

OFFICIAL STATEMENT

Dated February 17, 2004

Ratings:
Moody's: "Aaa"
S&P: "AAA"
FSA Insured - See ("OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

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

\$11,565,000
CITY OF KELLER, TEXAS
(Tarrant County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2004

Dated Date: February 15, 2004

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$11,565,000 City of Keller, Texas, General Obligation Refunding Bonds, Series 2004 (the "Bonds") will accrue from February 15, 2004, (the "Dated Date") and will be payable August 15 and February 15 of each year commencing August 15, 2004, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A. (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Texas Government Code, Chapters 1207, as amended, and are direct obligations of the City of Keller, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Ordinance") (see "THE BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to lower the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. (See "Bond Insurance")

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 2011 and corresponding rates and yields.

(Accrued Interest from February 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.

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds 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 BONDS - Optional Redemption").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fisher & Newsom, P.C., Bond Counsel, Austin, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Kelly, Hart & Hallman, A Professional Corporation, Fort Worth, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on March 23, 2004.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. 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.

Neither the City, its Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its Book-Entry-Only System. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the City nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

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

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

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of 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 City").
- THE BONDS** The \$11,565,000 General Obligation Refunding Bonds, Series 2004 are issued as serial bonds to mature on February 15, 2005 through February 15, 2017 (see "THE BONDS - Description of the Bonds").
- PAYMENT OF INTEREST** Interest on the Bonds accrues from February 15, 2004, and is payable August 15, 2004, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds," and "THE BONDS - Optional Redemption,").
- AUTHORITY FOR ISSUANCE**..... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly V.T.C.A. Government Code, Chapters 1207, as amended, and the Ordinance passed by the City Council (see "THE BONDS – Authority for Issuance").
- SECURITY FOR THE BONDS** The principal of and interest on the Bonds are payable from a continuing direct annual ad valorem tax levied by the City within the limits prescribed by law upon all taxable property in the City (see "THE BONDS – Security and Source of Payment").
- REDEMPTION**..... The City reserves the right, at its option, to redeem Bonds 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 BONDS – Optional Redemption").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Bonds 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 Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to lower the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds.
- INSURANCE** The City has applied to various municipal bond insurance companies and will consider the purchase of insurance after an analysis has been made.
- RATINGS** The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, A Division of the McGraw-Hill Companies, Inc. ("S&P") through an insurance policy to be issued by Financial Security Assurance Inc. The uninsured tax supported debt of the City is rated "A2" by Moody's and "A" by S&P (see "OTHER INFORMATION - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
- PAYMENT RECORD** The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	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	37,370,802 ⁽¹⁾	1,175	1.49%	NA

(1) Projected, includes the Bonds, excludes the Refunded Bonds. Does not include self-supporting debt. See Tables 1 and 10 herein and footnotes related thereto.

For additional information regarding the City, please contact:

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

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

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Julie A. Tandy Mayor	3 1/2 Years	May, 2005	Flight Attendant - American Airlines
Steve Trine Councilmember	2 1/2 Years	May, 2005	Engineering Program Manager
Joe McCombs Councilmember	4 1/2 Years	May, 2004	Owner - Spring Water Bottling Company
Russell Lake Councilmember	9 Months	May, 2004	President - Lake Sound
John Cooney Councilmember	9 Months	May, 2004	Retired
Mitch Holmes Councilmember	9 Months	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	8 1/2 Years ⁽¹⁾
Johnny Phifer	Director of Finance	8 1/2 Years ⁽²⁾
Sheila Stephens	City Secretary	29 1/2 Years
Ed Ilschner	Director of Public Works	3 1/2 Years ⁽³⁾

(1) Previously served as City Manager for other cities for 28 years.
 (2) Previously served as Director of Finance for other cities for 11 years.
 (2) Previously served 19 years in similar position for other government entities.

CONSULTANTS AND ADVISORS

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

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

Financial Advisor First Southwest Company
 Fort Worth, Texas

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OFFICIAL STATEMENT
RELATING TO
\$11,565,000
CITY OF KELLER, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2004

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$11,565,000 City of Keller, Texas, General Obligation Refunding Bonds, 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 Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical service), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2000 Census population for the City was 27,345, while the estimated 2004 population is 31,814. The City covers approximately 18.17 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to lower the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Bonds and their respective call dates at par.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Trust Company, N.A. (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

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

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

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

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources:

Principal Amount of Bonds	\$ 11,565,000.00
Original Issue Premium	304,041.25
Accrued Interest	38,225.63
Transfers from Prior Issue Debt Service Funds	<u>145,391.25</u>
Total Sources of Funds	\$ 12,052,658.13

Uses of Funds

Deposit to Escrow Fund	\$ 11,808,676.06
Deposit Accrued Interest to Interest and Sinking Fund	38,225.63
Costs of Issuance ⁽¹⁾	<u>205,756.44</u>
Total Uses of Funds	\$ 12,052,658.13

(1) Includes the Underwriters' Discount and Insurance Premium.

THE BONDS

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

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly V.T.C.A. Government Code, Chapters 1207, as amended, and the Ordinance passed by the City Council.

SECURITY AND SOURCE OF PAYMENT . . . The principal of and interest on the Bonds are payable from a continuing direct annual ad valorem tax levied by the City within the limits prescribed by law upon all taxable property in the City.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

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

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, 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 Bonds 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 Bond (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption

price and the interest accrued on the principal amount to be redeemed to the date of redemption 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.

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

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

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to pay principal, interest and redemption price with respect to the Bonds by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding 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 Bonds. If any of such Bonds 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 Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

DTC will act as securities depository for the Bonds. The Bonds 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 Bond certificate will be issued for each maturity of the Bonds, 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the 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 Bonds is discontinued by the City, printed securities certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance, summarized under "The Bonds - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A.. 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 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds 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 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond 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 Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the 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 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Bonds. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as 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 Bonds. 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOND INSURANCE

The information contained or referred to in this Official Statement relating to Financial Security and the Policy has been provided by Financial Security. Such information has not been verified by the City or the Underwriter and is not guaranteed as to completeness by the City or the Underwriter and is not to be construed as a representation by the City or the Underwriter. Reference is made to the specimen of the Policy attached hereto in Appendix D.

BOND INSURANCE POLICY

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

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

FINANCIAL SECURITY ASSURANCE INC.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,021,327,000 and its total unearned premium reserve was approximately \$1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, Financial Security's total shareholders' equity was approximately \$2,208,123,000 and its total net unearned premium reserve was approximately \$1,098,686,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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

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

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

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 Commission 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 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or 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:

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, 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 ⁽¹⁾		\$ 2,504,271,587
City Funded Debt Payable from Ad Valorem Taxes (as of 1/01/04) ⁽²⁾		
General Obligation Bonds	\$ 11,850,000	
Tax and Revenue Certificate of Obligation Debt	86,130,000	
The Bonds	<u>11,565,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 109,545,000
Less Self-Supporting Debt: ⁽³⁾		
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		18,120,000
Water and Sewer System General Obligation Debt		<u>13,062,419</u> ⁽⁴⁾
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 40,517,581
Interest and Sinking Fund Balance as of 1/1/04		\$ 2,506,915
Ratio Total Funded Debt to Taxable Assessed Valuation		4.37%
Ratio Net Funded Debt to Taxable Assessed Valuation		1.62%

2004 Estimated Population - 31,814
Per Capita Taxable Assessed Valuation - \$78,716
Per Capita Total Funded Debt \$3,443
Per Capita Net Funded Debt - \$1,274

(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) Excludes the Refunded Bonds.
(3) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue sources. 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 the respective revenue sources; this policy is subject to change in the future.
(4) Includes a portion of the Bonds.

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	37,370,802 ⁽¹⁾	1.49%	1,175

(1) Projected, includes the Bonds, excludes the Refunded Bonds. Does not include self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes.

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	In Process of Collection	

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 BONDS - Tax Rate Limitation"). Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

TABLE 6 - TAX ADEQUACY⁽¹⁾

2004 Net Debt Service Requirement ⁽²⁾	\$ 4,579,629
\$0.1848 Tax Rate at 99.00% Collection Produces	\$ 4,581,615
Net Maximum Debt Service Requirement, 2004 ⁽²⁾	\$ 4,579,629
\$0.1848 Tax Rate at 99.00% Collection Produces	\$ 4,581,615
2004 Total Debt Service Requirement ⁽³⁾	\$ 9,906,842
\$0.3996 Tax Rate at 99.00% Collection Produces	\$ 9,906,999
Gross Total Debt Service Requirement, 2007 ⁽⁴⁾	\$ 11,790,853
\$0.4756 Tax Rate at 99.00% Collection Produces	\$ 11,791,213

(1) Includes the Bonds, excludes the Refunded Bonds. Excludes captured appraised value – see Table 1 and footnotes related thereto.

(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 stated below, 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 1-01-04	Estimated % Applicable	City's Overlapping Funded Debt As of 1-01-04
City of Keller	\$ 2,504,271,587	\$ 0.438000	\$ 40,517,581 ⁽¹⁾	100.00%	\$ 40,517,581
Keller Independent School District	5,981,682,757	1.676200	400,520,389	45.32%	181,515,840
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	76,790,000	2.64%	2,027,256
Tarrant County Hospital District	84,645,390,170	0.235397	2,410,000	2.64%	63,624
Total Direct and Overlapping Funded Debt					\$ 228,168,781
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					9.11%
Per Capita Overlapping Funded Debt					\$7,172

(1) Includes the Bonds and less self-supporting debt. Excludes the Refunded Bonds.

