>	<u>58,507</u>	<u>-</u>	<u>-</u>	<u>198,551</u>	<u>363,987</u>
Accounts receivable	487,765	-	-	-	-	-	487,765
Allowance for uncollectible accounts	-	-	-	-	-	-	-
	<u>487,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,765</u>
Accrued interest	4,414	5,389	18,618	15,251	5,191	12,718	61,581
Other receivables	496,817	388	23,120	1,310	8,707	17,455	547,797
Allowance for uncollectible accounts	(13,275)	-	-	-	-	-	(13,275)
	<u>483,542</u>	<u>388</u>	<u>23,120</u>	<u>1,310</u>	<u>8,707</u>	<u>17,455</u>	<u>534,522</u>
Total	<u>\$ 1,082,650</u>	<u>\$ 5,777</u>	<u>\$ 100,245</u>	<u>\$ 16,561</u>	<u>\$ 13,898</u>	<u>\$ 228,724</u>	<u>\$ 1,447,855</u>

Revenues of the Water and Sewer and the Drainage Utility funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period were \$452,758 and \$42,806, respectively.

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	Deferred
Delinquent property taxes receivable (General Fund)	\$ 134,501	\$ -
Ambulance revenue receivable (General Fund)	501,040	-
Delinquent property taxes receivable (Debt Service Fund)	142,449	-
Delinquent assessments (Town Center TIF I&S Fund)	198,551	-
Assessments receivable not yet due (Street Improvements Fund)	-	147,496
Total deferred/unearned revenue for governmental funds	<u>\$ 976,541</u>	<u>\$ 147,496</u>

**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended September 30, 2003

C. Restricted assets

Business type activities:

Restricted for water and wastewater system improvements and debt service \$ 8,321,351

D. Capital assets

Capital asset activity for the year ended September 30, 2003:

Primary Government

	Balance 9/30/2002	Additions	Retirements	Completed Construction	Balance 9/30/2003
<b>GOVERNMENTAL ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$ 3,224,555	\$ 185,806	\$ -	\$ 14,076	\$ 3,424,437
Construction in progress	6,853,774	14,944,312	-	(17,383,156)	4,414,930
<b>Total capital assets not being depreciated</b>	<b>10,078,329</b>	<b>15,130,118</b>	<b>-</b>	<b>(17,369,080)</b>	<b>7,839,367</b>
Capital assets, being depreciated					
Buildings	14,854,569	312,123	(2,660)	12,934,046	28,098,078
Improvements other than buildings	69,110,969	772,011	(39,906)	3,968,592	73,811,666
Machinery and equipment	5,210,998	2,497,487	(199,733)	300,473	7,809,225
<b>Total capital assets being depreciated</b>	<b>89,176,536</b>	<b>3,581,621</b>	<b>(242,299)</b>	<b>17,203,111</b>	<b>109,718,969</b>
Less accumulated depreciation for:					
Buildings	2,014,446	1,035,851	-	-	3,050,297
Improvements other than buildings	14,422,759	3,735,984	5,771	-	18,164,514
Machinery and equipment	3,498,069	979,226	-	-	4,477,295
<b>Total accumulated depreciation</b>	<b>19,935,274</b>	<b>5,751,061</b>	<b>5,771</b>	<b>-</b>	<b>25,692,106</b>
<b>Total capital assets being depreciated, net</b>	<b>69,241,262</b>	<b>(2,169,440)</b>	<b>(248,070)</b>	<b>17,203,111</b>	<b>84,026,863</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 79,319,591</b>	<b>\$ 12,960,678</b>	<b>\$ (248,070)</b>	<b>\$ (165,969)</b>	<b>\$ 91,866,230</b>

