FirstSouthwest
Continuing Disclosure Services
(See "Continuing Disclosure of Information" herein)

**OFFICIAL STATEMENT**

**Dated June 5, 2012**

**Ratings:**
**Moody's: "Aa2"**
**S&P: "AA"**
**(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 statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE BONDS ARE **NOT** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

City of KELLER

**$11,465,000**
**CITY OF KELLER, TEXAS**
**(Tarrant County)**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

**Dated Date: June 1, 2012** **Due: February 15, as shown below**

**PAYMENT TERMS** . . . Interest on the $11,465,000 City of Keller, Texas General Obligation Refunding Bonds, Series 2012 (the "Bonds") will accrue from June 1, 2012 (the "Dated Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2013, 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 Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Chapter 1207, Texas Government Code, as amended, and constitute direct obligations of the City of Keller, Texas (the "City"), payable from a annual 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 "Bond Ordinance") (see '"The Obligations - 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 (the "Refunded Obligations") for debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).

**MATURITY SCHEDULE** **CUSIP Prefix (1): 487684**

| Principal Amount | Maturity | Interest Rate | Initial Yield | CUSIP Suffix (1) | Principal Amount | Maturity | Interest Rate | Initial Yield | CUSIP Suffix (1) |
|---|---|---|---|---|---|---|---|---|---|
| $ 545,000 | 2013 | 0.30% | 0.30% | 4B5 | $1,025,000 | 2019 | 4.00% | 1.73% | 4H2 |
| 175,000 | 2014 | 2.00% | 0.62% | 4C3 | 1,075,000 | 2020 | 5.00% | 2.00% | 4J8 |
| 895,000 | 2015 | 3.00% | 0.80% | 4D1 | 1,125,000 | 2021 | 5.00% | 2.25% | 4K5 |
| 925,000 | 2016 | 3.00% | 0.94% | 4E9 | 1,190,000 | 2022 | 5.00% | 2.40% | 4L3 |
| 955,000 | 2017 | 3.00% | 1.21% | 4F6 | 1,250,000 | 2023 | 5.00% | 2.55% (2) | 4M1 |
| 990,000 | 2018 | 4.00% | 1.48% | 4G4 | 1,315,000 | 2024 | 5.00% | 2.69% (2) | 4N9 |

**(Accrued Interest from June 1, 2012 to be added)**

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Underwriters nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
(2) Yield shown is yield to first call date of February 15, 2022.

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

**SEPARATE ISSUES** . . . The Bonds are being offered by the City concurrently with the "City of Keller, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012A" (the "Certificates"), under a common Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations". The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

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

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on July 10, 2012.

**RAYMOND JAMES | MORGAN KEEGAN**

**BOSC, INC.**
A subsidiary of BOK Financial Corporation

**STIFEL, NICOLAUS & COMPANY, INCORPORATED**

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FirstSouthwest
Continuing Disclosure Services
(See "Continuing Disclosure of Information" herein)

**NEW ISSUE - Book-Entry-Only**

**OFFICIAL STATEMENT**

**Dated June 5, 2012**

**Ratings:**
**Moody's: "Aa2"**
**S&P: "AA"**
**(see "Other Information - Ratings" herein)**

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES ARE **NOT** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

City of KELLER

**$6,000,000**
**CITY OF KELLER, TEXAS**
**(Tarrant County)**
**COMBINATION TAX AND LIMITED SURPLUS REVENUE**
**CERTIFICATES OF OBLIGATION, SERIES 2012A**

**Dated Date: June 1, 2012** **Due: February 15, as shown below**

**PAYMENT TERMS** . . . Interest on the $6,000,000 City of Keller, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012A, (the "Certificates") will accrue from June 1, 2012 (the "Dated Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Keller, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance") (see '"The Obligations - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Certificates will be used for (i) constructing and equipping a holding facility for the Police Department, including related parking and infrastructure improvements, (ii) constructing and equipping renovations to the existing Police Department facility to provide an animal shelter/adoption center, including related parking and infrastructure improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.

**MATURITY SCHEDULE** **CUSIP Prefix (1): 487684**

| Principal Amount | Maturity | Interest Rate | Initial Yield | CUSIP Suffix (1) | Principal Amount | Maturity | Interest Rate | Initial Yield | CUSIP Suffix (1) |
|---|---|---|---|---|---|---|---|---|---|
| $ 275,000 | 2013 | 0.300% | 0.30% | 4P4 | $ 410,000 | 2021 | 5.000% | 2.25% | 4X7 |
| 320,000 | 2014 | 2.000% | 0.62% | 4Q2 | 435,000 | 2022 | 5.000% | 2.40% | 4Y5 |
| 330,000 | 2015 | 2.000% | 0.80% | 4R0 | 455,000 | 2023 | 5.000% | 2.55% (2) | 4Z2 |
| 335,000 | 2016 | 2.000% | 0.94% | 4S8 | 475,000 | 2024 | 3.000% | 3.00% | 5A6 |
| 340,000 | 2017 | 2.000% | 1.21% | 4T6 | 490,000 | 2025 | 3.000% | 3.14% | 5B4 |
| 355,000 | 2018 | 5.000% | 1.48% | 4U3 | 500,000 | 2026 | 3.000% | 3.20% | 5C2 |
| 370,000 | 2019 | 5.000% | 1.73% | 4V1 | 520,000 | 2027 | 3.125% | 3.28% | 5D0 |
| 390,000 | 2020 | 5.000% | 2.00% | 4W9 | | | | | |

**(Accrued Interest from June 1, 2012 to be added)**

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(2) Yield shown is yield to first call date of February 15, 2022.

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

**SEPARATE ISSUES** . . . The Certificates are being offered by the City concurrently with the "City of Keller, Texas, General Obligation Refunding Bonds, Series 2012" (the "Bonds"), and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations , and other features.

**LEGALITY** . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas., Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on July 10, 2012.

**RAYMOND JAMES | MORGAN KEEGAN** **BOSC, INC.**
A subsidiary of BOK Financial Corporation

**STIFEL, NICOLAUS & COMPANY, INCORPORATED**

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

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

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

*This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.*

*The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.*

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

*NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.*

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

*THE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE OBLIGATIONS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.*

*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 STATEMENT.*

**TABLE OF CONTENTS**



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

## OFFICIAL STATEMENT SUMMARY

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

**THE CITY**.................................... The City of Keller, Texas is a political subdivision and home rule municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 18.17 square miles (see "Introduction - Description of the City").

**THE BONDS**.................................. The $11,465,000 General Obligation Refunding Bonds, Series 2012 are to mature on February 15 in the years 2013 through 2024 (see "The Obligations - Description of the Bonds and Certificates").

**THE CERTIFICATES** ..................... The $6,000,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012A, are to mature on February 15 in the years 2013 through 2027 (see "The Obligations - Description of the Bonds and Certificates").

**PAYMENT OF INTEREST** ............... Interest on the Obligations accrues from June 1, 2012, and is payable February 15, 2013, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Bonds and Certificates" and "The Obligations - Optional Redemption").

**AUTHORITY FOR ISSUANCE**.......... The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") adopted by the City Council of the City (see "The Obligations – Authority for Issuance").

The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended and an ordinance (the "Certificate Ordinance") passed by the City Council of the City (see "The Obligations - Authority for Issuance").

**SECURITY FOR THE BONDS**........................................... The Bonds constitute direct obligations of the City, payable from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Bond Ordinance (see "The Obligations - Security and Source of Payment").

**SECURITY FOR THE CERTIFICATES**……………..The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed $1,000) of the surplus net revenues of the City's Waterworks and Sewer System, as provided in the Certificate Ordinance (see '"The Obligations – Security and Source of Payment").

**REDEMPTION** ............................... The City reserves the right, at its option, to redeem the Obligations having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations – Optional Redemption").

**TAX EXEMPTION**........................... In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law subject to the matters described under "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 (the "Refunded Obligations") for a debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).

Proceeds from the sale of the Certificates will be used for (i) constructing and equipping a holding facility for the Police Department, including related parking and infrastructure improvements, (ii) constructing and equipping renovations to the existing Police Department facility to provide an animal shelter/adoption center, including related parking and infrastructure improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.

**RATINGS** ..................................... The Obligations and the presently outstanding general obligation debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION- Ratings").

**BOOK-ENTRY-ONLY SYSTEM**...... The definitive Obligations 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 Obligations may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "The Obligations - 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 [6] | Per Capita Taxable Assessed Valuation | Net Tax Supported Debt Outstanding at End of Year [3] | Per Capita Funded Tax Debt | Ratio Funded Tax Debt to Taxable Assessed Valuation | % of Total Tax Collections |
|---|---|---|---|---|---|---|---|
| 2008 | 38,402 [1] | $3,546,432,507 | $92,350 | $ 33,288,015 | $ 867 | 0.94% | 99.89% |
| 2009 | 39,450 [1] | 3,867,487,437 | 98,035 | 41,953,599 | 1,063 | 1.08% | 99.66% |
| 2010 | 39,627 [2] | 4,013,291,088 | 101,277 | 51,049,994 | 1,288 | 1.27% | 99.10% |
| 2011 | 39,920 [1] | 3,965,147,643 | 99,327 | 48,644,998 | 1,219 | 1.23% | 99.27% |
| 2012 | 41,120 [1] | 4,046,869,515 | 98,416 | 58,900,000 [4] | 1,432 | 1.46% | 93.43% [5] |

(1) Source: North Central Texas Council of Governments.
(2) Source: U.S. Census Bureau.
(3) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(4) Projected, includes the Bonds. Excludes the Refunded Obligations.
(5) Collections for part year only, through April 1, 2012.
(6) Taxable assessed values, with the exception of fiscal year ending 2012, are as reported in the City's comprehensive annual financial report. The fiscal year ending 2012 taxable assessed value is as reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

For additional information regarding the City, please contact:

| | | |
|---|---|---|
| Steve Polasek | | David K. Medanich |
| City Manager | | Nick Bulaich |
| City of Keller | or | First Southwest Company |
| P.O. Box 770 | | 777 Main Street, Suite 1200 |
| Keller, Texas 76244 | | Fort Worth, Texas 76102 |
| (817) 743-4010 | | (817) 332-9710 |

## CITY OFFICIALS, STAFF, AND CONSULTANTS

### ELECTED OFFICIALS

| City Council | Length of Service | Term Expires | Occupation |
|---|---|---|---|
| Pat McGrail<br>Mayor | 6 Years | May, 2014 | Retired |
| Tom Cawthra<br>Mayor Pro Tem, Place 3 | 5 Years | May, 2013 | Vice President-Mortgage |
| Ray Brown<br>Councilmember, Place 1 | 6 Years | May, 2015 | Certified Public Accountant |
| Gary Reaves<br>Councilmember, Place 2 | 2 Years | May, 2015 | Attorney |
| Bill Dodge<br>Councilmember, Place 4 | Newly Elected | May, 2013 | Builder/Developer |
| John Hoffmann<br>Councilmember, Place 5 | 6 Months | May, 2014 | Communications Director |
| Doug Miller<br>Councilmember, Place 6 | 1 Year | May, 2014 | Construction Manager |

### SELECTED ADMINISTRATIVE STAFF

| Name | Position | Length of Service With City |
|---|---|---|
| Steve Polasek | City Manager | 4 Years (1) |
| Johnny Phifer | Director of Finance | 16 1/2 Years (2) |
| Sheila Stephens | City Secretary | 37 1/2 Years |
| Gregory W. Dickens, P.E. | Director of Public Works | 5 1/2 Years (3) |

(1) Previously served 16 years for other government entities.
(2) Previously served as Director of Finance for other cities for 15 years.
(3) Previously served 19 years in similar position for other government entities.