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		Total Outstanding Debt	Less: TIF Requirements	Less: Development Corporation Requirements	Less: Crime Control Prevention District Requirements	Less: Water and Sewer System Requirements ⁽³⁾	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest							
2004	\$ 4,785,000	\$ 4,940,773	-	\$ 181,069	\$ 9,906,842	\$ 1,885,264	\$ 811,102	\$ 1,181,688	\$ 1,449,160	\$ 4,579,629	
2005	4,395,000	4,239,004	\$ 1,450,000	340,388	10,424,391	2,040,819	944,381	1,407,850	1,516,251	4,515,090	
2006	5,780,000	4,050,796	1,410,000	304,538	11,545,334	2,936,616	1,132,381	1,516,600	1,525,927	4,433,809	
2007	6,360,000	3,805,603	1,350,000	275,250	11,790,853	3,289,719	1,388,256	1,517,425	1,580,783	4,014,669	
2008	5,220,000	3,556,859	1,280,000	234,463	10,291,321	3,405,434	1,386,694	-	1,577,363	3,921,831	29.23%
2009	5,130,000	3,313,663	1,330,000	188,913	9,962,575	3,458,626	1,385,550	-	1,304,147	3,814,251	
2010	5,385,000	3,066,755	1,185,000	149,706	9,786,461	3,487,889	1,386,744	-	1,273,127	3,638,702	
2011	5,700,000	2,813,700	670,000	120,400	9,304,100	3,523,266	1,386,169	-	1,248,135	3,146,530	
2012	6,010,000	2,553,581	700,000	98,975	9,362,556	3,559,471	1,389,209	-	1,233,404	3,180,471	
2013	5,955,000	2,289,158	440,000	78,800	8,762,958	3,587,861	1,385,275	-	1,018,750	2,771,071	58.90%
2014	5,805,000	2,019,934	755,000	54,900	8,634,834	3,621,989	1,386,225	-	686,837	2,939,783	
2015	5,935,000	1,742,694	475,000	30,300	8,182,994	3,629,915	1,384,800	-	490,256	2,678,023	
2016	6,240,000	1,451,615	495,000	10,900	8,197,515	3,636,984	1,388,806	-	488,438	2,683,287	
2017	6,570,000	1,140,866	25,000	500	7,736,366	3,643,940	1,385,169	-	493,143	2,214,115	
2018	6,765,000	812,016			7,577,016	3,644,135	1,388,694	-	493,375	2,050,812	89.07%
2019	3,280,000	472,073			3,752,073	-	1,389,088	-	492,182	1,870,803	
2020	3,195,000	317,239			3,512,239	-	1,386,988	-	494,498	1,630,753	
2021	1,980,000	195,458			2,175,458	-	1,387,206	-	-	788,252	
2022	2,070,000	106,954			2,176,954	-	1,384,613	-	-	792,341	
2023	1,450,000	30,813			1,480,813	-	1,388,900	-	-	91,913	100.00%
	<u>\$ 98,010,000</u>	<u>\$ 42,919,550</u>	<u>\$ 11,565,000</u>	<u>\$ 2,069,100</u>	<u>\$ 154,563,650</u>	<u>\$ 49,351,928</u>	<u>\$ 26,466,249</u>	<u>\$ 5,623,563</u>	<u>\$ 17,365,778</u>	<u>\$ 55,756,134</u>	

DEBT INFORMATION

(1) "Outstanding Debt" does not include lease/purchase obligations. Excludes the Refunded Bonds. Includes self-supporting debt.
 (2) Average life of the issue – 5.230 Years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.
 (3) Includes a portion of the Bonds.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-04		\$ 4,613,730 ⁽¹⁾
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

(1) Net of self-supporting debt.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

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 ⁽²⁾

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.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City anticipates the issuance of Certificates of Obligation in the spring of 2004 in the amount of \$16,300,000.

TABLE 11 - OTHER OBLIGATIONS

The City has entered into a capital lease agreement for the purchase of a new fire truck. The following is a schedule of future 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 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

<u>Revenues</u>	Fiscal Year Ended September 30,				
	2003 ⁽¹⁾	2002	2001	2000	1999
Total Property Tax	\$ 6,500,082	\$ 5,543,445	\$ 4,753,437	\$ 4,001,075	\$ 3,505,818
Sales Tax	2,662,903	2,481,882	2,076,989	1,753,767	1,217,336
Franchise/Other Local Tax	2,227,851	1,997,496	1,825,346	1,542,975	1,008,925
Permits, Licenses and Fees	1,927,733	2,098,686	2,552,022	2,808,133	2,964,743
Intergovernmental Revenue	744,060	193,421	23,536	21,746	24,196
Charges for Services	184,850	193,076	128,251	110,725	79,820
Fines and Warrants	779,344	610,568	673,637	657,998	632,688
Interest on Investments	36,561	115,093	260,842	227,187	178,076
Miscellaneous	60,508	117,909	86,270	83,356	37,618
Donations	-	-	35,457	25,063	29,092
Total Revenues	\$ 15,123,892	\$ 13,351,576	\$ 12,415,787	\$ 11,232,025	\$ 9,678,312
 <u>Expenditures:</u>					
General Government	\$ 2,390,643	\$ 2,140,178	\$ 1,758,063	\$ 1,670,176	\$ 1,476,947
Police Department	4,381,826	3,763,423	3,130,558	2,575,030	2,234,639
Public Works Department	1,855,836	1,747,382	1,384,803	1,118,935	1,044,038
Library	974,741	863,299	668,577	571,977	456,112
Fire Department	3,341,790	3,121,595	2,611,276	2,093,672	1,789,784
Planning and Development	933,876	937,924	783,835	662,487	574,774
Parks and Recreation	1,449,447	1,390,073	1,106,459	889,542	760,081
Nondepartmental	968,906	447,495	153,483	181,355	185,584
Debt Service	-	-	70,004	173,156	140,017
Capital Outlay	96,794	360,785	656,451	792,771	252,770
Total Expenditures	\$ 16,393,859	\$ 14,772,154	\$ 12,323,509	\$ 10,729,101	\$ 8,914,746
 Excess (deficiency) of Revenues					
Over Expenditures	\$ (1,269,967)	\$ (1,420,578)	\$ 92,278	\$ 502,924	\$ 763,566
Operating Transfers In	928,090	536,595	319,095	205,040 ⁽²⁾	500,275
Operating Transfers Out ⁽³⁾	-	(98,205)	(177,848)	(131,085)	(510,400)
Note Proceeds	-	-	94,333	-	-
Increase (decrease) in Fund Balance	\$ (341,877)	\$ (982,188)	\$ 327,858	\$ 576,879	\$ 753,441
Beginning Fund Balance	2,722,500	3,704,688	3,443,485	2,866,606	2,113,165
Residual Equity Transfer	-	-	(66,655)	-	-
Ending Fund Balance	\$ 2,380,623	\$ 2,722,500	\$ 3,704,688	\$ 3,443,485	\$ 2,866,606

(1) Preliminary information provided by City Officials.

(2) 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.

(3) 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 (3/8th of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code. Collections for the additional sales tax went into effect April 1, 2002. Said sales tax is collected solely for the benefit of the Keller Crime Control and Protection District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighths of one percent (1/8th of 1%) for street maintenance pursuant to Chapter 363 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 ⁽¹⁾	% 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 ⁽²⁾	1,360,714	12.42%	0.0543	43

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

(2) Collections for part year only.

The sales tax breakdown for the City is as follows:

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

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

FINANCIAL POLICIES

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

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

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

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

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

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, 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.

Effective September 1, 2003, a political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 January 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	57.4%	\$ 24,751,231	\$ 24,751,231
Agency Discounts	39.6%	17,069,161	17,019,288
Money Market Funds	3.0%	1,275,963	1,275,963
	<u>100.0%</u>	<u>\$ 43,096,355</u>	<u>\$ 43,046,482</u>

As of such date, 63% of the City's investment portfolio will mature within six months. The market value of the investment portfolio was approximately 99.9% of its purchase price.

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bond Counsel, interest on the Bonds 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 Bonds will not be "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds will not be treated as a preference item under the alternative minimum tax provisions of the Code as applicable to individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

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 Bonds 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 Bonds 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 Bonds.

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 Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, certain insurance companies, owners of an interest in a Financial Asset Securitization Investment Trust, 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 Bonds. 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 Bonds. If an audit is commenced, under current procedures the Service will treat the Issuer as the taxpayer and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit with respect to the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds.

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

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 Bond prior to maturity, the amount realized by the owner in excess of the basis of such Discount Bonds in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Discount Bonds 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 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

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

ANNUAL REPORTS . . . The City will provide certain 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 Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds 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 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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 Bonds 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 Bonds 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 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 Bonds in the primary offering of the Bonds. 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.

OTHER INFORMATION

RATINGS

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

LITIGATION

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 September 30, 2002, the amount of the judgment, plus accrued interest, was approximately \$587,250. 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 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings"

herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the City. 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 Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (excluding information under the subcaption "Use of Proceeds"), "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only-System" and "Bondholders Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Kelly, Hart & Hallman, A Professional Corporation, Fort Worth, Texas, Counsel to the Underwriters. The legal fee to be paid to counsel to the Underwriters is contingent on the sale and delivery of the Bonds.

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

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Refunding Bonds and the restricted Federal Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company on behalf of the City. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$62,205.00. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

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

ATTEST:

/s/ SHEILA STEPHENS
City Secretary
City of Keller, Texas

SCHEDULE OF REFUNDED BONDS

Combination Tax and Revenue Refunding Bonds, Series 1994

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
1/15/1994	2/15/2005	4.500%	\$ 910,000	\$ 910,000
	2/15/2006	4.625%	875,000	875,000
	2/15/2007	4.750%	940,000	940,000
	2/15/2008	4.800%	865,000	865,000
	2/15/2009	4.900%	920,000	920,000
	2/15/2010	4.900%	770,000	770,000
	2/15/2011	5.000%	255,000	255,000
	2/15/2012	5.000%	280,000	280,000
	2/15/2014	5.000%	300,000	300,000
			<u>\$ 6,115,000</u>	<u>\$ 6,115,000</u>

The 2005 - 2014 maturities will be redeemed prior to original maturity on March 29, 2004 at par.