**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended September 30, 2003

	Balance 9/30/2002	Additions	Retirements	Completed Construction	Balance 9/30/2003
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Capital assets, not being depreciated:					
Land	\$ 806,422	\$ 93,805	\$ -	\$ -	\$ 900,227
Construction in progress	<u>4,797,528</u>	<u>782,745</u>	<u>(2,587)</u>	<u>(5,327,718)</u>	<u>249,968</u>
Total capital assets not being depreciated	<u>5,603,950</u>	<u>876,550</u>	<u>(2,587)</u>	<u>(5,327,718)</u>	<u>1,150,195</u>
Capital assets, being depreciated					
Buildings	75,589	-	(13,174)	-	62,415
Improvements other than buildings	64,942,476	2,710,655	(818,826)	5,327,718	72,162,023
Machinery and equipment	<u>1,744,034</u>	<u>200,140</u>	<u>(530,142)</u>	<u>165,969</u>	<u>1,580,001</u>
Total capital assets being depreciated	<u>66,762,099</u>	<u>2,910,795</u>	<u>(1,362,142)</u>	<u>5,493,687</u>	<u>73,804,439</u>
Less accumulated depreciation for:					
Buildings	32,710	3,073	(9,673)	-	26,110
Improvements other than buildings	13,011,185	2,410,387	-	-	15,421,572
Machinery and equipment	<u>1,013,879</u>	<u>185,228</u>	<u>(500,659)</u>	-	<u>698,448</u>
Total accumulated depreciation	14,057,774	2,598,688	(510,332)	-	16,146,130
Total capital assets being depreciated, net	<u>52,704,325</u>	<u>312,107</u>	<u>(851,810)</u>	<u>5,493,687</u>	<u>57,658,309</u>
Business-type activities capital assets, net	<u>\$ 58,308,275</u>	<u>\$ 1,188,657</u>	<u>\$ (854,397)</u>	<u>\$ 165,969</u>	<u>\$ 58,808,504</u>

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

General government	\$ 990,017
Planning & community development	602,000
Public safety	548,879
Public works	2,948,254
Recreation and leisure	<u>661,911</u>
	<u>\$ 5,751,061</u>

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

### Construction commitments

The City has active construction projects as of September 30, 2003. The projects include land acquisition, building construction for a municipal service center, public safety building, and aquatic/recreation center, street construction, park improvements, water system improvements, and sewer system improvements.

General Fund	\$	6,190
Keller Crime Control and Prevention District Fund		2,488,859
Parks Capital Project Fund		1,085,176
Capital Project Fund		870,426
Nonmajor governmental funds		9,568,588
Water and Wastewater Operations		<u>365,100</u>
Total	\$	<u>14,384,339</u>

Land acquisition, building construction, street and park improvements are being financed by bond proceeds. The commitment for water system improvements and sewer system improvements are being financed by revenue bonds, combination tax and revenue certificates of obligation, and water and sewer impact fees.

### D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2003, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 24,877	\$ 1,000
Crime Control Prevention District	-	9,178
Debt Service Fund	-	57,773
Parks Capital Project	235,844	3,716
Capital Projects	-	153,913
Nonmajor governmental funds	367,234	218,643
Water & Wastewater Operations	289,126	535,782
Drainage Utility	<u>62,924</u>	<u>-</u>
	<u>\$ 980,005</u>	<u>\$ 980,005</u>

Interfund balances represent unsettled overdrafts of pooled cash and an interfund loan from the general fund to the recreation/aquatic center fund (\$42,839).

**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended September 30, 2003

Interfund transfers:

	<u>Transfers To Other Funds</u>	<u>Transfers From Other Funds</u>
General Fund	\$ 166,571	\$ 966,590
Debt Service Fund	-	1,041,425
Nonmajor governmental funds	856,160	759,771
Water & Wastewater Operations	1,665,540	-
Drainage Utility	<u>79,515</u>	<u>-</u>
	<u>\$ 2,767,786</u>	<u>\$ 2,767,786</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.

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.