### CONSULTANTS AND ADVISORS

Certified Public Accountants ........ Pattillo, Brown & Hill, L.L.P.
Waco, Texas

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

Financial Advisor ........ First Southwest Company
Fort Worth, Texas

City Attorney ........ Boyle & Lowry, L.L.P.
Irving, Texas

## OFFICIAL STATEMENT

## RELATING TO

| | |
|---|---|
| **$11,465,000** | **$6,000,000** |
| **GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012** | **COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012A** |

## INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $11,465,000 City of Keller, Texas, General Obligation Refunding Bonds, Series 2012, (the "Bonds") and $6,000,000 City of Keller, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012A (the "Certificates" and together with the Bonds, the "Obligations"). The Obligations are separate and distinct securities offerings that have been authorized for issuance under separate ordinances, but are being offered and sold pursuant to a common Official Statement, and while the Bonds and Certificates share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the covenants and agreements made with respect thereto. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Bond Ordinance") authorizing the issuance of the Bonds and the ordinance (the "Certificate Ordinance") authorizing the issuance of the Certificates adopted on the date of sale of the Bonds and Certificates (collectively, the "Ordinances"), except as otherwise indicated herein.

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

**DESCRIPTION OF THE CITY**. . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other 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 services), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2010 Census population for the City was 39,627, while the estimated 2012 population is 41,120. The City covers approximately 18.17 square miles.

## PLAN OF FINANCING

**PURPOSE OF THE BONDS** . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt (the "Refunded Obligations") for a debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds.

**PURPOSE OF THE CERTIFICATES** . . . Proceeds from the sale of the Certificates will be used for (i) constructing and equipping a holding facility for the Police Department, including related parking and infrastructure improvements, (ii) constructing and equipping renovations to the existing Police Department facility to provide an animal shelter/adoption center, including related parking and infrastructure improvements, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects.

**REFUNDED OBLIGATIONS** . . . Proceeds from the sale of the Bonds will be used in part to refund certain outstanding obligations of the City described on Schedule I attached hereto (the "Refunded Obligations"). The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and redemption dates of such Refunded Obligations as shown in Schedule I, from funds to be deposited pursuant to an escrow agreement with respect to the Bonds (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with other funds of the City, the City will deposit with the Escrow Agent an amount which, together with the Federal Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Federal Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations 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 Obligations.

Grant Thornton LLP, certified public accountants, 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 Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the Obligations (see "Other Information – Verification of Arithmetical and Mathematical Computations").

By deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, certified public accountants, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes or other revenues received by the City, as the case may be, or for the purpose of applying any limitation on the issuance of debt.

In the Escrow Agreement, the City covenants 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 Obligations, if for any reason the cash balance on deposit or scheduled to be on deposit in the Escrow Fund is insufficient to make such payment.

**SOURCES AND USES OF PROCEEDS**. . . The proceeds from the sale of the Obligations, together with funds contributed by the City, will be applied as follows:

| | The Bonds | The Certificates |
|---|---|---|
| Sources of Funds | | |
| Par Amount | $ 11,465,000.00 | $ 6,000,000.00 |
| Original Issue Premium | 1,720,984.00 | 544,200.35 |
| Transfer from Prior Issue Debt Service Funds | 297,857.50 | - |
| Accrued Interest | 50,562.96 | 22,563.13 |
| Total Sources of Funds | $ 13,534,404.46 | $ 6,566,763.48 |
| Uses of Funds | | |
| Deposit to Escrow Fund | $ 13,296,644.79 | $ - |
| Original Issue Discount | - | 27,372.80 |
| Deposit to Construction Fund | - | 6,400,000.00 |
| Deposit to Interest and Sinking Fund | 50,562.96 | 22,563.13 |
| Cost of Issuance (1) | 187,196.71 | 116,827.55 |
| Total Uses of Funds | $ 13,534,404.46 | $ 6,566,763.48 |

(1) Including Underwriters' Discount.

## THE OBLIGATIONS

**DESCRIPTION OF THE BONDS AND CERTIFICATES** . . . The Obligations are dated June 1, 2012 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on the cover page and page 3 hereof. Interest will accrue from the Dated Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2013, and until maturity or prior redemption. The definitive Obligations 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 Obligations will be made to the owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "Book-Entry-Only System" herein.

Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "THE OBLIGATIONS - Book-Entry-Only System" herein. If the date for any payment on the Obligations shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**AUTHORITY FOR ISSUANCE** . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Bond Ordinance.

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

**SECURITY AND SOURCE OF PAYMENT** . . .

*The Bonds* . . . The principal of and interest on the Bonds is payable from a direct and continuing ad valorem tax levied by the City within the limits prescribed by law upon all taxable property in the City as provided in the Bond Ordinance.

*The Certificates* . . . The principal of and interest on the Certificates is payable from a direct and continuing ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City. Additionally, the Certificates are payable from a limited pledge (not to exceed $1,000) of the surplus revenues of the City's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's waterworks and sewer system.

**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 Texas Attorney General 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 and based on a 90% collection rate.

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Obligations are to be redeemed, the City may select the maturities of Obligations to be redeemed. If less than all the Obligations of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (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.

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

**NOTICE OF REDEMPTION**. . . Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. If a Obligation (or any portion of its principal sum) shall have been duly called for redemption and any other condition to redemption satisfied, then upon the redemption date such Obligation (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE** . . The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations being defeased. The Ordinances provide that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharges obligations such as the Obligations. Current State law permits defeasance with the following types of securities: (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 of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Obligations, to call for redemption at an earlier date, which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Obligations will be made to 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 dates 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 in 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, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Obligations are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations will be printed and delivered.

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

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

**Effect of Termination of Book-Entry-Only System.** In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed Obligations will be issued to the respective holders of the Obligations, as the case may be, and the respective Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "THE OBLIGATIONS - Transfer, Exchange, and Registration" below.

**PAYING AGENT/REGISTRAR** . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under applicable law or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE, AND REGISTRATION** . . . In the event the Book-Entry-Only System should be discontinued, the Obligations will be printed and delivered to the registered owners thereof and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. Neither the City or the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Obligation or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations.

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

**BOND AND CERTIFICATEHOLDERS' REMEDIES** . . . The Ordinances establish specific events of default with respect to the Certificates and the Bonds, respectively. If the City defaults in the payment of the principal of or interest on the Certificates or Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates or Bonds, as applicable, including but not limited to, their prospect or ability to be repaid in accordance with the respective Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the respective Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Bonds, as applicable, or the respective Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates or the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the Certificateholders or Bondholders upon any failure of the City to perform in accordance with the terms of the respective Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in Tooke v. City of Mexia, 49 Tex. Sup. Ct. J. 819 (June 30, 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in Aclear and unambiguous@ language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders or Bondholders may not be able to bring such a suit against the City for breach of the covenants in the Certificates or the Bonds or in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates or the Bonds.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, Certificateholders or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Certificates and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See Book-Entry-Only System herein for a description of the duties of DTC with regard to ownership of Certificates and the Bonds. Initially, the only registered owner of the Certificates and the Bonds will be Cede & Co., as DTC's nominee. See "Book-Entry-Only System" herein.

## 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 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 the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, 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 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 V.T.C.A., Property Tax Code, (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $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.

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

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; provided, however, that a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision in the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in- transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. 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 reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. 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 reinvestment zone, multiplied by the taxing unit's percentage level of participation.

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.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

**Effective Tax Rate and Rollback Tax Rate** . . . Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (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. 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". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

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

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

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

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. 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 grants an exemption of $10,000 to the market value of the residence homestead of disabled persons.

The City has granted an additional exemption of 1% of the market value of residence homesteads; minimum exemption of $5,000.

On August 3, 2004, the City Council adopted a resolution to implement the tax freeze for the residence homestead of the disabled and persons sixty-five years of age or older, and their spouses. The freeze was effective with the January 1, 2004 tax roll and the tax levied for the 2005/06 fiscal year.

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 allow split payments, but 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 does tax goods in transit.

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, CITY OF KELLER, TEXAS** . . . On December 1, 1998, the Keller City Council adopted an ordinance (the "Zone Ordinance") creating Tax Increment Financing Reinvestment Zone Number One, City of Keller, Texas (the "Zone") by designating a contiguous geographic area in the jurisdiction of the City as a reinvestment zone to promote development or redevelopment in the Zone. Pursuant to the Zone Ordinance, the Zone took effect on January 1, 1999, and expires on December 31, 2018, or such earlier date that the City determines that the Zone should be terminated due to insufficient private investment, accelerated private investment or other good cause, or such time as all project costs and obligations secured by tax increments and the interest thereon, have been paid in full. The Zone encompasses approximately 340 acres located generally in the center of the City.

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 is $10,891,633, and the captured appraised value of property in the Zone for tax year 2011 is $120,894,498. The City has issued an aggregate of $32,655,000 principal amount of obligations ("Zone Obligations"), secured by an annual ad valorem tax levied by the City and a pledge of the tax increments on deposit in the tax increment fund, to fund improvements in the Zone. To the extent funds on deposit in the tax increment fund are not sufficient to pay debt service on the Zone Obligations, the City will be required to levy an ad valorem tax to pay debt service on the Zone Obligations. The sufficiency of the tax increment fund to pay debt service on the Zone Obligations 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 Obligations or whether a tax levy may be necessary to pay debt service on the Zone Obligations. See Tables 1, 8 and 10 for information regarding the Zone Oblirgations.