Combination Tax and Revenue Certificates of Obligation, Series 1996

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
3/15/1996	2/15/2007	4.90%	\$ 285,000	\$ 285,000
	2/15/2008	5.00%	300,000	300,000
	2/15/2009	5.10%	315,000	315,000
	2/15/2010	5.25%	335,000	335,000
	2/15/2011	5.30%	350,000	350,000
	2/15/2012	5.40%	370,000	370,000
	2/15/2013	5.50%	395,000	395,000
	2/15/2014	5.50%	415,000	415,000
	2/15/2015	5.50%	440,000	440,000
	2/15/2016	5.50%	465,000	465,000
			<u>\$ 3,670,000</u>	<u>\$ 3,670,000</u>

The 2007 - 2016 maturities will be redeemed prior to original maturity on February 15, 2006 at par.

Combination Tax and Revenue Certificates of Obligation, Series 1996-A

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
6/15/1996	2/15/2005	5.10%	\$ 410,000	\$ 410,000
	2/15/2006	5.20%	435,000	435,000
			<u>\$ 845,000</u>	<u>\$ 845,000</u>

The 2005 and 2006 maturities will be redeemed prior to original maturity on March 29, 2004 at par.

Combination Tax and Revenue Certificates of Obligation, Series 1996-B

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
9/1/1996	2/15/2007	5.30%	\$ 55,000	\$ 55,000
	2/15/2008	5.40%	60,000	60,000
	2/15/2009	5.40%	60,000	60,000
	2/15/2010	5.50%	65,000	65,000
	2/15/2011	5.60%	70,000	70,000
	2/15/2012	5.70%	70,000	70,000
	2/15/2013	5.75%	75,000	75,000
	2/15/2014	5.75%	80,000	80,000
	2/15/2015	5.75%	85,000	85,000
	2/15/2016	5.75%	90,000	90,000
	2/15/2017	5.75%	95,000	95,000
			<u>\$ 805,000</u>	<u>\$ 805,000</u>

The 2007 – 2017 maturities will be redeemed prior to original maturity on February 15, 2006 at par.

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 2002 Survey of Buying Power, dated August, 2003.

LABOR MARKET PROFILE

	December 2003	Average Annual 2002	Average Annual 2001	Average Annual 2000	Average Annual 1999	Average Annual 1998
Keller:						
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%
Fort Worth/Arlington PMSA:						
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%
Tarrant County						
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 ⁽¹⁾

Fiscal Year ⁽¹⁾	Non-Residential Construction ⁽²⁾		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, 2002

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2002, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Keller, Texas

We have audited the accompanying general purpose financial statements of the City of Keller, Texas as of and for the year ended September 30, 2002. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Keller, Texas at September 30, 2002, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements for the year ended September 30, 2002, and the individual fund financial statements for the year ended September 30, 2001, and supplementary schedules listed in the table of contents, which are also the responsibility of the management of the City of Keller, Texas, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Keller, Texas. Such additional information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The statistical section listed in the foregoing table of contents was not audited by us and, accordingly, we do not express an opinion thereon.

Rutledge Crain & Company, PC

January 13, 2003

CITY OF KELLER, TEXAS
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2002
(With Comparative Totals for September 30, 2001)

	Governmental Fund Types		
	General Fund	Special Revenue Funds	Debt Service Funds
ASSETS AND OTHER DEBITS			
Assets:			
<i>Cash</i>	\$ 42,804	\$ 50	\$ 47,450
<i>Investments</i>	3,147,317	789,187	1,216,292
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	20,967	-	194,434
<i>Accounts</i>	446,708	-	-
<i>Interest</i>	13,731	1,625	18,641
<i>Other</i>	459,636	16,083	15,869
<i>Special assessments</i>	-	-	100,847
<i>Intergovernmental</i>	462,574	398,458	-
<i>Due from other funds</i>	190,239	181,391	109,640
<i>Inventories</i>	23,152	-	-
<i>Prepaid items</i>	18,782	300	-
Restricted assets:			
<i>Cash</i>	-	-	-
<i>Investments</i>	-	-	-
<i>Fixed assets (net, where applicable, of accumulated depreciation)</i>	-	-	-
<i>Capacity rights (net of accumulated amortization)</i>	-	-	-
<i>Deferred charges</i>	-	-	-
Other Debits:			
<i>Amount available in debt service fund</i>	-	-	-
<i>Amount to be provided for retirement of general long-term debt</i>	-	-	-
Total Assets and Other Debits	\$ 4,825,910	\$ 1,387,094	\$ 1,703,173

The accompanying notes are an integral part of this statement.

Capital Projects Funds	Proprietary Fund Types Enterprise Funds	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long- Term Debt	September 30, 2002	September 30, 2001
\$ --	\$ 400	\$ --	\$ --	\$ 90,704	\$ 1,775,725
17,427,232	4,406,669	--	--	26,986,697	36,525,918
--	--	--	--	215,401	132,281
6,072	2,273,060	--	--	2,725,840	2,243,820
69,215	55,168	--	--	158,380	411,789
2,000	92,459	--	--	586,047	2,784,888
213,826	--	--	--	314,673	131,521
--	119,668	--	--	980,700	1,121,139
730,648	776,636	--	--	1,988,554	202,482
--	289,044	--	--	312,196	406,983
3,722	102,518	--	--	125,322	203,548
--	--	--	--	--	252,554
--	7,637,283	--	--	7,637,283	9,533,970
--	39,885,587	50,215,000	--	90,100,587	69,273,766
--	4,482,527	--	--	4,482,527	4,639,572
--	145,050	--	--	145,050	162,079
--	--	--	1,142,736	1,142,736	2,392,255
--	--	--	74,880,606	74,880,606	66,825,806
<u>\$ 18,452,715</u>	<u>\$ 60,266,069</u>	<u>\$ 50,215,000</u>	<u>\$ 76,023,342</u>	<u>\$ 212,873,303</u>	<u>\$ 199,020,096</u>

CITY OF KELLER, TEXAS
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2002
(With Comparative Totals for September 30, 2001)

	Governmental Fund Types		
	General Fund	Special Revenue Funds	Debt Service Funds
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
<i>Accounts payable</i>	\$ 284,351	\$ 242,161	\$ -
<i>Accrued liabilities and other payables</i>	840,612	14,207	-
<i>Due to other funds</i>	282,234	84,419	256,544
<i>Due to other governments</i>	62,870	-	-
<i>Customer deposits</i>	12,150	-	-
<i>Current portion of general obligation bonds</i>	-	-	-
<i>Current portion of contractual obligations</i>	-	-	-
<i>Current portion of notes payable</i>	-	-	-
<i>Liabilities payable from restricted assets</i>			
<i>Current portion of revenue bonds payable</i>	-	-	-
<i>Current portion of certificates of obligation</i>	-	-	-
<i>Accrued interest payable</i>	-	-	-
<i>Deferred revenue</i>	519,862	1,750	303,893
<i>Revenue bonds payable</i>	-	-	-
<i>Certificates of obligation</i>	-	-	-
<i>Contractual obligations</i>	-	-	-
<i>General obligations</i>	-	-	-
<i>Notes payable</i>	-	-	-
<i>Provision for litigation settlement</i>	-	-	-
<i>Compensated absences payable</i>	101,331	1,115	-
Total Liabilities	<u>2,103,410</u>	<u>343,652</u>	<u>560,437</u>
Equity and other credits:			
<i>Investment in general fixed assets</i>	-	-	-
<i>Contributed capital</i>	-	-	-
Retained earnings:			
<i>Reserved</i>	-	-	-
<i>Unreserved</i>	-	-	-
Fund Balances:			
<i>Reserved for encumbrances</i>	229,549	485,312	-
<i>Reserved for special uses</i>	-	7,381	-
<i>Reserved for prepaid items</i>	18,782	300	-
<i>Reserved for inventory</i>	23,152	-	-
<i>Reserved for debt service</i>	-	167,681	-
<i>Reserved for dispute settlement</i>	-	-	40,210
<i>Unreserved, designated</i>	56,664	-	-
<i>Unreserved, undesignated</i>	2,394,353	382,768	1,102,526
Total equity and other credits	<u>2,722,500</u>	<u>1,043,442</u>	<u>1,142,736</u>
Total Liabilities, Equity & Other Credits	<u>\$ 4,825,910</u>	<u>\$ 1,387,094</u>	<u>\$ 1,703,173</u>

The accompanying notes are an integral part of this statement.

Capital Projects Funds	Proprietary Fund Types Enterprise Funds	Account Groups		Totals (Memorandum Only)	
		General Fixed Assets	General Long- Term Debt	September 30, 2002	September 30, 2001
\$ 2,403,073	\$ 904,137	\$ --	\$ --	\$ 3,833,722	\$ 6,915,957
179,356	396,199	--	--	1,430,374	1,082,573
775,720	589,637	--	--	1,988,554	202,482
--	6,852	--	--	69,722	--
76,298	618,669	--	--	707,117	622,670
--	439,322	--	--	439,322	619,093
--	351,560	--	--	351,560	333,104
--	--	--	--	--	30,141
--	115,000	--	--	115,000	115,000
--	289,000	--	--	289,000	269,800
--	126,002	--	--	126,002	139,526
213,827	--	--	--	1,039,332	717,825
--	--	--	1,305,000	1,305,000	1,495,000
--	4,321,290	--	62,680,700	67,001,990	59,893,745
--	2,671,467	--	--	2,671,467	3,001,785
--	8,408,874	--	10,990,832	19,399,706	20,654,184
--	--	--	134,790	134,790	413,834
--	--	--	504,721	504,721	--
--	56,575	--	407,299	566,320	456,217
<u>3,648,274</u>	<u>19,294,584</u>	<u>--</u>	<u>76,023,342</u>	<u>101,973,699</u>	<u>96,962,936</u>
--	--	50,215,000	--	50,215,000	36,795,503
--	25,352,252	--	--	25,352,252	25,385,674
--	1,294,978	--	--	1,294,978	3,465,872
--	14,324,255	--	--	14,324,255	4,934,320
2,336,502	--	--	--	3,051,363	10,266,987
--	--	--	--	7,381	4,972
--	--	--	--	19,082	117,791
--	--	--	--	23,152	43,627
--	--	--	--	167,681	167,681
--	--	--	--	40,210	40,210
--	--	--	--	56,664	125,367
12,467,939	--	--	--	16,347,586	20,709,156
<u>14,804,441</u>	<u>40,971,485</u>	<u>50,215,000</u>	<u>--</u>	<u>110,899,604</u>	<u>102,057,160</u>
<u>\$ 18,452,715</u>	<u>\$ 60,266,069</u>	<u>\$ 50,215,000</u>	<u>\$ 76,023,342</u>	<u>\$ 212,873,303</u>	<u>\$ 199,020,096</u>