**CITY OF KELLER, TEXAS**

NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

General Debt Currently Outstanding:

Purpose	Original Amount	Year of Issue	Final Maturity	Average Annual Payment	Interest Rate	Balance 9/30/2003
<b>GOVERNMENTAL TYPE ACTIVITIES DEBT</b>						
General Obligation Bonds:						
City						
Improvements	\$ 1,150,000	1981	2020	\$ 72,213	5.00%	\$ 825,000
Improvements	8,961,952	1994	2014	738,849	5.40% - 8.00%	6,470,206
Refunding	2,297,976	1999	2020	167,880	3.75% - 5.00%	2,162,678
Refunding	700,000	2002	2014	76,247	3.00% - 4.00%	635,000
						<u>10,092,864</u>
Certificates of Obligation:						
City						
Improvements	5,200,000	1996	2016	474,636	4.75% - 6.75%	4,440,000
Improvements	3,400,000	1996	2006	444,222	5.50%	1,235,000
Improvements	1,175,000	1996	2017	98,327	5.20% - 7.20%	950,000
Improvements	1,700,000	1997	2017	143,445	4.90% - 6.90%	1,415,000
Improvements	2,150,000	1998	2018	176,143	4.60% - 5.85%	1,860,000
Improvements	3,000,000	1998	2019	242,504	4.00% - 6.00%	2,725,000
Improvements	8,100,000	1999	2220	682,285	5.20% - 6.00%	7,410,000
Improvements	1,700,000	1992	2004	130,365	6.00% - 9.00%	124,700
Improvements	8,615,000	2002	2022	664,526	4.00% - 5.00%	8,400,000
Improvements	1,690,000	2003	2023	112,208	2.50% - 4.25%	1,690,000
Keller TIRZ (TIF)						
Improvements	6,825,000	1999	2018	681,081	5.10% - 6.10%	6,770,000
Improvements	17,095,000	2000	2018	1,741,875	5.00% - 5.75%	17,095,000
Improvements	8,735,000	2001	2018	866,973	4.25% - 5.25%	8,735,000
Keller Development Corp.						
Improvements	18,120,000	2003	2023	1,323,312	2.50% - 4.25%	18,120,000
Keller CCPD						
Improvements	5,245,000	2003	2023	1,405,891	2.50% - 4.25%	5,245,000
						<u>86,214,700</u>
						<u>96,307,584</u>
Revenue Bonds						
Keller Development Corp.						
Improvements	1,800,000	1992	2013	\$ 166,483	5.75% - 8.57%	1,220,000
Total Governmental Type Activities Debt						<u>97,527,584</u>

**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended September 30, 2003

<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 9/30/2003</u>
<b>BUSINESS TYPE ACTIVITIES DEBT</b>						
General Obligation Bonds:						
City						
Refunding	713,048	1994	2014	58,786	5.00% - 8.00%	514,794
Refunding	3,222,024	1999	2020	235,387	3.75% - 5.00%	3,032,322
Refunding	5,360,000	2002	2014	565,666	3.00% - 4.00%	5,225,000
						<u>8,772,116</u>
Less: bond issue discount/(premium)						7,980
Less: deferred loss on refunding						<u>(318,022)</u>
						<u>8,462,074</u>
Certificates of Obligation:						
City						
Improvements	1,700,000	1992	2004	95,718	6.00% - 9.00%	90,300
Improvements	2,500,000	1994	2004	75,130	6.00% - 9.00%	70,000
Improvements	4,575,000	2000	2020	381,849	5.00% - 6.50%	4,205,000
						<u>4,365,300</u>
<b>CONTRACTUAL OBLIGATIONS</b>						
City						
Improvements	1,137,156	1992	2013	103,047	6.3% - 6.35%	745,752
Improvements	3,679,920	1996	2011	391,428	3.60% - 5.20%	2,636,873
						<u>3,382,625</u>
Less: deferred loss on refunding						(164,772)
Less: TRA accrued interest and cash reserves						<u>(511,265)</u>
						<u>2,706,588</u>
<b>Total Business Type Activities Debt</b>						<u>15,533,962</u>
<b>Total Long-Term Debt</b>						<u>\$ 113,061,546</u>



**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended September 30, 2003

Annual debt service requirements to maturity for general debt:

Due Fiscal Year Ending September 30,	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2004	\$ 3,831,782	\$ 4,649,929	\$ 953,219	\$ 576,511	\$ 10,011,449
2005	5,477,350	4,249,942	987,651	533,724	11,248,667
2006	6,291,174	4,001,207	1,038,827	493,343	11,824,550
2007	6,559,709	3,724,919	1,135,291	449,825	11,869,744
2008	5,320,644	3,455,160	1,179,356	400,722	10,355,882
2009 - 2013	28,080,248	13,374,331	4,784,753	1,327,095	47,566,426
2014 - 2018	29,706,382	6,349,617	2,123,619	530,702	38,710,320
2019 - 2023	11,040,298	1,066,932	934,703	51,978	13,093,910
	<u>\$ 96,307,584</u>	<u>\$ 40,872,037</u>	<u>\$ 13,137,416</u>	<u>\$ 4,363,900</u>	<u>\$ 154,680,937</u>

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	\$ 90,000	\$ 77,125	\$ 372,332	\$ 167,932	\$ 707,389
2005	95,000	71,250	388,770	149,666	704,686
2006	100,000	64,960	409,542	130,224	704,726
2007	110,000	58,080	432,332	109,335	709,746
2008	115,000	50,655	457,139	86,672	709,466
2009 - 2013	710,000	122,760	1,322,511	135,442	2,290,713
	<u>\$ 1,220,000</u>	<u>\$ 444,830</u>	<u>\$ 3,382,625</u>	<u>\$ 779,272</u>	<u>\$ 5,826,726</u>

Changes In Long-Term Liabilities

During the year ended September 30, 2003, the following changes occurred in liabilities reported in the general long-term debt account group:

Description	September 30, 2002	Additions	Retirements	September 30, 2003	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 10,990,832	\$ 700,000	\$ (1,597,948)	\$ 10,092,884	\$ 947,082
Certificates of obligation	62,680,700	25,055,000	(1,521,000)	86,214,700	2,884,700
Revenue bonds	1,305,000	-	(75,000)	1,220,000	90,000
Total bonds payable	74,976,532	25,755,000	(3,193,948)	97,527,584	3,921,782
Notes payable	134,790	-	(134,790)	-	-
Provision for litigation settlement	504,721	28,382	-	533,103	533,103
Compensated absences	407,299	197,726	-	605,025	121,198
	<u>\$ 76,023,342</u>	<u>\$ 25,981,108</u>	<u>\$ (3,328,738)</u>	<u>\$ 98,665,712</u>	<u>\$ 4,576,083</u>

# CITY OF KELLER, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

Year Ended September 30, 2003

Description	September 30, 2002	Additions	Retirements	September 30, 2003	Due Within One Year
<b>Business-type activities</b>					
General obligation bonds	\$ 8,900,877	\$ 5,272,953	\$ (5,711,756)	\$ 8,462,074	\$ 621,680
Certificates of obligation	4,654,300	-	(289,000)	4,365,300	302,855
Revenue bonds	115,000	-	(115,000)	-	-
Total bonds payable	13,670,177	5,272,953	(6,115,756)	12,827,374	924,535
Contractual Obligations	3,023,027	-	(316,439)	2,706,588	351,735
Compensated absences	56,575	8,561	-	65,136	65,136
	<u>\$ 16,749,779</u>	<u>\$ 5,281,514</u>	<u>\$ (6,432,195)</u>	<u>\$ 15,599,098</u>	<u>\$ 1,341,406</u>

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

### Defeased Debt

During the year ended September 30, 2003, the City issued new debt which proceeds were used to current refund existing debt. \$6,060,000 of Series 2003 General Obligation bonds were issued to refund \$635,000 of 1993 General Obligation bonds and \$5,185,000 of 1993 Combination Tax and Revenue Refunding Bonds. The refunding reduced total debt service payments by \$435,921 and resulted in an economic gain of \$359,517.

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 \$2,000,000 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, 2003, there were three series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$38,965,000.

## 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, 2003

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 (except firefighters) through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 774 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 774 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2002 valuations are contained in the 2002 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
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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

**CITY OF KELLER, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year Ended September 30, 2003

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, 2002 valuation is effective for rates beginning January 2004.