**Chapter 380 Agreements**

The City has two Chapter 380 Agreements that include grants from legally available funds equal to 50-70% of the property taxes received by the City in excess of the base value that are attributed to the completed improvements. Such grants become effective with the tax year which begins on January 1, 2013 for a term of four years.

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

| | | |
|---|---|---|
| 2011/12 Market Valuation Established by Tarrant Appraisal District<br>(includes incomplete and values in arbitration, excludes totally exempt property) | | $4,225,217,002 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Residence Homestead Exemptions | $ 54,514,052 | |
| Over 65 Years of Age/Disabled | 65,034,681 | |
| Disabled Veterans Exemptions | 6,681,785 | |
| Open-Space Land Use Reductions | 51,737,093 | |
| Pollution | 60,084 | |
| Lost to Prorated Absolute Exemptions | 319,792 | 178,347,487 |
| 2011/12 Taxable Assessed Valuation | | $4,046,869,515 |
| 2011/12 Incremental Taxable Assessed Value of Real Property within Reinvestment Zone | | 120,894,498 |
| 2011/12 Taxable Assessed Valuation available for General Fund Obligations and Debt of City | | $3,925,975,017 |
| City Funded Debt Payable from Ad Valorem Taxes | | |
| General Obligation Bonds (as of 4/15/12) | $ 29,343,546 [(1)] | |
| Tax and System Debt (as of 4/15/12) | 39,230,000 [(1)] | |
| The Bonds | 11,465,000 | |
| The Certificates | 6,000,000 | |
| Funded Debt Payable from Ad Valorem Taxes | | $ 86,038,546 |
| Less Self-Supporting Debt: [(2)] | | |
| Tax Increment Reinvestment Zone General Obligation Debt | $ 16,958,546 | |
| Crime Control District | 6,000,000 [(3)] | |
| Development Corporation General Obligation Debt | 12,475,000 | |
| Water and Sewer System General Obligation Debt | 22,325,000 [(4)] | 57,758,546 |
| Net Funded Debt Payable from Ad Valorem Taxes | | $ 28,280,000 |
| Interest and Sinking Fund as of 4-15-12 | | $ 1,010,590 |
| Ratio Total Funded Debt to Taxable Assessed Valuation (before freeze) | | 2.13% |
| Ratio Net Funded Debt to Taxable Assessed Valuation (before freeze) | | 0.70% |

2012 Estimated Population - 41,120
Per Capita Taxable Assessed Valuation (before freeze) - $98,416
Per Capita Total Funded Debt - $2,092
Per Capita Net Funded Debt - $688

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(1) Excludes the Refunded Obligations.
(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(3) Includes the Certificates.
(4) Includes a portion of the Bonds.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY** (1)(2)

| | Taxable Appraised Value for Fiscal Year Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2010 | |
| Category | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $3,449,616,349 | 81.64% | $3,374,260,203 | 81.33% | $3,344,468,568 | 79.58% |
| Real, Residential, Multi-Family | 104,680,450 | 2.48% | 91,198,119 | 2.20% | 100,599,639 | 2.39% |
| Real, Vacant Lots/Tracts | 92,984,420 | 2.20% | 91,598,541 | 2.21% | 90,065,092 | 2.14% |
| Real, Acreage (Land Only) | 39,621,631 | 0.94% | 44,968,588 | 1.08% | 51,655,438 | 1.23% |
| Real, Farm and Ranch Improvements | 437,900 | 0.01% | 617,852 | 0.01% | 774,000 | 0.02% |
| Real, Commercial and Industrial | 334,252,266 | 7.91% | 337,445,325 | 8.13% | 365,812,554 | 8.70% |
| Real, Oil, Gas and Mineral Reserve | 3,391,480 | 0.08% | 3,843,350 | 0.09% | 9,989,700 | 0.24% |
| Real and Tangible Personal, Utilities | 52,773,176 | 1.25% | 49,058,296 | 1.18% | 50,150,098 | 1.19% |
| Tangible Personal, Commercial | 81,937,549 | 1.94% | 85,055,057 | 2.05% | 93,511,081 | 2.23% |
| Tangible Personal, Industrial | 1,549,898 | 0.04% | 2,049,884 | 0.05% | 2,220,828 | 0.05% |
| Tangible Personal, Other | - | 0.00% | - | 0.00% | - | 0.00% |
| Tangible Personal, Mobile Homes | 73,800 | 0.00% | 58,200 | 0.00% | 108,900 | 0.00% |
| Real Property, Inventory | 63,898,083 | 1.51% | 68,887,220 | 1.66% | 93,168,840 | 2.22% |
| Total Appraised Value Before Exemptions | $4,225,217,002 | 100.00% | $4,149,040,635 | 100.00% | $4,202,524,738 | 100.00% |
| Adjustments | - | | (10,349,389) | | (30,861,241) | |
| Less: Total Exemption/Reductions | (178,347,487) | | (173,543,603) | | (158,372,409) | |
| Taxable Assessed Value | $4,046,869,515 (3) | | $3,965,147,643 (3) | | $4,013,291,088 (3) | |

| | Taxable Appraised Value for Fiscal Year Ended September 30, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| Category | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $3,168,905,513 | 78.27% | $2,901,043,525 | 79.15% |
| Real, Residential, Multi-Family | 105,623,151 | 2.61% | 81,276,942 | 2.22% |
| Real, Vacant Lots/Tracts | 87,538,531 | 2.16% | 71,848,432 | 1.96% |
| Real, Acreage (Land Only) | 52,586,310 | 1.30% | 63,679,438 | 1.74% |
| Real, Farm and Ranch Improvements | 774,000 | 0.02% | 14,608,152 | 0.40% |
| Real, Commercial and Industrial | 361,803,445 | 8.94% | 318,514,002 | 8.69% |
| Real, Oil, Gas and Mineral Reserve | 7,441,270 | 0.18% | 2,694,770 | 0.07% |
| Real and Tangible Personal, Utilities | 57,334,251 | 1.42% | 48,188,242 | 1.31% |
| Tangible Personal, Commercial | 88,805,036 | 2.19% | 76,462,838 | 2.09% |
| Tangible Personal, Industrial | 2,650,818 | 0.07% | 2,815,148 | 0.08% |
| Tangible Personal, Other | 55,000 | 0.00% | - | 0.00% |
| Tangible Personal, Mobile Homes | 114,700 | 0.00% | 230,636 | 0.01% |
| Real Property, Inventory | 115,097,252 | 2.84% | 83,843,546 | 2.29% |
| Total Appraised Value Before Exemptions | $4,048,729,277 | 100.00% | $3,665,205,671 | 100.00% |
| Adjustments | (28,808,045) | | 21,394,265 | |
| Less: Total Exemptions/Reductions | (152,433,795) | | (140,167,429) | |
| Taxable Assessed Value | $3,867,487,437 | | $3,546,432,507 | |

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(1) Valuations shown are certified assessed values reported by the Tarrant Appraisal District to the State Comptroller of Public Accounts.
(2) Includes the Incremental Taxable Assessed Value of real property within the Reinvestment Zone.
(3) Net taxable assessed values, with the exception of fiscal year ending 2012, are as reported in the City's comprehensive annual financial report. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Includes incomplete values and values in arbitration.

**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

| Fiscal Year Ended 9/30 | Estimated Population | Taxable Assessed Valuation [5] | Taxable Assessed Valuation Per Capita | Net Tax Supported Debt Outstanding at End of Year [3] | Ratio of Tax Supported Debt to Taxable Assessed Valuation | Tax Supported Debt Per Capita |
|---|---|---|---|---|---|---|
| 2008 | 38,402 [1] | $ 3,546,432,507 | $ 92,350 | $ 33,288,015 | 0.94% | $ 867 |
| 2009 | 39,450 [1] | 3,867,487,437 | 98,035 | 41,953,599 | 1.08% | 1,063 |
| 2010 | 39,627 [2] | 4,013,291,088 | 101,277 | 51,049,994 | 1.27% | 1,288 |
| 2011 | 39,920 [1] | 3,965,147,643 | 99,327 | 48,644,998 | 1.23% | 1,219 |
| 2012 | 41,120 [1] | 4,046,869,515 | 98,416 | 57,325,000 [4] | 1.42% | 1,394 |

(1) Source: North Central Texas Council of Governments.
(2) Source: U.S. Census Bureau.
(3) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(4) Projected, includes the Bonds. Excludes the Refunded Obligations.
(5) Taxable assessed values, with the exception of fiscal year ending 2012, are as reported in the City's comprehensive annual financial report. The fiscal year ending 2012 taxable assessed value is as reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

| Fiscal Year Ended 9/30 | Tax Rate | Distribution: General Fund | Distribution: Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|---|---|---|---|---|---|---|
| 2008 | $ 0.43219 | $ 0.31247 | $ 0.11972 | $ 15,264,825 | 99.12% | 99.89% |
| 2009 | 0.43219 | 0.31175 | 0.12044 | 16,716,581 | 98.41% | 99.66% |
| 2010 | 0.44219 | 0.31009 | 0.13210 | 17,746,372 | 98.67% | 99.10% |
| 2011 | 0.44219 | 0.29278 | 0.14941 | 17,312,500 | 98.99% | 99.27% |
| 2012 | 0.44219 | 0.29887 | 0.14332 | 17,696,950 | 93.43% [1] | 93.43% [1] |

(1) Collections for part year only, through April 1, 2012.

**TABLE 5 - TEN LARGEST TAXPAYERS**

| Name of Taxpayer | Nature of Property | 2011/12 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| Capri W DTC LLC | Multi-Family Dev./Town Center | $ 40,215,800 | 0.99% |
| Art House [1] | Multi-Use Dev./Town Center | 26,000,000 | 0.64% |
| KTC Seniors Ltd | Multi-Family Dev./Town Center | 15,640,200 | 0.39% |
| GTE/Verizon | Telecommunications Utility | 15,146,700 | 0.37% |
| Meritage Homes of Texas LLC | Residential Development | 14,590,400 | 0.36% |
| Regency Centers LP [1] | Retail Shopping Center/Town Center | 14,033,700 | 0.35% |
| Grand Estates at Keller LP | Multi-Family Development | 13,459,000 | 0.33% |
| T Keller LLC | Retail | 12,325,400 | 0.30% |
| TXU/Oncor Electric | Electric Utility | 12,322,000 | 0.30% |
| Lowe's Home Centers Inc. | Retail Store | 12,118,600 | 0.30% |
| | | $ 175,851,800 | 4.35% |

(1) Taxpayer successfully challenged its 2011/2012 Taxable Assessed Valuation. Collectively with the other Taxpayer suit noted results in a TAV reduction of $6.5 million.