CITY OF KELLER, TEXAS**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****ALL GOVERNMENTAL FUND TYPES****YEAR ENDED SEPTEMBER 30, 2002***(With Comparative Totals for Year Ended September 30, 2001)*

	Governmental	
	General Fund	Special Revenue Funds
Revenues:		
<i>Taxes</i>	\$ 10,022,823	\$ 1,652,077
<i>Permits, licenses and fees</i>	2,098,686	-
<i>Intergovernmental</i>	193,471	103,220
<i>Charges for services</i>	193,076	5,390
<i>Fines</i>	610,568	47,328
<i>Special assessments and impact fees</i>	-	-
<i>Donations</i>	71,054	36,100
<i>Interest income</i>	115,093	16,021
<i>Miscellaneous</i>	46,805	217,187
Total revenues	<u>13,351,576</u>	<u>2,077,323</u>
Expenditures:		
<i>General government</i>	2,140,178	497,988
<i>Planning & community development</i>	937,924	-
<i>Public safety</i>	6,885,018	124,171
<i>Public works</i>	1,747,382	-
<i>Recreation and leisure</i>	2,253,372	157,159
<i>Non-departmental</i>	447,495	-
Capital outlay	360,785	635,265
Debt service:		
<i>Principal</i>	-	75,000
<i>Interest and fiscal charges</i>	-	88,152
Total expenditures	<u>14,772,154</u>	<u>1,577,735</u>
Excess (deficiency) of revenues over (under) expenditures	(1,420,578)	499,588
Other financing sources (uses):		
<i>Operating transfers in</i>	536,595	173,355
<i>Operating transfers out</i>	(98,205)	(301,800)
<i>Note proceeds</i>	-	-
<i>Debt issue proceeds</i>	-	-
Total other financing sources (uses)	<u>438,390</u>	<u>(128,445)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(982,188)	371,143
Fund balances, October 1	<u>3,704,688</u>	<u>672,299</u>
Fund balances, September 30	<u>\$ 2,722,500</u>	<u>\$ 1,043,442</u>

The accompanying notes are an integral part of this statement.

Fund Types		Totals (Memorandum Only)	
Debt Service Funds	Capital Projects Funds	September 30, 2002	September 30, 2001
\$ 3,621,215	\$ -	\$ 15,296,115	\$ 12,519,407
-	295,145	2,393,831	2,590,412
-	29,648	326,339	111,246
-	-	198,466	134,751
-	-	657,896	719,222
-	1,099,060	1,099,060	370,549
28,196	102,017	237,367	244,953
106,857	535,846	773,817	1,852,084
-	-	263,992	545,210
<u>3,756,268</u>	<u>2,061,716</u>	<u>21,246,883</u>	<u>19,087,834</u>
-	5,020,553	7,658,719	3,511,568
-	-	937,924	783,835
-	6,463	7,015,652	5,771,356
-	-	1,747,382	1,384,803
-	111,179	2,521,710	2,086,096
-	-	447,495	155,468
-	14,965,491	15,961,541	13,959,013
2,161,261	-	2,236,261	2,112,037
3,645,801	-	3,733,953	3,062,736
<u>5,807,062</u>	<u>20,103,686</u>	<u>42,260,637</u>	<u>32,826,912</u>
(2,050,794)	(18,041,970)	(21,013,754)	(13,739,078)
801,275	31,110	1,542,335	3,920,843
-	(506,250)	(906,255)	(3,314,983)
-	-	-	150,933
-	8,383,110	8,383,110	25,830,000
<u>801,275</u>	<u>8,139,860</u>	<u>9,251,080</u>	<u>26,586,793</u>
(1,249,519)	(9,902,110)	(11,762,674)	12,847,715
<u>2,392,255</u>	<u>24,706,551</u>	<u>31,475,793</u>	<u>18,628,078</u>
<u>\$ 1,142,736</u>	<u>\$ 14,804,441</u>	<u>\$ 19,713,119</u>	<u>\$ 31,475,793</u>

CITY OF KELLER, TEXAS**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
<i>Taxes</i>	\$ 10,251,200	\$ 10,022,823	\$ (228,377)
<i>Permits, licenses and fees</i>	2,490,700	2,098,686	(392,014)
<i>Intergovernmental</i>	183,095	193,471	10,376
<i>Charges for services</i>	195,000	193,076	(1,924)
<i>Fines</i>	618,500	610,568	(7,932)
<i>Donations</i>	-	71,054	71,054
<i>Interest income</i>	140,000	115,093	(24,907)
<i>Miscellaneous</i>	77,050	46,805	(30,245)
Total revenues	<u>13,955,545</u>	<u>13,351,576</u>	<u>(603,969)</u>
Expenditures:			
<i>General government</i>	2,089,690	2,140,178	(50,488)
<i>Planning & community development</i>	892,285	937,924	(45,639)
<i>Public safety</i>	6,765,705	6,885,018	(119,313)
<i>Public works</i>	1,687,890	1,747,382	(59,492)
<i>Recreation and leisure</i>	2,211,260	2,253,372	(42,112)
<i>Non-departmental</i>	416,588	447,495	(30,907)
Capital outlay	467,530	360,785	106,745
Debt service:			
<i>Principal</i>	-	-	-
<i>Interest and fiscal charges</i>	-	-	-
Total expenditures	<u>14,530,948</u>	<u>14,772,154</u>	<u>(241,206)</u>
Excess (deficiency) of revenues over (under) expenditures	(575,403)	(1,420,578)	(845,175)
Other financing sources (uses):			
<i>Operating transfers in</i>	536,595	536,595	-
<i>Operating transfers out</i>	(98,205)	(98,205)	-
<i>Debt issue proceeds</i>	-	-	-
Total other financing sources (uses)	<u>438,390</u>	<u>438,390</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(137,013)	(982,188)	(845,175)
Fund balances, October 1	<u>3,704,688</u>	<u>3,704,688</u>	<u>-</u>
Fund balances, September 30	<u>\$ 3,567,675</u>	<u>\$ 2,722,500</u>	<u>\$ (845,175)</u>

The accompanying notes are an integral part of this statement.

Annually Budgeted Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,560,180	\$ 1,652,077	\$ 91,897	\$ 3,735,187	\$ 3,621,215	\$ (113,972)
-	-	-	-	-	-
207,125	45,126	(161,999)	-	-	-
5,100	5,390	290	-	-	-
44,100	47,328	3,228	-	-	-
36,000	34,725	(1,275)	20,000	28,196	8,196
16,450	15,841	(609)	41,000	106,857	65,857
179,690	216,462	36,772	-	-	-
<u>2,048,645</u>	<u>2,016,949</u>	<u>(31,696)</u>	<u>3,796,187</u>	<u>3,756,268</u>	<u>(39,919)</u>
530,700	498,201	32,499	-	-	-
-	-	-	-	-	-
344,500	62,352	282,148	-	-	-
-	-	-	-	-	-
156,220	157,159	(939)	-	-	-
-	-	-	-	-	-
967,614	610,540	357,074	-	-	-
75,000	75,000	-	2,166,490	2,161,261	5,229
88,340	88,152	188	3,645,230	3,645,801	(571)
<u>2,162,374</u>	<u>1,491,404</u>	<u>670,970</u>	<u>5,811,720</u>	<u>5,807,062</u>	<u>4,658</u>
(113,729)	525,545	639,274	(2,015,533)	(2,050,794)	(35,261)
173,355	173,355	-	801,275	801,275	-
(301,800)	(301,800)	-	-	-	-
391,150	-	(391,150)	-	-	-
<u>262,705</u>	<u>(128,445)</u>	<u>(391,150)</u>	<u>801,275</u>	<u>801,275</u>	<u>-</u>
148,976	397,100	248,124	(1,214,258)	(1,249,519)	(35,261)
650,326	650,326	-	2,392,255	2,392,255	-
<u>\$ 799,302</u>	<u>\$ 1,047,426</u>	<u>\$ 248,124</u>	<u>\$ 1,177,997</u>	<u>\$ 1,142,736</u>	<u>\$ (35,261)</u>

CITY OF KELLER, TEXAS

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2002**

EXHIBIT A-3

Page 2 of 2

	Totals (Memorandum Only)		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
<i>Taxes</i>	\$ 15,546,567	\$ 15,296,115	\$ (250,452)
<i>Permits, licenses and fees</i>	2,490,700	2,098,686	(392,014)
<i>Intergovernmental</i>	390,220	238,597	(151,623)
<i>Charges for services</i>	200,100	198,466	(1,634)
<i>Fines</i>	662,600	657,896	(4,704)
<i>Donations</i>	56,000	133,975	77,975
<i>Interest income</i>	197,450	237,791	40,341
<i>Miscellaneous</i>	256,740	263,267	6,527
Total revenues	<u>19,800,377</u>	<u>19,124,793</u>	<u>(675,584)</u>
Expenditures:			
<i>General government</i>	2,620,390	2,638,379	(17,989)
<i>Planning & community development</i>	892,285	937,924	(45,639)
<i>Public safety</i>	7,110,205	6,947,370	162,835
<i>Public works</i>	1,687,890	1,747,382	(59,492)
<i>Recreation and leisure</i>	2,367,480	2,410,531	(43,051)
<i>Non-departmental</i>	416,588	447,495	(30,907)
Capital outlay	1,435,144	971,325	463,819
Debt service:			
<i>Principal</i>	2,241,490	2,236,261	5,229
<i>Interest and fiscal charges</i>	3,733,570	3,733,953	(383)
Total expenditures	<u>22,505,042</u>	<u>22,070,620</u>	<u>434,422</u>
Excess (deficiency) of revenues over (under) expenditures	(2,704,665)	(2,945,827)	(241,162)
Other financing sources (uses):			
<i>Operating transfers in</i>	1,511,225	1,511,225	-
<i>Operating transfers out</i>	(400,005)	(400,005)	-
<i>Debt issue proceeds</i>	391,150	-	(391,150)
Total other financing sources (uses)	<u>1,502,370</u>	<u>1,111,220</u>	<u>(391,150)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,202,295)	(1,834,607)	(632,312)
Fund balances, October 1	<u>6,747,269</u>	<u>6,747,269</u>	<u>-</u>
Fund balances, September 30	<u>\$ 5,544,974</u>	<u>\$ 4,912,662</u>	<u>\$ (632,312)</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES
 YEAR ENDED SEPTEMBER 30, 2002
 (With Comparative Totals for Year Ended September 30, 2001)