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/2002	12/31/2001	12/31/2000
Actuarial Value of Assets (A)	\$ 10,784,635	\$ 8,485,012	\$ 6,693,308
Actuarial Accrued Liability (B)	\$ 14,863,054	\$ 11,745,999	\$ 8,721,687
Percentage Funded (C) = (A)/(B)	72.6%	72.2%	76.7%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D)=(B)-(A)	\$ 4,078,419	\$ 3,260,987	\$ 2,028,379
Annual Covered Payroll (E)	\$ 10,162,493	\$ 8,735,986	\$ 7,172,331
UAAL as a Percentage of Covered Payroll (D)/(E)	40.1%	37.3%	28.3%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC) (F)	\$ 1,141,643	\$ 957,825	\$ 683,843
Contributions Made (F)	\$ 1,141,643	\$ 957,825	\$ 683,843
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	8%
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, 2003

D. Restatement of Prior Period Financial Statements

Prior year financial statements have been restated as follows:

	As Reported Dr/(Cr) 09/30/02	Change	As Restated Dr/(Cr) 09/30/02
<b>General Fund</b>			
Assets	\$ 4,825,910	\$ 95,543	\$ 4,921,453
Liabilities	(2,103,410)	(139,772)	(2,243,182)
Equity	(3,704,688)		(3,704,688)
Revenue	(13,351,576)	17,799	(13,333,777)
Expenditures	14,772,154	26,430	14,798,584
To correct misposting of property tax revenue and operating expenditures.			-
			-
<b>Water and Wastewater Operations Fund</b>			
Property , Plant and Equipment	\$ 47,131,529	\$ 9,430,441	\$ 56,561,970
Deferred Charges	145,050	96,691	241,741
Accounts Payable	(887,417)	(174,173)	(1,061,590)
Long-Term Liabilities	(15,401,631)	(96,691)	(15,498,322)
Net Assets	(38,541,232)	(9,430,441)	(47,971,673)
Wholesale Water Purchases	3,221,206	174,173	3,395,379
To correct for unrecorded infrastructure and operating expense.			
<b>Drainage Utility Fund</b>			
Property , Plant and Equipment	\$ 2,335,881	\$ 13,468,198	\$ 15,804,079
Accumulated Depreciation	(202,872)	(3,293,674)	(3,496,546)
Net Assets	(2,430,253)	(10,175,239)	(12,605,492)
Capital Contributions	(1,921,544)	(293,191)	(2,214,735)
Less: depreciation expense	70,617	293,906	364,523
To correct for unrecorded infrastructure.			

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**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

## **Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by Fisher & Newsom, P.C., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

### **FISHER & NEWSOM, P.C.**

ATTORNEYS AT LAW

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

**\$18,605,000**

**CITY OF KELLER, TEXAS**

### **COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION SERIES 2004**

WE HAVE represented the City of Keller, Texas (the "City") as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") entitled "City of Keller, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004." The Certificates are issued as fully registered certificates of obligation, mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged, all as provided in the Certificates and the ordinance authorizing the issuance of the Certificates (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 transcript of certified proceedings of the City, and other documents authorizing and relating to the issuance of the Certificates, including the form of Certificates approved in the Ordinance.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates 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 Certificates are equally secured by and payable from a continuing ad valorem tax levied upon all taxable property in the City, within the limits prescribed by law, together with a limited pledge of surplus net revenues of the City's Waterworks and Sewer System, as described in the Ordinance; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

BASED ON THE FOREGOING, IT IS OUR FURTHER OPINION that the interest on the Certificates 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 Certificates will not be "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Certificates 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 Certificates 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 Certificates 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 Certificates 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 Certificates.

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 Certificates.

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 Certificates. If an audit is commenced, under current procedures the Service will treat the City as the taxpayer, and the owners of the Certificates 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 Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates 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 Certificates 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 Certificates under the Constitution and laws of the State of Texas and with respect to the application to the Certificates 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

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**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); 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.