**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 (however, see "The Obligations - Tax Rate Limitation").

**Table 6 - Tax Adequacy** [(1)]

| | |
|---|---|
| 2012 Principal and Interest Requirements | $ 4,913,487 |
| $0.1265 Tax Rate at 99% Collection Produces | $ 4,916,695 |
| | |
| Average Annual Principal and Interest Requirements, 2012 - 2032 | $ 2,979,645 |
| $0.0767 Tax Rate at 99% Collection Produces | $ 2,981,111 |
| | |
| Maximum Principal and Interest Requirements, 2012 | $ 4,913,487 |
| $0.1265 Tax Rate at 99% Collection Produces | $ 4,916,695 |

(1) Includes the Bonds. Net of self-supporting debt and Refunded Obligations.

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

| Taxing Jurisdiction | 2011/12 Taxable Assessed Value | 2011/12 Tax Rate | Total Tax Supported Debt | Estimated % Applicable | City's Overlapping Tax Supported Debt As of 4/15/12 | Authorized But Unissued Debt As Of 4-15-12 |
|---|---|---|---|---|---|---|
| City of Keller | $ 3,925,975,017 | $ 0.442190 | $ 28,280,000 | 100.00% | $ 28,280,000 [(1)] | $ - |
| Carroll Independent School District | 5,312,485,361 | 1.415000 | 2,444,090,039 | 0.17% | 4,154,953 | - |
| Keller Independent School District | 10,750,214,490 | 1.540000 | 708,856,753 | 33.60% | 238,175,869 | - |
| Northwest Independent School District | 4,342,710,282 | 1.375000 | 601,496,474 | 0.13% | 781,945 | 90,000,000 |
| Tarrant County | 118,230,107,063 | 0.264000 | 335,050,000 | 3.29% | 11,023,145 | 136,520,000 |
| Tarrant County College District | 118,467,665,116 | 0.148970 | 22,705,000 | 3.29% | 746,995 | - |
| Tarrant County Hospital District | 118,241,205,855 | 0.227897 | 26,285,000 | 3.29% | 864,777 | - |
| Total Direct and Overlapping Tax Supported Debt | | | | | $ 284,027,683 | |
| Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation | | | | | 7.23% | |
| Per Capita Overlapping Tax Supported Debt | | | | | $ 7,167.53 | |

(1) Includes the Bonds. Net of self-supporting debt and excludes the Refunded Obligations.

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

| Fiscal Year Ended 9/30 | Outstanding Debt [1] Principal | Outstanding Debt [1] Interest | The Bonds [2] Principal | The Bonds [2] Interest | The Certificates [3] Principal | The Certificates [3] Interest | Total Outstanding Debt | Less: Crime Control Requirements [4] | Less: TIF Requirements | Less: Development Corporation Requirements | Less: Water and Sewer System Requirements [5] | Total Debt Less Self-Supporting Requirements | % of Total Outstanding Principal Retired |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | $ 8,413,527 | $ 3,594,101 | $ - | $ - | $ - | $ - | $ 12,007,628 | $ - | $ 3,174,766 | $ 1,502,249 | $ 2,417,126 | $ 4,913,487 | |
| 2013 | 7,528,126 | 3,147,264 | 545,000 | 561,857 | 275,000 | 250,675 | 12,307,922 | 525,675 | 3,178,454 | 1,335,263 | 2,666,158 | 4,602,373 | |
| 2014 | 8,066,893 | 2,876,328 | 175,000 | 463,350 | 320,000 | 204,250 | 12,105,821 | 524,250 | 3,178,654 | 1,335,600 | 2,275,488 | 4,791,830 | |
| 2015 | 7,325,000 | 2,462,290 | 895,000 | 448,175 | 330,000 | 197,750 | 11,658,215 | 527,750 | 3,180,054 | 1,333,650 | 2,079,110 | 4,537,651 | |
| 2016 | 7,605,000 | 2,193,376 | 925,000 | 420,875 | 335,000 | 191,100 | 11,670,351 | 526,100 | 3,173,129 | 1,337,131 | 2,087,184 | 4,546,808 | 39.19% |
| 2017 | 7,425,000 | 1,902,554 | 955,000 | 392,675 | 340,000 | 184,350 | 11,199,579 | 524,350 | 3,173,279 | 1,331,775 | 2,092,005 | 4,078,170 | |
| 2018 | 7,530,000 | 1,612,228 | 990,000 | 358,550 | 355,000 | 172,075 | 11,017,853 | 527,075 | 3,176,816 | 1,338,325 | 2,090,939 | 3,884,698 | |
| 2019 | 4,690,000 | 1,314,579 | 1,025,000 | 318,250 | 370,000 | 153,950 | 7,871,779 | 523,950 | - | 1,338,750 | 2,089,077 | 3,920,002 | |
| 2020 | 4,855,000 | 1,151,623 | 1,075,000 | 270,875 | 390,000 | 134,950 | 7,877,448 | 524,950 | - | 1,338,125 | 2,095,496 | 3,918,877 | |
| 2021 | 4,085,000 | 999,719 | 1,125,000 | 215,875 | 410,000 | 114,950 | 6,950,544 | 524,950 | - | 1,336,450 | 1,624,750 | 3,464,395 | 71.86% |
| 2022 | 4,245,000 | 852,457 | 1,190,000 | 158,000 | 435,000 | 93,825 | 6,974,282 | 528,825 | - | 1,333,725 | 1,635,332 | 3,476,400 | |
| 2023 | 3,740,000 | 711,398 | 1,250,000 | 97,000 | 455,000 | 71,575 | 6,324,973 | 526,575 | - | 1,339,800 | 1,632,650 | 2,825,947 | |
| 2024 | 2,435,000 | 598,422 | 1,315,000 | 32,875 | 475,000 | 53,075 | 4,909,372 | 528,075 | - | - | 1,641,555 | 2,739,742 | |
| 2025 | 2,545,000 | 501,299 | - | - | 490,000 | 38,600 | 3,574,899 | 528,600 | - | - | 813,267 | 2,233,031 | |
| 2026 | 2,645,000 | 398,864 | - | - | 500,000 | 23,750 | 3,567,614 | 523,750 | - | - | 814,026 | 2,229,837 | 91.77% |
| 2027 | 2,420,000 | 298,304 | - | - | 520,000 | 8,125 | 3,246,429 | 528,125 | - | - | 480,944 | 2,237,360 | |
| 2028 | 2,520,000 | 198,708 | - | - | - | - | 2,718,708 | - | - | - | 484,124 | 2,234,583 | |
| 2029 | 1,835,000 | 93,350 | - | - | - | - | 1,928,350 | - | - | - | 486,313 | 1,442,038 | |
| 2030 | 945,000 | 37,853 | - | - | - | - | 982,853 | - | - | - | 487,546 | 495,306 | |
| 2031 | 360,000 | 15,495 | - | - | - | - | 375,495 | - | - | - | 375,495 | - | 99.66% |
| 2032 | 370,000 | 5,273 | - | - | - | - | 375,273 | - | - | - | 375,273 | - | 100.00% |
| | $91,583,546 | $24,965,482 | $11,465,000 | $3,738,357 | $6,000,000 | $1,893,000 | $139,645,386 | $ 7,893,000 | $ 22,235,151 | $ 16,200,843 | $ 30,743,857 | $ 62,572,535 | |

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt. Less Refunded Obligations.
(2) Average life of the Bonds is 7.039 Years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof. .
(3) Average life of the Certificates is 8.381 Years. Interest on the Certificates has been calculated at the rates illustrated on page 3 hereof.
(4) Includes the Certificates.
(5) Includes a portion of the Bonds.

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

| | | |
|---|---|---|
| Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-12 | | $4,913,487 (1) |
| Budgeted Interest and Sinking Fund, 9-30-11 | $ 487,536 | |
| Budget Interest and Sinking Fund Tax Levy | 5,146,800 | |
| Estimated Investment Income | 18,000 | 5,652,336 |
| Estimated Balance, 9-30-12 | | $ 738,849 |

(1) Net of self-supporting debt.

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

| | |
|---|---|
| Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-11 | $ 7,948,790 |
| Less: Revenue Bonds Requirements, 2012 Fiscal Year | - |
| Balance Available for Other Purposes | $ 7,948,790 |
| System General Obligation Bond Requirements, 2012 Fiscal Year | 2,545,844 |
| Balance | $ 5,402,946 |
| Percentage of System General Obligation Bonds, Self-Supporting | 100.00% |
| | |
| Budgeted Funds Available for Debt Service from Tax Increment Reinvestment Zone Revenue (TIRZ) collected for Fiscal Year 2011/12 | $ 3,230,213 |
| TIRZ General Obligation Bond Requirements, 2012 Fiscal Year | 3,174,766 |
| Balance | $ 55,447 |
| Percentage of TIRZ General Obligation Bonds, Self-Supporting | 100.00% |
| | |
| Budgeted Funds Available for Debt Service from Keller Development Corporation collected for Fiscal Year 2011/12 | $ 1,591,249 |
| KDC General Obligation Bond Requirements, 2012 Fiscal Year | 1,502,249 |
| Balance | $ 89,000 |
| Percentage of KDC General Obligation Bonds, Self-Supporting | 100.00% |
| | |
| Revenue Available for Debt Service from Keller Crime Control Prevention District Fiscal Year Ended 9-30-11 | $ 670,061 |
| KCC General Obligation Bond Requirements, 2012 Fiscal Year | 0 (2) |
| Balance | $ 670,061 |
| Percentage of KCC General Obligation Bonds, Self-Supporting | 100.00% |

(1) It is the City's current policy to provide these payments from the respective revenue sources shown above; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(2) See Table 8 – General Obligation Debt Service Requirements herein reflecting Crime Control Debt Service Requirements beginning in FYE 2013.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

The City does not have any authorized but unissued general obligation bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT** . . . The City may issue additional general obligation debt in the amount of $1.2 million within the next six month period; no decisions regarding the issuance of such debt have been made at this point in time.

**TABLE 12 – OTHER OBLIGATIONS**

The City has entered into certain capital lease agreements. The following is a schedule of future minimum lease payments as of September 30, 2011.

| Due Fiscal Year Ending September 30, | Scheduled Annual Payment |
|---|---|
| 2012 | $ 159,275 |
| 2013 | 159,275 |
| 2014 | 118,600 |
| | $ 437,150 |
| Less Interest | 38,467 |
| | $ 398,683 |

**PENSION FUND** . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the State-wide Texas Municipal Retirement System (the "TMRS"), one of over 833 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits from the TMRS administered plan depend upon the sum of the employees' contributions to the plan, with interest, and the City-financed monetary credits, with interest.