EXHIBIT A-4

	September 30, 2002	September 30, 2001
OPERATING REVENUES:		
<i>Charges for services -water</i>	\$ 8,677,936	\$ 8,898,425
<i>Charges for services - sewer</i>	2,954,287	2,797,088
<i>Charges for services - drainage</i>	612,192	470,725
<i>Tap and connection fees</i>	198,217	314,506
<i>Inspection fees</i>	124,222	46,491
Total Operating Revenues	<u>12,566,854</u>	<u>12,527,235</u>
OPERATING EXPENSES:		
<i>Personnel services</i>	1,847,986	1,455,578
<i>Operating and maintenance costs</i>	542,478	243,195
<i>Contractual services and other</i>	2,412,802	1,868,158
<i>Wholesale water purchases</i>	3,221,206	3,794,084
<i>Wastewater services contracted</i>	396,988	151,578
<i>Depreciation and amortization</i>	1,595,370	1,298,887
Total Operating Expenses	<u>10,016,830</u>	<u>8,811,376</u>
Operating Income	<u>2,550,024</u>	<u>3,715,859</u>
NON-OPERATING REVENUES (EXPENSES):		
<i>Interest income</i>	323,642	752,786
<i>Miscellaneous income</i>	678,383	647,665
<i>Interest and fiscal charges</i>	(783,780)	(882,613)
<i>Bad debt recovery (expense)</i>	-	(71,800)
Total Non-operating Revenues (Expenses)	<u>218,245</u>	<u>446,038</u>
Net Income (Loss) before Capital Contributions and Operating Transfers	<u>2,768,269</u>	<u>4,161,897</u>
CAPITAL CONTRIBUTIONS AND OPERATING TRANSFERS:		
<i>Capital Contributions</i>	4,982,617	3,276,995
<i>Operating transfers out</i>	(636,080)	(605,860)
Total Capital Contributions and Operating Transfers	<u>4,346,537</u>	<u>2,671,135</u>
Net income (loss)	7,114,806	6,833,032
Add back depreciation on contributed assets	<u>104,235</u>	<u>111,013</u>
	7,219,041	6,944,045
Retained earnings, October 1	<u>8,400,192</u>	<u>1,456,147</u>
Retained earnings, September 30	<u>\$ 15,619,233</u>	<u>\$ 8,400,192</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS
COMBINED STATEMENT OF CASH FLOWS -
ENTERPRISE FUNDS
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 12,840,006	\$ 12,626,177
Cash paid to suppliers	(7,311,086)	(5,961,220)
Cash paid to employees	(1,835,949)	(1,453,516)
	<u>3,692,971</u>	<u>5,211,441</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers to other funds	(636,080)	(605,860)
Cash received from other funds	589,637	(36)
Cash paid to other funds	(776,636)	(11,085)
Net cash provided (used) by noncapital financing activities	<u>(823,079)</u>	<u>(616,981)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Impact fees received	-	1,083,600
Proceeds received from debt issue	-	-
Purchase of fixed assets	(3,792,218)	(3,700,983)
Principal payments on debt	(1,340,430)	(1,139,155)
Interest paid	(780,275)	(915,482)
Net cash flows provided (used) by capital and related financing activities	<u>(5,912,923)</u>	<u>(4,672,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	9,336,751	3,243,173
Purchase investments	-	(2,819,819)
Investment interest received	370,020	851,176
	<u>9,706,771</u>	<u>1,274,530</u>
Net cash provided (used) by investing activities	<u>9,706,771</u>	<u>1,274,530</u>
Net increase (decrease) in cash	<u>6,663,740</u>	<u>1,196,970</u>
Cash and cash equivalents - beginning	1,810,237	1,027,158
Restricted cash and cash equivalents - beginning	3,570,375	3,156,484
	<u>5,380,612</u>	<u>4,183,642</u>
Cash and cash equivalents - ending	4,407,069	1,810,237
Restricted cash and cash equivalents - ending	7,637,283	3,570,375
	<u>\$ 12,044,352</u>	<u>5,380,612</u>
<i>Investments Classified as Cash Equivalents:</i>	<u>\$ 12,043,952</u>	<u>\$ 4,928,690</u>

The accompanying notes to financial statements are an integral part of this statement.

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATIONS

	<u>2002</u>	<u>2001</u>
Operating income (loss)	<u>\$ 2,550,024</u>	<u>\$ 3,715,859</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,595,370	1,298,888
Miscellaneous and intergovernmental income	684,519	647,666
Miscellaneous expense, bad debts and amortization of bond issue costs	(6,136)	(71,800)
(Increase) decrease in assets:		
Accounts receivable	(430,429)	(72,400)
Other receivables	(1,368)	-
Due from other governments	315,710	(425,575)
Prepaid items	(16,761)	7,936
Inventory	74,312	(203,536)
Increase (decrease) in liabilities:		
Accounts payable	(1,287,936)	826,591
Accrued liabilities and other payables	177,628	(535,300)
Due to other governments	6,852	-
Customer deposits	19,149	21,052
Compensated absences	12,037	2,060
Total adjustments	<u>1,142,947</u>	<u>1,495,582</u>
Net cash provided (used) by operating activities	<u>\$ 3,692,971</u>	<u>\$ 5,211,441</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Fixed assets contributed by developers	\$ 3,069,055	\$ 2,033,094
Fixed assets contributed by governmental funds	<u>1,984,376</u>	<u>173,368</u>
	<u>\$ 5,053,431</u>	<u>\$ 2,206,462</u>
<i>Unrealized increase (decrease) in fair value of investments not cash equivalents</i>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Keller conform to generally accepted accounting principles (GAAP) applicable to government units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

For financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criteria used are as follows:

Financial Accountability - The primary government is deemed to be financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board.

Keller Development Corporation - The City created the Keller Development Corporation (the "Corporation") for the purpose of implementing its Parks Master Plan. There are seven 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. The Corporation is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of the Corporation, the assets of the Corporation shall be distributed to the City of Keller. Keller Development Corporation has been included in a blended presentation in the Special Revenue Fund type with its Sales Tax Revenue Bonds (\$1,450,000) being reported in the General Long-Term Debt Account Group.

Keller Tax Increment Finance Reinvestment Zone #1 (TIF) The City created the Keller Tax Increment Finance Reinvestment Zone #1 and appointed a 9-member Board of Directors. 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 of Keller. The purpose of the TIF is to encourage the accelerated development of the Keller Town Center area in the City of Keller. The TIF is anticipated to fund approximately \$33 million of public improvements over the next 3-5 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).

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.

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 has been included in both the City's Debt Service and Capital Projects Fund types. The debt obligations of the TIF are reported in the General Long-Term Debt Account Group.

Keller Crime Control Prevention District 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. The Board of Directors for the district 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 the District cannot exceed five years without re-authorization by another referendum. The additional sales tax became effective in April 2002.

Since the Crime Control Prevention District 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 the District has been included in both the City's Debt Service and Capital Projects Fund types. The debt obligations (if any) of the District are reported in the General Long-Term Debt Account Group.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Separate financial statements for the component units are not prepared.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary activities apply all GASB pronouncements, FASB Statements and Interpretations, APB Opinions and ARB's issued on or before November 30, 1989. The City has elected to apply only GASB pronouncements issued after November 30, 1989 for proprietary activity.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property and franchise taxes and interest revenue. Sales taxes collected and held by the state or merchants at year end on behalf of the City also are recognized as revenue. Permits, licenses and fees; fines; donations; and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The following fund types and account groups are used by the City:

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable resources and the related liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The City has the following governmental fund types:

General Fund is the general operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Special Revenue Funds are utilized to account for proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Fund is utilized to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest, and related costs other than amounts serviced by the Proprietary Fund and Special Revenue Fund.

Capital Projects Funds are utilized to account for financial resources to be used for the acquisition of or construction of major capital facilities. The City also uses this fund to account for financial resources used for major asset purchases financed through long-term borrowings.

Proprietary Funds

Proprietary Funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income.

Enterprise Funds - Enterprise Funds are used by the City of Keller to account for operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Asset Account Group is established to account for all fixed assets of the City, except those accounted for in the proprietary fund.

General Long-Term Debt Account Group is established to account for all long-term debt of the City except that which is accounted for in the proprietary fund.

C. Cash

The City pools cash for the purpose of increasing income through higher interest earnings. Earnings from these accounts are distributed to the participating funds.

D. Investments

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) 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, (B) secured by obligations that are described by (1) - (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the City, and placed through a primary government securities dealer.

The City pools investments for the purpose of increasing income through higher interest earnings. Earnings from these investments are distributed to the participating funds. Investments maturing within one year of date of purchase are stated at cost or amortized cost, all other investments are stated at fair value.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

E. Inventory

Inventory of the water and sewer fund is valued at cost using the first in/first out method. Inventories of governmental fund-types are not significant and are recorded as expenditures when purchased.

F. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The receivables and payables are classified as "due from other funds" or "due to other funds" on the appropriate balance sheet.