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

In reading this section, investors should be aware that (i) the information included in this Official Statement relating to the TMRS relies on information produced by the TMRS and its independent accountant and actuary, (ii) actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the TMRS and (iii) actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the TMRS.

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:

| | |
|---|---|
| Employee Deposit Rate | 7% |
| Matching Ratio (City to Employee) | 2 to 1 |
| Years Required for Vesting | 5 Years |
| Service Retirement Eligibility | |
| (expressed as age/years of service) | 60/5, 0/20 |
| Updated Service Credit | 100% repeating, transfers |
| Annuity Increase (to retirees) | 70% of CPI repeating |

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report, which can be obtained from the TMRS website. In addition, pursuant to legislation passed by the 82nd Texas Legislature and signed into law by the Texas Governor on June 17, 2011, many aspects of the laws governing TMRS and its operations were amended, including, among other changes, restructuring the TMRS internal funds and accounting and the method of calculating the annual interest rate a municipality would have to pay on past-due contributions. The changes implemented by the amendments resulted in higher actuarial value of assets for municipalities. As of December 31, 2011, the City's actuarial accrued liability was

$60,983,157. As of such date, the City had actuarial value of assets of $46,070,166, leaving the City with an unfunded actuarial accrued liability of $14,912,991 and giving the City a "funded ratio" of 75.5%. For more information concerning the City's actuarial accrued liability with respect to its pension plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note V.C.

The TMRS requires each city in the State to contribute a certain percentage of covered payroll each month, and allows certain cities to contribute a lesser amount by paying a "Phase-in Rate" rather than the "Full Rate". The "Phase-in Rate" period is an eight-year period that began on January 1, 2009. If a city elects to pay the "Phase-in Rate", its required monthly contribution rate will be a lesser amount during such phase-in period. However, each year that a city's actual contribution rate is less than the "Full Rate", the difference generates an actuarial loss in the following year's valuation, and therefore increases the city's required minimum contribution for the next year. Furthermore, cities that pay the "Phase-in Rate" or any rate less than the "Full Rate" are also likely to see their funding ratio decline each year.

Beginning in 2009, the City elected to pay the "Phase-in Rate", thereby "phasing in" higher contributions to TMRS over a period of eight years in order to recognize the change to a projected unit credit cost method in the 2007 actuarial valuation. By doing so, the City's net pension obligation will continue to increase until the full actuarially determined Annual Required Contribution is paid by the City. The phase in period will last eight years from fiscal year 2009 to fiscal year 2016; provided, however, that the City may at any time elect to pay higher than the "Phase-in Rate".

The City is to contributing the "Phase-in Rate" in calendar year 2012, and the City's TMRS-required minimum monthly contribution rate is 16.04% of covered payroll during such year. The City will pay the full Annual Required Contribution beginning in calendar year 2013, which will be 15.16% of covered payroll. The City's net pension obligation should not increase in any year in which the City pays the "Full Rate". The City expects to fully fund its actuarial accrued liability over the next 26 years with an assumed payroll growth rate of 3%. For fiscal year 2010-11, the City's contribution represented 87.38% of its annual required contribution, and therefore the City's net pension obligation increased from $784,490 as of September 30, 2010 to $1,146,802 as of September 30, 2011. In addition, the City has revised its pension plan to decrease the annual annuity increase from 70% of the Consumer Price Index ("CPI") to 50% of the CPI. Such decrease will result in lower future costs to the City and a smaller increase in actuarial accrued liability in future years.

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note V.C.

**OTHER POST-EMPLOYMENT BENEFITS** . . . In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with certain additional post-employment benefits. The City's annual other postemployment benefit ("OPEB") cost (expenses) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information is listed below:

| | |
|---|---|
| Annual Required Contribution (ARC) | $ 52,437 |
| Interest on Net Pension Obligation | 4,043 |
| Adjustment to the ARC | - |
| Annual Pension Cost | $ 56,480 |
| Contributions Made | (17,121) |
| Increase (Decrease) in Net Pension Obligation | $ 39,359 |
| Net Pension Obligation/(Asset), beginning of year | 89,852 |
| Net Pension Obligation/(Asset), end of year | $ 129,211 |

In addition to the employer contribution, the retirees paid $19,988 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization).

| Fiscal Year Ended 9/30 | Annual OPEB Cost | Employer Contribution | Percentage Contributed | Net OPEB Oblgiation |
|---|---|---|---|---|
| 2009 | $52,437 | $ 11,629 | 22.8% | $ 40,808 |
| 2010 | 52,437 | 5,229 | 10.0% | 89,852 |
| 2011 | 52,437 | 17,121 | 32.7% | 129,211 |

As of December 31, 2010, the actuarial accrued liability for benefits was $482,084, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $17,635,929 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7%.

*Supplemental Death Benefits* . . . The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS (the "SDBF"), and the City provides this coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). Retired employees are insured for $7,500.

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

The City has received a letter from TMRS informing the City that its contribution rate for the SDBF for the 2012 calendar year will be 0.16% of covered payroll (which amount is included in the 16% contribution rate provided above under "Pension Plan"). The TMRS CAFR includes financial and supplementary information for the SDBF.

For more information concerning the City's other post-employment benefits, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note V.D.

**OTHER BENEFITS** . . . *Compensated Absences*. It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits up to specified limits. The number of hours an employee may accrue is dependent on each employee's years of service. Regular full-time employees having 5 years of service or less may accrue up to 160 hours; 6 - 10 years of service: 240 hours; 11 - 20 years of service: 320 hours; and over 20 years of service: 400 hours. In addition, directors may accrue up to a maximum of 400 hours. Employees accrue sick leave during employment but, upon termination or retirement, any accumulated sick leave expires. All vacation pay is accrued when incurred, and a liability for these amounts is reported only if they are matured and due and payable. As of September 30, 2011, the City had $1,456,360 liability for compensated absences, $229,765 of which was due within one year. Compensated absences are generally liquidated by the General Fund. For more information concerning the City's policy regarding compensated absences, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note I.D.6.

**FINANCIAL INFORMATION**

**TABLE 13 - CHANGES IN NET ASSETS**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| Program Revenues | 2011 | 2010 | 2009 | 2008 | 2007 |
| Charges for Services | $ 3,807,840 | $ 6,800,180 | $ 6,402,796 | $ 7,247,960 | $ 10,122,119 |
| Operating Grants and Contributions | 5,300,350 | 2,358,986 | 2,400,191 | 2,483,052 | 241,636 |
| Capital Grants and Contributions | 630,960 | 445,168 | 497,454 | 6,297,308 | 2,640,281 |
| General Revenues | | | | | |
| Property Taxes | 19,794,916 | 20,250,125 | 19,156,565 | 17,325,312 | 16,079,035 |
| Other Taxes | 11,140,639 | 10,789,133 | 10,621,782 | 11,286,593 | 11,531,144 |
| Investment Earnings | 280,809 | 232,082 | 565,181 | 859,258 | 1,412,474 |
| Miscellaneous | 295,808 | 292,685 | 128,425 | 65,260 | - |
| Gain (Loss) of Sale of Assets | - | - | - | 26,973 | - |
| Total Revenues | $ 41,251,322 | $ 41,168,359 | $ 39,772,394 | $ 45,591,716 | $ 42,026,689 |
| Expenses: | | | | | |
| General Government | $ 7,618,197 | $ 7,389,603 | $ 7,413,655 | $ 5,630,782 | $ 5,380,333 |
| Planning & Community Development | 1,183,353 | 1,100,186 | 1,161,434 | 1,291,819 | 1,231,362 |
| Public Safety | 17,358,623 | 14,258,649 | 14,740,695 | 13,969,085 | 12,162,132 |
| Public Works | 2,560,006 | 7,189,802 | 8,260,487 | 9,067,983 | 7,800,979 |
| Recreation and Leisure | 4,866,264 | 7,546,936 | 9,483,618 | 8,592,564 | 8,449,576 |
| Interest on Long-Term Debt | 3,632,289 | 3,790,680 | 3,723,887 | 3,794,400 | 3,909,308 |
| Unallocated Amortization | - | - | - | - | - |
| Non-Departmental | - | - | - | - | 115,376 |
| Total Expenses | $ 37,218,732 | $ 41,275,856 | $ 44,783,776 | $ 42,346,633 | $ 39,049,066 |
| Increase in Net Assets before Transfers | $ 4,032,590 | $ (107,497) | $ (5,011,382) | $ 3,245,083 | $ 2,977,623 |
| Transfers | 3,652,445 | 3,411,590 | 3,191,285 | 3,185,538 | 1,892,406 |
| Increase (Decrease) in Net Assets | $ 7,685,035 | $ 3,304,093 | $ (1,820,097) | $ 6,430,621 | $ 4,870,029 |
| Adjustments | $ - | $ - | $ - | $ - | $ - |
| Adjustment for Street Infrastructure Assets | - | - | - | - | - |
| Net Assets - October 1 | 93,596,332 (1) | 90,606,819 | 92,426,916 | 85,996,296 | 81,126,267 |
| Net Assets - September 30 | $ 101,281,367 | $ 93,910,912 | $ 90,606,819 | $ 92,426,917 | $ 85,996,296 |

(1) As a result of the implementation of GASB Statement 54 during the year, net assets for October 1, 2010 has been restated in the amount of $314,580 to properly reflect funds that have been reclassified from a governmental activity to a business-type activity.

**TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| Revenues | 2011 | 2010 | 2009 | 2008 | 2007 |
| Total Property Tax | $ 12,339,661 | $ 12,337,171 | $ 12,084,761 | $ 11,252,820 | $ 9,807,896 |
| Sales Tax | 4,069,146 | 4,004,193 | 4,037,484 | 4,360,294 | 4,148,974 |
| Franchise/Other Local Tax | 3,052,858 | 2,849,462 | 2,576,311 | 2,631,858 | 3,236,163 |
| Permits, Licenses and Fees | 1,234,576 | 1,456,765 | 1,101,177 | 1,715,127 | 1,914,637 |
| Intergovernmental Revenue | 2,276,509 | 1,990,769 | 1,979,193 | 2,017,712 | 1,452,871 |
| Charges for Services | 1,462,751 | 1,171,522 | 992,021 | 891,081 | 738,684 |
| Fines and Warrants | 796,966 | 845,155 | 887,073 | 956,146 | 1,076,532 |
| Interest on Investments | 129,268 | 72,794 | 217,256 | 371,848 | 557,136 |
| Miscellaneous | 328,516 | 271,633 | 286,766 | 270,838 | 219,382 |
| Donations | 31,022 | 7,000 | 47,100 | 101,010 | 11,353 |
| Total Revenues | $ 25,721,273 | $ 25,006,464 | $ 24,209,142 | $ 24,568,734 | $ 23,163,628 |
| | | | | | |
| Expenditures | | | | | |
| General Government | $ 5,898,576 | $ 4,455,649 | $ 4,227,027 | $ 3,551,827 | $ 3,481,037 |
| Community Development | 966,920 | 1,082,844 | 1,148,647 | 1,265,371 | 1,208,865 |
| Public Safey | 13,920,499 | 13,053,811 | 13,253,565 | 12,700,339 | 10,977,896 |
| Public Works | 2,003,200 | 2,069,904 | 2,035,959 | 2,048,563 | 1,888,375 |
| Parks and Recreation | 3,822,122 | 3,623,166 | 3,606,894 | 3,570,559 | 3,450,130 |
| Nondepartmental | - | - | - | - | 378,409 |
| Capital Outlay | 613,508 | 585,460 | 618,369 | 972,649 | 851,337 |
| Total Expenditures | $ 27,224,825 | $ 24,870,834 | $ 24,890,461 | $ 24,109,308 | $ 22,236,049 |
| | | | | | |
| Excess (Deficiency) of Revenues Over Expenditures | $ (1,503,552) | $ 135,630 | $ (681,319) | $ 459,426 | $ 927,579 |
| Sales of Capital Assets | 22,890 | 9,039 | - | - | - |
| Operating Transfers In | 3,145,165 | 2,340,500 | 2,213,500 | 2,330,573 | 1,203,053 |
| Operating Transfers Out | (350,930) | (751,095) | (757,840) | (1,611,223) | (2,110,308) |
| Note Proceeds | - | - | 11,407 | 8,250 | - |
| Increase (Decrease) in Fund Balance | $ 1,313,573 | $ 1,734,074 | $ 785,748 | $ 1,187,026 | $ 20,324 |
| Beginning Fund Balance | 11,376,602 (1) | 9,069,964 | 8,284,216 | 7,097,190 | 7,076,866 |
| Adjustments | - | - | - | - | - |
| Ending Fund Balance (2) | $ 12,690,175 | $ 10,804,038 | $ 9,069,964 | $ 8,284,216 | $ 7,097,190 |

(1) As a result of the implementation of GASB Statement 54 during the year, Special Revenue Funds fund balances for October 1, 2010 has been restated in the amount of $572,564 to properly reflect funds that have been reclassified to the General Fund.

(2) The City's 2011/2012 fiscal year budget, together with a recent budget amendment, provides for a draw on the General Fund balance of $2,975,650 for capital project expenditures. The City anticipates actual overall expenditures will be lower than budgeted so that reduction in the General Fund balance for Fiscal Year 2011/2012 is expected to be between $1.5-$2 million.

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1992, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller 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. In May 2006, this tax was re-authorized by the voters for an additional fifteen years, and in November 2007, voters authorized a reduction in the rate from 3/8ths of 1% to ¼ of 1%. Said sales tax is collected solely for the benefit of the Keller Crime Control and Prevention 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-eighth of one percent (1/8th of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. In November 2007, this tax was re-authorized by the voters for an additional four years at ¼ of 1%, effective April 1, 2008. 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. **Such sales tax revenues are not pledged to the payment of the Obligations.**

| Fiscal Year Ended 9/30 | 1% Total Collected (1) | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita |
|---|---|---|---|---|
| 2008 | $ 4,360,294 | 28.54% | $ 0.1229 | $ 114 |
| 2009 | 4,080,795 | 24.39% | 0.1055 | 103 |
| 2010 | 3,935,364 | 22.17% | 0.0981 | 99 |
| 2011 | 4,072,232 | 23.28% | 0.1101 | 102 |
| 2012 (2) | 1,850,905 | 10.46% | 0.0457 | 45 |

(1) Excludes the Keller Development Corporation sales tax, the Keller Crime Control Prevention District sales tax, and the street maintenance tax.
(2) Collections for part year only, through April 2012.

The sales tax breakdown for the City is as follows:

| | |
|---|---|
| Economic and Community Development | 0.500¢ |
| City Sales & Use Tax | 1.000¢ |
| Crime Control and Prevention | 0.250¢ |
| Street Maintenance Tax | 0.250¢ |
| State Sales & Use Tax | 6.250¢ |
| Total | 8.250¢ |

**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, , including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States (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 and share certificates (i) issued by a depository institution that has its main office or a branch office 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 clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the Public Funds Investment Act, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State, (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 (the "PFIA").

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 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, the maximum average dollar-weighted maturity allowed for pooled fund groups. , methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act.All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each

Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, , the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction 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 investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) 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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**TABLE 15 - CURRENT INVESTMENTS**

As of April 15, 2012, the City's investable funds were invested in the following categories:

| Description | Book Value as a % of Total | Book Value | Market Value |
|---|---|---|---|
| Certificates of Deposit | 54.56% | $ 30,705,091 | $ 30,705,091 |
| Money Market Mutual Funds | 27.83% | 15,660,490 | 15,660,490 |
| Investment Pools | 17.62% | 9,914,941 | 9,914,941 |
| | 100.00% | $ 56,280,522 | $ 56,280,522 |

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

## TAX MATTERS

**OPINION** . . . On the date of initial delivery of the Obligations, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the City, will render its opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Obligations will be excludable from the "gross income" of the holders thereof for federal income tax purposes, and (ii) the Obligations will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See Appendix C -- Form of Opinion of Bond Counsel.

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

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

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

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

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

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

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

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

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

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES** . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

Interest on the Obligations will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

## CONTINUING DISCLOSURE OF INFORMATION

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

**ANNUAL REPORTS** . . . The City will provide certain updated financial information and operating data to the MSRB on an annual basis. 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 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2012.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

**NOTICE OF CERTAIN EVENTS** . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Obligations to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

**LIMITATIONS AND AMENDMENTS** . . . The City has agreed to update information and to provide notices of specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS** . . . During the last five years, 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 Obligations and the presently outstanding tax supported debt of the City are rated "Aa2" by Moody's and "AA" 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. Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country and developments arising from the Budget Control Act of 2011, including the deliberations and results thereof of the Joint Select Committee on Deficit Reduction, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Obligations, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Obligations.

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

The City is a defendant in two lawsuits. Although the outcome of these cases has not presently been determined, it is the opinion of the City Attorney and City management that these matters will not have a material adverse effect on the financial condition of the City.

At the time of the initial delivery of the Obligations, the City will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Obligations or that affects the payment and security of the Obligations or in any other manner questioning the issuance, sale or delivery of the Obligations.

### REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

### LEGAL OPINIONS

The City will furnish to the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of each series of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate and the Initial Bond and to the effect that such Obligations are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, including the alternative minimum tax on corporations. Though it may represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in the issuance of the Obligations. 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 therein, except that, in its capacity as Bond

Counsel, such firm has reviewed the information under captions and subcaptions "PLAN OF FINANCING" (exclusive of the subcaption "Sources and Uses of Proceeds"), "THE OBLIGATIONS" (excluding the last sentence of the subcaption "Tax Rate Limitations" and exclusive of the subcaptions "Book-Entry-Only System" and "Bond and Certificateholders' Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER INFORMATION - Legal Opinions" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Obligations 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 Obligations, such information conforms to the Ordinances. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters, whose legal fees are contingent upon the sale and delivery of the Obligations.

The legal opinions to be delivered concurrently with the delivery of the Obligations 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.

#### AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

#### FINANCIAL ADVISOR

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

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

#### VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by First Southwest Company on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company on behalf of the City and has not evaluated or examined the assumptions or information used in the computations.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the tax-exemption of interest on the Obligations and with respect to the defeasance of the Refunded Obligations.

## UNDERWRITING

Morgan Keegan & Company, Inc., or its successor in interest ("Morgan Keegan") acting on behalf of itself and as representative of Raymond James & Associates, Inc., and of the underwriters identified on the cover page and page 3 hereof (collectively, the "Underwriters"), has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of $70,005.20. 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 agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of $40,647.25. The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

On April 2, 2012, Raymond James Financial, Inc. ("RJF"), the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired all of the stock of Morgan Keegan from Regions Financial Corporation. Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of RJF and, as such, are affiliated broker-dealer companies under the common control of RJF, utilizing the trade name "Raymond James / Morgan Keegan" that appears on the cover page and page 3 of this Official Statement. It is anticipated that the businesses of Raymond James and Morgan Keegan will be combined.

One of the Underwriters is BOSC, Inc., which is not a bank, and the Obligations are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

## 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 Ordinances authorizing the issuance of the Obligations approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Obligations by the Underwriters.

PAT MCGRAIL
Mayor
City of Keller, Texas

ATTEST:

SHEILA STEPHENS
City Secretary

**Schedule I**

## SCHEDULE OF REFUNDED OBLIGATIONS

### General Obligation Refunding Bonds, Series 2002

| Original Dated Date | Maturity Date | Interest Rate | Principal Amount Outstanding | Principal Amount Refunded |
|---|---|---|---|---|
| 11/1/2002 | 2/15/2013 | 4.000% | $ 570,000 | $ 570,000 |
| | 2/15/2014 | 4.000% | 175,000 | 175,000 |
| | | | $ 745,000 | $ 745,000 |

The 2013 and 2014 maturities will be redeemed prior to original maturity on August 15, 2012 at par.

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### Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2004

| Original Dated Date | Maturity Date | Interest Rate | Principal Amount Outstanding | Principal Amount Refunded |
|---|---|---|---|---|
| 6/15/2004 | 2/15/2015 | 4.300% | $ 905,000 | $ 905,000 |
| | 2/15/2016 | 5.000% | 950,000 | 950,000 |
| | 2/15/2017 | 5.000% | 1,000,000 | 1,000,000 |
| | 2/15/2018 | 5.000% | 1,050,000 | 1,050,000 |
| | 2/15/2019 | 5.000% | 1,105,000 | 1,105,000 |
| | 2/15/2020 | 5.000% | 1,160,000 | 1,160,000 |
| | 2/15/2021 | 5.000% | 1,220,000 | 1,220,000 |
| | 2/15/2022 | 5.000% | 1,285,000 | 1,285,000 |
| | 2/15/2023 | 5.000% | 1,350,000 | 1,350,000 |
| | 2/15/2024 | 5.000% | 1,420,000 | 1,420,000 |
| | | | $ 11,445,000 | $ 11,445,000 |

The 2015 – 2024 maturities will be redeemed prior to original maturity on February 15, 2014 at par.

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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**LOCATION AND HISTORY** . . . The City was incorporated on November 16, 1955 under the general laws of the State of Texas, and the current home-rule charter was approved by the voters in 1982. The City operates under the Council-Manager form of government. The City Council is comprised of a mayor and five council members, who enact local legislation, determine overall City policies, pass ordinances, appoint committees, and adopt the City's budget. The Mayor and Council Members are all elected at-large on a non-partisan basis. Council members are elected for a two-year term on a rotating basis, with the Mayor and two council members elected in odd-numbered years, and the remaining three council members elected on even-numbered years. The City Manager is appointed by the Mayor and City Council and is responsible to them for proper administration of the daily affairs of the City, and appointment of heads of the various departments.

The City is located in Northeast Tarrant County, Texas, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is part of the "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas, as well as the surrounding communities, with an estimated population exceeding 6.1 million. The city limits of Keller currently encompasses approximately 19 square miles.

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

**POPULATION** . . . Since 1970, the total population increase exceeds 39,000. This increasing population trend is anticipated to continue for several years, although at a more reasonable pace. The City's estimated population by 2012 is 41,120. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,809,034 in 2010. According to the North Central Texas Council of Governments population projections, the population of Tarrant County in 2011 is 1,817,840.

**ECONOMICS** . . . The City of Keller has a staff of approximately 344 full-time employees, including 83 police department personnel and 59 fire/EMS department employees. There are currently 17 local banks serving the City. These banks include, American National Bank, BBVA Compass Bank, Bank of America, N.A. (3), Bank of Texas, N.A., Capital One Bank, N.A., First Financial Bank, N.A., Frost Bank, JP Morgan Chase Bank, N.A. (2), Prosperity Bank, Regions Bank, Wells Fargo Bank, N.A. (2), and Woodforest National Bank (2).

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

In order to keep pace with the rapid residential growth and expanding commercial areas, infrastructure improvements have continued to be a high priority. A 1.4-mile section of Rufe Snow Drive, a primary arterial roadway extending from IH-820 in North Richland Hills northward to the center of Keller at Keller Parkway (F.M. 1709), is currently under review for an expansion to become either a 4-lane divided or 6-lane divided road. This expansion of Rufe Snow Drive between Rapp Road and Bear Creek Parkway is scheduled to begin in the winter of 2010, with an expected completion date in 2011. Major commercial and residential projects along Rufe Snow Drive include: North Hills Family Practice, a 22,932 sq. ft. medical office development; Cobblestone Parks, a 29-lot residential development; and Mustang Creek, a 102-unit assisted living facility nearing completion. Similarly, North Tarrant Parkway is under construction and will expand to a 6 lane divided arterial. Construction on North Tarrant Parkway will be complete in 2011. It, along with Rufe Snow Drive, will have landscaped medians, turn lanes, traffic signals, and sidewalks. Two additional north-south arteries are either under design or under construction. First, Randol Mill Avenue (F.M. 1938) is proposed to become a 4-lane divided roadway. This proposal is currently under design and will increase access along the City’s eastern boundary to SH 114. Last, U.S. Highway 377 beginning at Keller Hicks Road and extending north to State Highway 170 was completed in 2009 and now provides a new 4-lane divided highway along Keller's western boundary, thus completing a major north-south arterial roadway from IH-820 to SH 170. In addition, the expanded U.S. Highway 377 will provide improved access to several miles of prime commercial frontage totaling approximately 170 acres.

Major commercial and residential projects on Davis Boulevard (FM 1938) include: Salons of Volterra, a 11,333 sq. ft. office and retail development nearing completion; and Villas of Volterra, Phase I, a 20-lot patio home development.

Major commercial and residential projects on U.S. Highway 377 include: AUI Contractors Field Office and Warehouse, a 30,331 sq. ft. office and contractor yard; Bear Creek Plaza, Phase 3, a 101,000 sq. ft. commercial development of restaurants and shops; Care Now, a 5,575 sq. ft. medical facility; Marshall Pointe Estates, an 84-lot residential development; and Marshall Ridge, a 527-lot residential development. The City has included on the current Thoroughfare Master Plan to construct a two-way couplet through the Old Town Keller business district, which will ultimately create three lanes of traffic moving south along U.S. Highway 377 and three lanes of traffic traveling north along the current alignment of Elm Street. The project currently has a 10-15 year planning and design time frame, and when complete will accomplish two primary goals – the improvement of traffic flow through a major bottleneck, and the preservation of our Old Town business district.

Keller Town Center is a concentrated center of business activity that creates a focal point in the City of Keller. This focal point is non-residential with residential uses allowed as part of the overall mixed-use nature of the area. For example, the Arthouse at Keller Town Center is a 240,974 sq. ft. mixed-use development with 188 residential units. Uptown Keller, Phase 1 is another mixed-use development consisting of 48 residential lots. Other developments in Town Center include Pecan Park, a 10,170 square foot office development, a Wells Fargo banking facility, and the Square at Keller Town Center, a 77,600 square-foot office and retail development. MONEY magazine has named the City of Keller 7th in its top 100 "Best Places to Live" ranking of small U.S. towns. The magazine’s annual list was released Monday, July 13, 2009 on its Web site, with a follow-up article published in the magazine’s August 2009 edition. The list ranks small towns by looking at the strength of their economies, home values, public schools, unemployment rates, crime rates and amenities that enrich the quality of life, among other attributes. For Keller, the article cites the energy industry that has bolstered the region, as well as major offices just outside the City for FedEx, Fidelity Investments and Sabre Holdings. The Keller Town Center district and abundant park amenities were also noted as assets. These factors, as well as the booming Alliance corridor and companies such as American Airlines, have helped Keller's population triple since 1990.

**EDUCATION** . . . As one of the fastest-growing school districts in Texas, Keller Independent School District (the "District") is proud to boast two National Blue Ribbon Schools of Excellence, 27 TEA Exemplary and Recognized schools and the 2007 Texas State Secondary Teacher of the Year. The District encompasses an area of approximately 51 square miles and conducts programs for K-12. The District has 38 campuses serving more than 33,000 students. Approximately 3,600 teachers, administrative personnel, and support staff are employed by the District. The District believes that education is a partnership among schools, parents and the community.

The physical facilities of the District include:

| | |
|---|---|
| 4 | High schools (9-12) |
| 6 | Middle schools (7-8) |
| 5 | Intermediate schools (5-6) |
| 22 | Elementary schools (K-4) |
| 1 | Keller Learning Center |

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

**TRANSPORTATION** . . . The City is served by major highways both on a north/south and east/west axis. North/south highways are SH 121, SH 26, FM 1938 and US Hwy. 377. The east/west highways are IH Loop 820, SH 170, SH 183, and FM 1709. 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 third 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.

**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. Baylor Medical and Diagnostic Center located on U.S. Highway 377 South in Keller has approximately 39,000 square-feet and commenced operation in March 2006. Lonestar Endoscope, also located on U.S. Highway 377 South (next to Baylor Medical) also provides important health services.

**MISCELLANEOUS** . . . The City offers suburban pedestrian-oriented quality of life living, tree lined streets with neighborhood connectivity via a massive system of hike and bike trails. The City is in close proximity (within a 40-minute drive time) to ten lakes, offering boating, fishing, camping, and picnicking facilities, entertainment facilities, and major sporting outlets.

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.

**EMPLOYMENT DATA**

| Keller: | March 2012 | Average Annual 2011 | Average Annual 2010 | Average Annual 2009 | Average Annual 2008 |
|---|---|---|---|---|---|
| Civilian Labor Force | 20,998 | 20,775 | 19,199 | 19,052 | 19,144 |
| Unemployed | 1,205 | 1,343 | 1,301 | 1,280 | 800 |
| Percent of Unemployed | 5.74% | 6.46% | 6.78% | 6.72% | 4.18% |
| Fort Worth/Arlington Metro Division: | | | | | |
| Civilian Labor Force | 1,102,981 | 1,093,279 | 979,658 | 972,177 | 982,844 |
| Unemployed | 75,763 | 84,765 | 87,976 | 81,530 | 50,199 |
| Percent of Unemployed | 6.87% | 7.75% | 8.98% | 8.39% | 5.11% |
| Tarrant County | | | | | |
| Civilian Labor Force | 941,891 | 934,168 | 833,527 | 827,163 | 836,259 |
| Unemployed | 64,818 | 73,065 | 75,124 | 68,846 | 43,167 |
| Percent of Unemployed | 6.88% | 7.82% | 9.01% | 8.32% | 5.16% |

Source: Texas Workforce Commission.

# APPENDIX B

EXCERPTS FROM THE

CITY OF KELLER, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2011, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keller, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated March 8, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keller, Texas' basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, the budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the budgetary comparison schedules, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Pattillo, Brown & Hill, L.L.P.

March 8, 2012



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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the City of Keller, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. It should be read in conjunction with the accompanying transmittal letter and basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Keller exceeded its liabilities at the close of the fiscal year ended September 30, 2011, by $181,053,103 (net assets). Of this amount, $16,962,455 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net assets increased by $11,421,577, or 6.7% for the year ended September 30, 2011. The net assets of governmental activities increased $7,685,035, or approximately 8.2%. This increase in net assets resulted in part from an increase in intergovernmental contributions, primarily for multi-jurisdictional funding of street infrastructure projects, combined with reductions of expenses. The assets of business-type activities increased by $3,736,542, or 4.9%. The increase was due in part to an increase in service charges (net of wholesale water supply costs) for water usage due to an unusually dry summer.

- As of September 30, 2011, the City's governmental funds reported combined ending fund balances of $30,245,708. Approximately 40.5% of this total amount, $11,596,853, is unassigned and available for use within the City's designation and policies. Restrictions for (1) general government, $241,967; (2) debt service, $564,353; (3) capital acquisition and construction, $12,410,163; (4) recreation and leisure, $680,266; and (5) public safety, $3,657,533, total $17,554,282, and represent 58.0% of the total fund balance.

- Total cost of all the City's programs was $59,867,765 in 2011, compared to $58,462,973 in 2010.

- At the end of the current fiscal year, unassigned fund balance in the General Fund was $11,596,853, or 42.6% of total expenditures. This represents an increase of $658,000, or 6.0% from the prior fiscal year due primarily to planned (budget) decreases in General Fund expenditures.

- The City's total debt outstanding (excluding bond premiums and discounts) decreased by $8,335,959, or 7.8% during the current fiscal year, primarily the result of retirement of existing debt. The City did not issue any new or refunding debt obligations during the year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

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

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- ***Governmental activities –*** These are functions such as public safety, public works, planning and development, general government, and recreation and leisure, including the Keller Public Library, that are principally supported by taxes and intergovernmental revenue.

- ***Business-type activities –*** These functions are intended to recover all or a significant portion of their costs through user fees and charges. Business-type activities of the City include Water and Sewer, and Drainage Utility operations.