G. Restricted Assets

Proceeds of enterprise fund revenue bonds and certificates of obligation, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are recorded at cost. Donated fixed assets are valued at estimated fair market value on the date received.

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

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated.

Property, plant and equipment owned by the proprietary fund are stated at cost and are recorded in the fund used to acquire them. Assets of the proprietary fund are depreciated using straight-line depreciation over the following estimated useful lives:

Buildings	40 years
Water System	50 years
Sewer System	50 years
Capacity rights	40 years
Furniture	3 - 10 years
Equipment	3 - 10 years

I. Long-Term Debt

General obligation bonds have been issued to fund capital projects of the general government and are to be repaid from tax revenues of the City. General obligation debt is recorded in the general long-term debt account group. Certificates of obligation have been issued to fund capital projects of both the general government and enterprise funds. Repayment is to be made from net revenues generated by the financed facilities and from tax revenues. Certificates of obligation issued to fund general government projects and acquisitions have been recorded in the general long-term debt account group. Certificates of obligation used to purchase or construct assets for the Water and Sewer Fund are recorded in the Water and Sewer Fund. Sales tax revenue bonds issued by Keller Development Corporation are repaid from a ½ cent sales tax.

Revenue bonds have been issued to fund capital projects of the Water and Sewer Fund. Such bonds are to be repaid from the net revenues of the Water and Sewer Fund activities.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

J. Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each calendar year. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. The appraised value (net of exemptions and other allowances) upon which the fiscal year 2002 levy was based was \$1,943,992,842. The assessed value for 2001 was computed based on 100% of appraised value.

The appraisal of property within the City is the responsibility of a county-wide appraisal district as required by legislation passed by the Texas Legislature. The appraisal district is required under such legislation to assess all property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every four years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal through various appeals and, if necessary, legal action.

K. Compensated Absences

Vested or accumulated vacation leave and compensation time that is expected to be paid with expendable available financial resources is reported as an expenditure and a fund liability of the General Fund, and certain special revenue funds. Amounts of vested or accumulated vacation leave and compensation time that are not expected to be paid with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

Vested or accumulated vacation leave and compensation time of the Water and Sewer Fund is recorded as an expense and liability of the fund as the benefits accrue to the employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

L. Fund Equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Designated fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

M. Bond Issuance Costs

In governmental fund types, bond issuance costs are recognized in the current period. Issuance costs for proprietary fund types are deferred and amortized over the term of the bonds.

N. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in the columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Reclassifications

Certain amounts reported in 2001 have been reclassified so as to be comparable to amounts for 2002.

P. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Q. Concentration of Credit Risk

The City levies property taxes on residents and businesses within the City and provides water and sewer services for those in the City and surrounding areas. Risk of loss is not significant due to the wide dispersion of receivables and policies which address procedures for filing property tax liens or utility service cut-off.

R. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with original maturities of ninety days or less from the date of purchase to be cash and cash equivalents.

2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted with public notice being given within statutory limits for the purpose of obtaining taxpayer comments.
3. The budget must be adopted no later than September 27 of the fiscal year by a majority of all members of the council. The budget is legally enacted through passage of an ordinance. From the effective date of the budget, the several amounts stated therein as proposed expenditures become appropriated to the objects and purposes therein named.
4. Budgetary control is maintained at the department level.
5. The City Manager is authorized to transfer budgeted amounts within the department level.
6. The City Council may amend the budget by ordinance if such amendment will not increase the total of all budget expenditures. The total budget may be increased after notice and public hearing as prescribed for adoption of the original budget. If the total accruing revenue of the City shall be in excess of the total estimated income as projected in the budget, the City council may by ordinance amend the budget to appropriate such excess revenue to such purposes as they may deem appropriate after notice and public hearing as required for adoption of the original budget.
7. The original budget was legally adopted on September 12, 2001 through passage of Ordinance 1060. The final revisions of the budget were adopted September 17, 2002 through passage of Ordinance 1116. There were no additional significant appropriations made during the year.
8. Appropriations for annually budgeted funds lapse at year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Budget and Budget Basis

Budgets have been adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets were adopted for the General Fund, Special Revenue Funds (excluding Public Safety and Youth Advisory funds), and the Debt Service Funds. Project length budgets are adopted for the Capital Projects Funds.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Following is a reconciliation of Exhibits A-3 and A-2 for budgeted and all special revenue funds:

	<u>Special Revenue Funds</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Sources (Uses) - Budgeted Funds	\$ 397,100
Non-Budgeted Funds	<u>(25,957)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Sources (Uses) -	<u>\$ 371,143</u>

C. Excess of Expenditures Over Appropriations

The following funds had expenditures exceeding appropriations which were funded primarily by revenues and fund balance:

General Fund	
Finance and Accounting	\$ 37,385
Municipal Court	3,698
Human Resources	18,366
Economic Development	6,534
Planning & Community Development	45,639
Police Department	30,808
Fire Department	88,505
Public Works	59,492
Recreation and Leisure	42,112
Special Revenue Funds:	
Recreation Fund	939
Information Services Fund	6,837

D. Fund Deficits

The following funds had fund deficits at September 30, 2002:

Special Revenue Funds	
Public Safety	\$ 5,796
Capital Projects Funds	
1996 Certificates of Obligation	192,904
1996 B Certificates of Obligation	742,655

E. Reservations and Designations of Fund Balance/Retained Earnings

Fund balances of governmental fund types have been reserved or designated as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Reserved for encumbrances	\$ 229,549	\$ 485,312	\$ -	\$ 2,336,502	\$ 3,051,363
Reserved for special items	-	7,381	-	-	7,381
Reserved for prepaid items	18,782	300	-	-	19,082
Reserved for inventory	23,157	-	-	-	23,157
Reserved for debt service	-	167,681	-	-	167,681
Reserved for dispute settlement	-	-	40,210	-	40,210
	<u>\$ 271,488</u>	<u>\$ 660,674</u>	<u>\$ 40,210</u>	<u>\$ 2,336,502</u>	<u>\$ 3,308,874</u>
Designated for special uses	<u>\$ 56,664</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,664</u>

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Retained earnings of proprietary fund types have been reserved or designated as follows:

	Water and Sewer Fund	Drainage Utility Fund	Total
Reserved for construction	\$ 1,294,978	\$ -	\$ 1,294,978

3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

At year end, the carrying amount of the City's cash on hand and deposits was \$90,704 and the bank balance was \$721,386. The amount of the total bank balance is classified into three categories of credit risk: 1) cash that is insured or collateralized with securities held by the City or by its agent in the City's name, 2) cash collateralized with securities held by the pledging financial institution's trust department or agent in the City's name, and 3) uncollateralized bank accounts. At year end, the City's depository had pledged securities having face and market values in excess of deposits as collateral for the City's deposits. The bank balance of the City's deposits is classified as follows at September 30, 2002:

Category	
1	\$ 721,386
2	-
3	-
Total	\$ 721,386

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 the securities held by the counterparty, or by its trust department or agent but not in the City's name. Investments at September 30, 2002 were as follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
U.S. agency discount notes	\$ 9,977,651	\$ -	\$ -	\$ 9,977,651	\$ 10,010,225
	<u>\$ 9,977,651</u>	<u>\$ -</u>	<u>\$ -</u>	9,977,651	14,045,974
Investments not subject to categorization:					
Government sponsored investment pool - TexPool				20,620,514	20,620,514
Government sponsored investment pool - LOGIC				2,762,864	2,762,864
Money market mutual fund				1,262,951	1,262,951
				<u>\$ 34,623,980</u>	<u>\$ 38,692,303</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

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

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.

4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS AND TAXES

Property tax receivable of the General and Debt Service Funds is shown net of allowances of \$2,323 and \$6,612, respectively. Accounts receivable of the General fund and Water and Sewer Fund is shown net of allowances of \$13,275 and \$398,966, respectively

5 - FIXED ASSETS

The following is a summary of changes in the general fixed assets account group during the fiscal year.

	Balance 9/30/2001	Additions	Deletions	Transfers	Balance 9/30/2002
Land	\$ 2,930,954	\$ 293,601	\$ -	\$ -	\$ 3,224,555
Buildings	4,981,531	4,241,164	(11,833)	5,643,707	14,854,569
Improvements other than buildings	10,400,928	5,466,771	(3,441,634)	6,448,904	18,874,969
Machinery and equipment	6,160,213	1,768,615	(837,265)	(11,714)	7,079,849
Construction in progress	12,321,876	5,960,217	(20,138)	(12,080,897)	6,181,058
	<u>\$36,795,502</u>	<u>\$17,730,368</u>	<u>\$ (4,310,870)</u>	<u>\$ -</u>	<u>\$50,215,000</u>

The following is a summary of fixed assets of the enterprise funds as of September 30, 2002:

	Water and Sewer	Drainage Utility	Total
Land	\$ 806,422	\$ -	\$ 806,422
Buildings	75,589	-	75,589
Water system	26,249,083	-	26,249,083
Sewer system	13,873,210	-	13,873,210
Storm drainage system	-	1,921,544	1,921,544
Equipment and tools	1,179,488	343,371	1,522,859
Furniture and fixtures	208,040	13,135	221,175
Construction in progress	4,739,697	57,831	4,797,528
	<u>47,131,529</u>	<u>2,335,881</u>	<u>49,467,410</u>
Less: accumulated depreciation	<u>(9,378,951)</u>	<u>(202,872)</u>	<u>(9,581,823)</u>
	<u>\$37,752,578</u>	<u>\$ 2,133,009</u>	<u>\$39,885,587</u>

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

6 - LONG-TERM DEBT

A. Changes in long-term debt

A summary of changes in general long-term debt transactions for the year ended September 30, 2002, is as follows:

GENERAL LONG-TERM DEBT

Description	September 30, 2001	Additions	Retirements	September 30, 2002
General obligation bonds	\$ 11,809,009	\$ -	\$ (818,177)	\$ 10,990,832
Certificates of obligation	55,285,900	8,615,000	(1,220,200)	62,680,700
Revenue bonds	1,380,000	-	(75,000)	1,305,000
Notes payable	413,834	-	(279,044)	134,790
Provision for litigation settlement	-	504,721	-	504,721
Compensated absences	329,318	77,981	-	407,299
	<u>\$ 69,218,061</u>	<u>\$ 9,197,702</u>	<u>\$ (2,392,421)</u>	<u>\$ 76,023,342</u>

B. Annual Requirements to Amortize Outstanding Bonded Debt

The annual requirements to amortize general obligation bonds, certificates of obligation, and revenue bonds outstanding as of September 30, 2002 including interest payments are as follows:

GENERAL LONG-TERM DEBT

Due Fiscal Year Ending September 30	Principal	Interest	Total
2004	\$ 2,288,948	\$ 2,075,991	\$ 4,364,939
2005	2,481,781	1,953,608	4,435,389
2006	2,672,349	1,821,182	4,493,532
2007	2,796,173	1,682,499	4,478,672
Thereafter	2,569,709	1,543,744	4,113,453
2008 - 2020	<u>62,147,572</u>	<u>28,233,751</u>	<u>90,381,322</u>
	<u>\$ 74,956,532</u>	<u>\$ 37,310,775</u>	<u>\$ 112,267,307</u>

WATER AND SEWER FUND

Due Fiscal Year Ending September 30,	Principal	Interest	Total
2002	\$ 866,052	\$ 696,892	\$ 1,562,944
2003	913,218	649,026	1,562,244
2004	952,650	599,344	1,551,994
2005	1,013,826	551,247	1,565,073
2006	1,120,291	498,753	1,619,044
2007 - 2020	<u>9,097,431</u>	<u>2,465,167</u>	<u>11,562,598</u>
	<u>13,963,468</u>	<u>\$ 5,460,429</u>	<u>\$ 19,423,897</u>
Deferred loss on refundings	(213,036)		
Bond premium/discount	(80,255)		
	<u>\$ 13,670,177</u>		

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

The deferred losses and discounts relate to 1993, 1994 and 1999 series refunding bonds and are being amortized over the life of the bond issue. The amounts included on the balance sheet are shown net of the deferred losses and bond discounts.

PAYABLE FROM DEBT SERVICE FUND

General Obligation Bonds:

\$1,150,000 General Obligation Bonds, Farmers Home Administration, 5% interest	\$ 885,000
\$1,000,000 General Obligation Bonds, Series 1993, 2.80% - 5.60%, final installment due August 1, 2013	680,000
\$8,961,952 Combination Tax and Revenue Refunding Series 1994, 4.15% - 5.25%, final installment due February 15, 2014	7,239,035
\$5,520,000 General Obligation Refunding Bonds, Series 1999, 3.75% - 5.00% final installment due February 15, 2020	<u>2,216,797</u>
Total General Obligation Bonds	<u>10,990,832</u>

Certificates of Obligation:

\$5,200,000 Combination Tax and Revenue Certificates of Obligation Series 1996, 5.50%, final payment due August 15, 2016	4,665,000
\$3,400,000 Combination Tax and Revenue Certificates of Obligation Series 1996A, 5.50%, final payment due August 15, 2006	1,605,000
\$1,175,000 Combination Tax and Revenue Certificates of Obligation Series 1996B, 5.20% - 7.20%, final payment due August 15, 2017	995,000
\$1,700,000 Certificates of Obligation Series 1997, 4.90% - 6.90%, final payment due February 15, 2017	1,480,000
\$2,150,000 Combination Tax and Revenue Certificates of Obligation Series 1998, 4.60% - 5.85%, final payment due February 15, 2018	1,940,000
\$3,000,000 Combination Tax and Revenue Certificates of Obligation, Series 1999, 5.10% - 6.10%, final payment due August 15, 2018	2,830,000
\$8,100,000 Certificate of Obligation, Series 1999A, 5.20% - 6.20%, final installment due February 15, 2020	7,655,000
\$2,360,000 Certificate of Obligation, Series 1992, 6.00% - 9.00%, final installment due August 1, 2012	240,700
\$8,615,000 Certificates of Obligation, Series 2002, 4.00% - 5.00%, final installment due February 15, 2022	<u>8,615,000</u>
	<u>30,025,700</u>

PAYABLE FROM KELLER TAX INCREMENT REINVESTMENT ZONE No. 1

\$6,825,000 Combination Tax and TIRZ Revenue Certificates of Obligation Series 1998A, 5.10% - 6.10%, final payment due August 15, 2018	6,825,000
\$17,095,000 Combination Tax and TIRZ Revenue Certificates of Obligation Series 1998A, 5.00% - 5.75%, final payment due August 15, 2018	17,095,000

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

\$8,735,000 Combination Tax and TIRZ Revenue Certificates of Obligation Series 1998A, 4.25% - 5.25%, final payment due August 15, 2018	<u>8,735,000</u>
	<u>32,655,000</u>
Total Certificates of Obligation	<u>62,680,700</u>

PAYABLE FROM KELLER DEVELOPMENT CORPORATION

\$1,800,000 Sales Tax Revenue Bonds, Series 1992, 6.6- 8.75%, final installment due July 15, 2013	<u>1,305,000</u>
Total General Long-Term Debt General Obligation Bonds, Certificates of Obligation, and Revenue Bonds	<u>\$ 74,976,532</u>

The obligations of Keller Tax Increment Reinvestment Zone No. 1 (TIRZ) and Keller Development Corporation (KDC) are payable only from amounts accumulated by TIRZ and KDC, respectively, and not from the general operations from the City.

PAYABLE FROM WATER AND SEWER FUND

Revenue Bonds:

\$1,800,000 Combination Tax and Limited Pledge Revenue Bonds, Series 1987, 7.2% - 9.1 % final installment due December 1, 2002	\$ <u>115,000</u>
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\$1,700,000 Combination Tax and Revenue Bonds, Series 1992, 6.0% - 9.0%, final installment due August, 2012	174,300
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\$2,500,000 Combination Tax and Revenue Bonds, Series 1994 4.75% - 6.65% final installment due February 15, 2020	135,000
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\$4,575,000 Combination Tax and Revenue Certificates of Obligation, Series 2000 5.00% - 6.50% final installment due February 15, 2020	<u>4,345,000</u>
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4,654,300

General Obligation Bonds:

\$7,715,000 Combination Tax and Revenue Refunding Bonds, Series 1993, 2.5% - 5.45% final installment due July 1, 2014	5,465,943
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\$713,048 Combination Tax and Revenue Refunding Bonds, Series 1994, 4.15% - 5.25% final installment due February 15, 2014	529,236
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\$5,520,000 General Obligation Refunding Bonds, Series 1999, 3.75% - 5.00% final installment due February 15, 2020	<u>2,905,698</u>
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8,900,877

\$ 13,670,177

C. Contractual Obligations

The City has entered into agreements with the Trinity River Authority (TRA) whereby TRA will provide for the transportation and treatment of waste water generated by the City of Keller. Under the agreements with TRA, the City bears a 40.35% share of the costs for the design, land acquisition, and construction of the Big Bear Creek Interceptor Wastewater System and 46.32% of the Cade Branch Wastewater Interceptor Extension. The City has included in its general purpose financial statements its proportionate share of contractual obligations as follows, net of reserves held by TRA:

\$2,455,000 TRA Cade Branch Wastewater Extension Project Contract Revenue Bonds, Series 1992, 6.30% - 6.36%, final installment due August 1, 2013	\$ 796,704
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CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

\$9,120,000 TRA Bear Creek Contract Revenue Refunding Bonds, Series 1996, 3.60% - 5.20% final installment due February 1, 2011	<u>2,937,480</u>
	3,734,184
Less: current portion (net of current deferred loss on refunding - \$20,597)	(351,560)
Less: deferred loss on refunding	(189,368)
Less: reserves	<u>(525,789)</u>
	<u>\$ 2,671,467</u>

The City's share of annual requirements to amortize the contractual obligations outstanding as of September 30, 2002 including interest payments are as follows:

Due Fiscal Year Ending September 30,	Principal	Interest	Total
2003	\$ 351,559	\$ 185,058	\$ 536,617
2004	372,331	167,932	540,263
2005	388,770	149,665	538,435
2006	409,542	130,224	539,766
2007	432,331	109,334	541,666
2007 - 2013	1,779,651	222,117	2,001,767
	<u>3,734,184</u>	<u>\$ 964,330</u>	<u>\$ 4,698,514</u>
Less: reserves	<u>(525,789)</u>		
	<u>\$ 3,208,395</u>		

D. Capital Lease Obligations

The City has financed purchases of assets with capital lease obligations.

General Long-Term Debt

\$600,000 capital lease obligation payable in semiannual instalments of \$70,008 including interest accruing at 5.2% and due April 30, 2003 for equipment costing \$600,000. \$ 134,790

The minimum annual payments required to liquidate this obligations as of September 30, 2002 including interest payments are as follows:

Due Fiscal Year Ending September 30,	Capital Lease Obligation
2003	\$ 140,017
Less: Interest	<u>(5,227)</u>
Net Liability	<u>\$ 134,790</u>

E. Defeased Debt

In previous years, the City has issued refunding bonds to provide resources to purchase U.S. Government, State and Local 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. In previous years, the City has advance

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

refunded portions of outstanding general long-term debt and proprietary fund debt. At year end, the City had \$7,520,000 of defeased debt outstanding.

7 - PENSION PLAN

Plan Description - The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 758 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a report on the system as a whole, separate financial statements of the City's plan are not prepared. All assumptions for the December 31, 2001 valuations are contained in the 2001 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 25 years/any age

Contributions - Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Since the City needs to know its contribution rate in advance to budget for it, 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, 2001 valuation is effective for rates beginning January 2003).

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2001	12/31/2000	12/31/1999
Actuarial Value of Assets (A)	\$ 8,485,012	\$ 6,693,308	\$ 5,886,025
Actuarial Accrued Liability (B)	\$ 11,745,999	\$ 8,721,687	\$ 7,315,421
Percentage Funded (C) = (A)/(B)	72.2%	76.7%	80.5%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D)=(B)-(A)	\$ 3,260,987	\$ 2,028,379	\$ 1,429,396
Annual Covered Payroll (E)	\$ 8,735,986	\$ 7,172,331	\$ 6,433,931
UAAL as a Percentage of Covered Payroll (D)	37.3%	28.3%	22.2%
 Net Pension Obligation (NPO) at the Beginning of the Period	 \$ -	 \$ -	 \$ -
Annual Pension Cost:			
Annual Required Contribution (ARC) (F)	\$ 957,825	\$ 683,843	\$ 494,942
Contributions Made (F)	\$ 957,825	\$ 683,843	\$ 494,942
 NPO at the End of the Period	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

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

8 - CAPACITY RIGHTS

As discussed in Note 6, C, the City has entered into agreements with the Trinity River Authority (TRA) whereby TRA will provide for the transportation and treatment of waste water generated by the City of Keller. The City has included in its general purpose financial statements its proportionate share of capacity rights as follows:

Big Bear Creek Interceptor	\$ 5,144,625
Cade Branch Wastewater Extension	<u>1,137,156</u>
	6,281,781
Less: accumulated amortization	<u>(1,799,254)</u>
	<u>\$ 4,482,527</u>

9 - IMPACT FEES

It is the policy of the City of Keller to impose impact fees upon new development. The purpose of these fees is to pay a portion of the cost of constructing capital improvements or facility expansions necessary to serve new development. Pursuant to that policy, the City of Keller has adopted a Capital Improvements Plan, has made land use assumptions,

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

Expenditure of impact fees is limited to paying the cost of constructing capital improvements or facility expansions and to payment of principal and interest on bonds, notes, or other obligations issued to finance capital improvements. The City allocates a portion of impact fees to pay long-term debt in the Water and Sewer Fund and Debt Service Fund.

In fiscal year 2001 - 2002, the City collected \$370,485 of roadway impact fees and \$1,083,600 in water and sewer impact fees. The roadway impact fees were recorded as revenue in the Roadway Impact Fees Fund and water and sewer impact fees were recorded as contributed capital in the Water and Sewer Fund.

10 - CONTRIBUTED CAPITAL

The changes in contributed capital for the year ended September 30, 2002 are described below:

	Water and Sewer Fund	Drainage Fund	Total
Balance, September 30, 2000	\$ 25,358,578	\$ 138,108	\$ 25,496,686
City contributions	-	-	-
Less: depreciation expense	(111,013)	-	(111,013)
Balance, September 30, 2001	25,247,565	138,108	25,385,673
City contributions	7,982	62,832	70,814
Less: depreciation expense	(104,235)	-	(104,235)
Balance, September 30, 2002	<u>\$ 25,151,312</u>	<u>\$ 200,940</u>	<u>\$ 25,352,252</u>

11 - COMMITMENTS AND CONTINGENCIES

Commitments

Construction commitments of the City at September 30, 2002 were as follows:

Special Revenue Funds	
Keller Development Corporation	\$ 713,830
Capital Projects Fund	\$ 1,085,176
Proprietary Fund Types	
Water and Sewer Fund	\$ 713,830
Drainage Utility Fund	\$ 63,478

Litigation

The City is a defendant in various lawsuits. Management has evaluated these lawsuits and estimated a provision for litigation settlements. This litigation includes, when applicable, an accrual of interest when an appeal to an adverse judgment, has been made or is being considered. The provision for litigation settlement is included as a part of the general long-term debt account group.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

12 - INTERFUND RECEIVABLE AND PAYABLE

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 190,239	\$ 282,234
Special Revenue Funds		
Keller Development Corporation	-	66,239
Library	18,575	-
Recreation	40,391	-
Municipal Court	98,613	-
Public Safety	-	10,398
Teen Court	-	7,782
Youth Advisory	1,797	-
Crime Control Prevention District	11,965	-
Information Services	10,050	-
Total Special Revenue Funds	<u>181,391</u>	<u>84,419</u>
Debt Service Funds		
Town Center TIF Interest and Sinking	-	256,544
Debt Service Fund	109,640	-
	<u>109,640</u>	<u>256,544</u>
Capital Projects Funds		
Town Center TIF District	78,260	-
Roadway Impact Fees	132,478	-
Park Development	86,063	-
Street Improvements	115,452	-
Equipment Replacement	157,243	-
1996 Certificates of Obligation	-	192,904
1996A Certificates of Obligation	36,919	-
1996B Certificates of Obligation	-	582,816
Capital Projecgts	124,233	-
	<u>730,648</u>	<u>775,720</u>
Enterprise Funds		
Water & Wastewater Operations	656,377	589,637
Drainage Utility	120,259	-
	<u>776,636</u>	<u>589,637</u>
	<u>\$ 1,988,554</u>	<u>\$ 1,988,554</u>

13 - 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.

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

14 - SEGMENTS OF ENTERPRISE ACTIVITY

Following is segment information not readily available from the City's general purpose financial statements:

	Water and Sewer Fund	Drainage Utility Fund	Total
Operating revenues	\$ 11,954,662	\$ 612,192	\$ 12,566,854
Operating expenses (excluding depreciation and amortization)	(7,992,832)	(428,628)	(8,421,460)
Depreciation and amortization	(1,524,753)	(70,617)	(1,595,370)
Operating income	<u>2,437,077</u>	<u>112,947</u>	<u>2,550,024</u>
Nonoperating revenues (expenses)	218,214	31	218,245
Income (loss) before operating transfers	<u>2,655,291</u>	<u>112,978</u>	<u>2,768,269</u>
Capital contributions	3,061,073	1,921,544	4,982,617
Operating transfers out	<u>(573,245)</u>	<u>(62,835)</u>	<u>(636,080)</u>
Net income (loss)	<u>\$ 5,143,119</u>	<u>\$ 1,971,687</u>	<u>\$ 7,114,806</u>
Add back depreciation on contributed assets	<u>\$ 104,235</u>	<u>\$ -</u>	<u>\$ 104,235</u>
Property, plant, and equipment:			
Additions	<u>\$ 3,787,462</u>	<u>\$ 4,756</u>	<u>\$ 3,792,218</u>
Deletions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net working capital	<u>\$ 4,455,427</u>	<u>\$ 297,244</u>	<u>\$ 4,752,671</u>
Total assets	<u>\$ 57,794,765</u>	<u>\$ 2,471,274</u>	<u>\$ 60,266,039</u>
Long-term debt, including current portion	<u>\$ 16,596,513</u>	<u>\$ -</u>	<u>\$ 16,596,513</u>
Current additions to contributed capital	<u>\$ 7,982</u>	<u>\$ 62,832</u>	<u>\$ 70,814</u>
Total equity	<u>\$ 38,541,232</u>	<u>\$ 2,430,253</u>	<u>\$ 40,971,485</u>

CITY OF KELLER, TEXAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

September 30, 2002

15 – RESTATEMENT OF PRIOR YEAR

The City has implemented Statement of the Government Accounting Standards Board Number 33, "Accounting and Financial Reporting for Nonexchange Transactions." The effects on various elements of the financial statements follows:

	<u>As Reported 09/30/01</u>	<u>Change</u>	<u>As Restated 09/30/01</u>
Water and Wastewater Operations Fund			
Contributed capital - beginning	26,018,431	(960,666)	25,057,765
City contributions	300,813	-	300,813
Contributions from developers	1,905,648	(1,905,648)	-
Impact fees	1,083,600	(1,083,600)	-
Less: depreciation expense	(398,220)	287,207	(111,013)
Contributed capital - ending	<u>28,910,272</u>		<u>25,247,565</u>
Capital contributions	-		
Retained earnings	-	3,276,995	3,276,995
	4,865,571	3,276,995	8,142,566
Drainage Utility Fund			
Contributed capital - beginning	138,108		138,108
City contributions	-		-
Contributions from developers	-		-
Impact fees	-		-
Less: depreciation expense	(25,629)	25,629	-
Contributed capital - ending	<u>112,479</u>		<u>138,108</u>
Capital contributions	-	-	-
Retained earnings	283,256	(25,629)	257,627

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

FISHER & NEWSOM, P.C.

ATTORNEYS AT LAW

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

\$11,565,000 CITY OF KELLER, TEXAS GENERAL OBLIGATION REFUNDING BONDS SERIES 2004

WE HAVE represented the City of Keller, Texas (the “City”) as its bond counsel in connection with an issue of bonds (the “Bonds”) entitled “City of Keller, Texas General Obligation Refunding Bonds, Series 2004. The Bonds are issued as fully registered bonds, mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged, all as provided in the Bonds and the ordinance authorizing the issuance of the Bonds (the “Ordinance”).

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

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

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

BASED ON THE FOREGOING, IT IS OUR FURTHER OPINION that the interest on the Bonds is excludable from gross income under Section 103(a) of the Internal Revenue Code of 1986, as amended, and applicable regulations, published rulings and court decisions (collectively, the “Code”). It is our further opinion that the Bonds will not be “private activity bonds” within the

meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds will not be treated as a preference item under the alternative minimum tax provisions of the Code as applicable to individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. The statutes, applicable regulations, published rulings of the Internal Revenue Service and court decisions on which such opinions are based are subject to change.

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

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

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

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

THE OPINIONS CONTAINED HEREIN are limited to the extent that the rights of the registered owners of the Bonds and the enforceability thereof may be subject to bankruptcy,

insolvency, reorganization, moratorium and other similar laws affecting creditors' rights or remedies generally and to the extent that certain equitable remedies, including specific performance, may be unavailable.

WE HAVE ACTED AS BOND COUNSEL for the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, the defeasance and discharge of the City's obligations being refunded by the Bonds, and with respect to the application to the Bonds of those provisions of the Code as to which an opinion is rendered herein and for no other reason or purpose. We have not been requested to investigate or verify and have not independently investigated or verified any records, data or other material relating to the financial condition or capabilities of the City and have not assumed any responsibility with respect thereto.

Respectfully,

APPENDIX D

SPECIMEN BOND INSURANCE POLICY



**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)