The government wide financial statements can be found on pages 29 – 31 of this report.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Keller, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Keller can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the City's most significant funds and will be more familiar to traditional users of government financial statements. The focus is now on major funds rather than fund types.

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

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

  The City maintains 15 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General, General Obligation Debt Service, and Capital Projects Funds, all of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds –** There are two types of proprietary funds, Enterprise Funds and Internal Service Funds. The City maintains only one type of proprietary fund. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for the Water and Sewer, Drainage Utilities, and Recreation/Aquatic Center Funds. The City has no Internal Service Funds.

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

The City's basic proprietary fund financial statements can be found on pages 40 – 43 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements on pages 45 – 68 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Keller's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 71 – 72. The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Keller, assets exceeded liabilities by $181,053,103 as of September 30, 2011.

The largest portion of the City's net assets, $137.1 million, or 75.7%, reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, $27,008,234 million, or 14.9%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, $16,962,455 million, 9.4%, may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental activities total assets increased by $887,384, or 0.5% during fiscal year 2011. The increase in total assets of governmental activities resulted primarily from a decrease in cash and investments, combined with an overall increase in total capital assets, specifically construction in process. The increase in net capital assets of $2,898,388, (2.0%) is net of accumulated depreciation, a non-cash expense. During the year, the construction in process category, where assets are not depreciated, increased primarily due to construction and related contributions from other governmental entities for funding of street infrastructure projects. Total liabilities of governmental activities decreased $6,483,071, or 7.0%. Non-current governmental activities' liabilities decreased by $6,383,606, or 243.1%. The decrease in liabilities of governmental activities is primarily due to retirement (payment) of existing debt obligations. No new debt obligations were issued during the year.

Business-type activity total assets increased by $3,408,778, or 3.4%. Total current assets increased $2,631,838, or 12.1%, while total capital assets increased $776,940, (1.0%), respectively. Net assets of business-type activities increased $4,051,122, (5.4%). The increase in current and other assets is primarily due to increases in investments and receivables. Total capital assets increased as a result of new construction of water and wastewater improvements. The total liabilities for business-type activities increased $642,344, 2.7%, primarily due to an increase in deferred revenue, combined with a decrease in non-current liabilities, resulting from the retirement of debt (no new debt obligations were issued during the year).

The following table reflects the condensed Statement of Net Assets:

### CITY OF KELLER'S NET ASSETS

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current and other assets | $ 35,749,807 | $ 37,760,811 | $ 24,369,923 | $ 21,738,085 | $ 60,119,730 | $ 59,498,896 |
| Capital assets | 151,438,762 | 148,540,374 | 78,937,657 | 78,160,717 | 230,376,419 | 226,701,091 |
| Total assets | 187,188,569 | 186,301,185 | 103,307,580 | 99,898,802 | 290,496,149 | 286,199,987 |
| Long-term liabilities | 81,951,703 | 87,928,108 | 18,868,575 | 20,577,768 | 100,820,278 | 108,505,876 |
| Other liabilities | 3,955,499 | 4,462,165 | 4,667,269 | 3,600,420 | 8,622,768 | 8,062,585 |
| Total liabilities | 85,907,202 | 92,390,273 | 23,535,844 | 24,178,188 | 109,443,046 | 116,568,461 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 75,942,510 | 71,137,063 | 61,139,904 | 58,426,495 | 137,082,414 | 129,563,558 |
| Restricted | 17,554,282 | 10,707,393 | 9,453,952 | 9,453,952 | 27,008,234 | 20,161,345 |
| Unrestricted | 7,784,575 | 12,066,456 | 9,177,880 | 7,840,167 | 16,962,455 | 19,906,623 |
| Total net assets | $ 101,281,367 | $ 93,910,912 | $ 79,771,736 | $ 75,720,614 | $ 181,053,103 | $ 169,631,526 |

**Analysis of the City's Operations –** The following table provides a summary of the City's operations for year ended September 30, 2011. Overall the City had an increase in net assets of $11,421,577.

### CITY OF KELLER'S CHANGES IN NET ASSETS

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 3,807,840 | $ 6,800,180 | $ 25,947,667 | $ 18,809,676 | $ 29,755,507 | $ 25,609,856 |
| Operating grants and contributions | 5,300,350 | 2,358,986 | - | - | 5,300,350 | 2,358,986 |
| Capital grants and contributions | 630,960 | 445,168 | 3,902,205 | 1,517,538 | 4,533,165 | 1,962,706 |
| General revenues: | | | | | | |
| Ad valorem taxes | 19,794,916 | 20,250,125 | - | - | 19,794,916 | 20,250,125 |
| Sales taxes | 8,087,781 | 7,939,671 | - | - | 8,087,781 | 7,939,671 |
| Other taxes | 3,052,858 | 2,849,462 | - | - | 3,052,858 | 2,849,462 |
| Investment earnings | 280,809 | 232,082 | 137,567 | 92,367 | 418,376 | 324,449 |
| Miscellaneous | 295,808 | 292,685 | 59,619 | 30,943 | 355,427 | 323,628 |
| Gain (loss) on sale of capital assets | - | - | - | ( 433,265) | - | ( 433,265) |
| Total revenues | 41,251,322 | 41,168,359 | 30,047,058 | 20,017,259 | 71,298,380 | 61,185,618 |
| Expenses: | | | | | | |
| General government | 7,618,197 | 7,389,603 | - | - | 7,618,197 | 7,389,603 |
| Public safety | 17,358,623 | 14,258,649 | - | - | 17,358,623 | 14,258,649 |
| Public works | 2,560,006 | 7,189,802 | - | - | 2,560,006 | 7,189,802 |
| Community development | 1,183,353 | 1,100,186 | - | - | 1,183,353 | 1,100,186 |
| Recreation and leisure | 4,866,264 | 7,546,936 | 2,854,913 | - | 7,721,177 | 7,546,936 |
| Interest on long-term debt | 3,632,289 | 3,790,680 | - | - | 3,632,289 | 3,790,680 |
| Water and sewer | - | - | 17,807,093 | 15,214,564 | 17,807,093 | 15,214,564 |
| Drainage utility | - | - | 1,987,027 | 1,972,553 | 1,987,027 | 1,972,553 |
| Total expenses | 37,218,732 | 41,275,856 | 22,649,033 | 17,187,117 | 59,867,765 | 58,462,973 |
| Increases in net assets before transfers | 4,032,590 | ( 107,497) | 7,398,025 | 2,830,142 | 11,430,615 | 2,722,645 |
| Transfers | 3,652,445 | 3,411,590 | ( 3,661,483) | ( 3,411,590) | ( 9,038) | - |
| Change in net assets | 7,685,035 | 3,304,093 | 3,736,542 | ( 581,448) | 11,421,577 | 2,722,645 |
| Net assets, beginning | 93,596,332 | 90,606,819 | 76,035,194 | 76,302,062 | 169,631,526 | 166,908,881 |
| Net assets, ending | $ 101,281,367 | $ 93,910,912 | $ 79,771,736 | $ 75,720,614 | $ 181,053,103 | $ 169,631,526 |

**Government Activities**

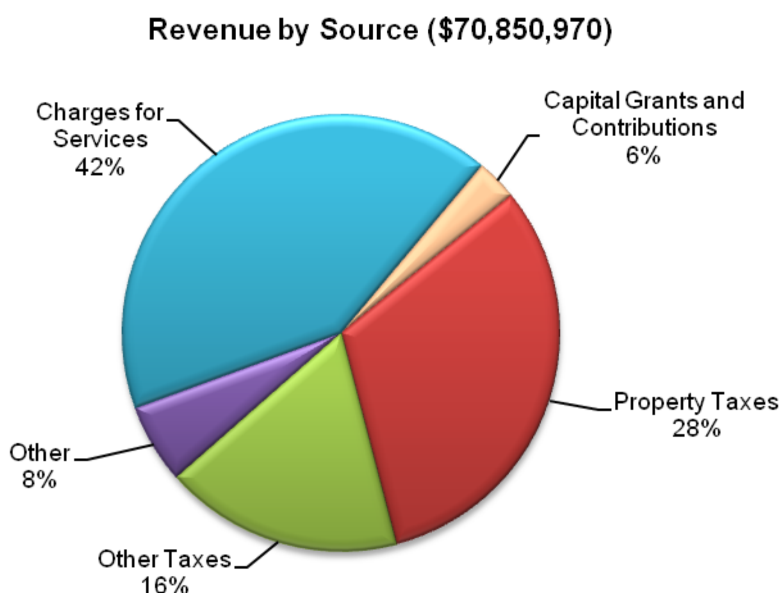
Government activities increased the City's net assets by $7,685,035, or 8.2% from the prior year. Total governmental revenues increased $82,963, 0.2%. Major increases in revenues were franchise and other taxes, $203,396, and sales taxes, $148,110, respectively. An increase in franchise and other taxes is related primarily to an increase in franchise revenues due to an unusually hot summer, which resulted in increased electrical usage, from which franchise revenues are derived. Sales taxes increased due to a slightly improving local economy, following sales tax decreases the previous two years. Major decreases in revenue were ad valorem taxes ($455,209). Ad valorem taxes decreased by approximately 2.3% because of a slight decrease in taxable values from the prior year.

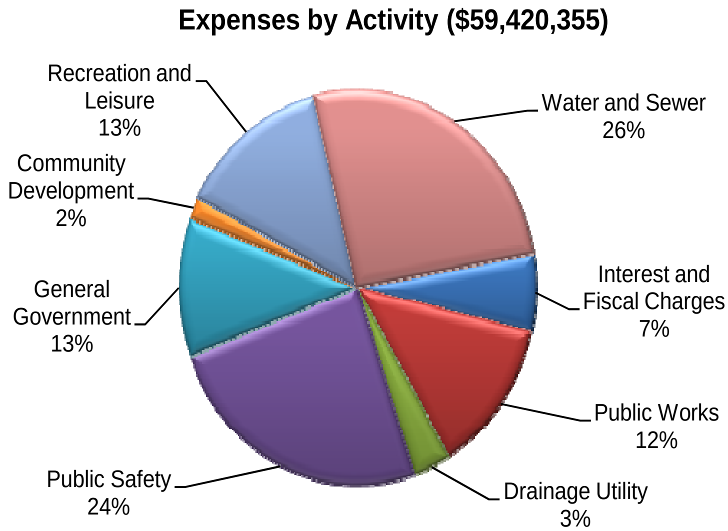
Total governmental expenses decreased by $4,057,124, (9.8%). The largest change in expenses was a decrease of $4,629,796, or (64%) in public works expenses. This decrease is primarily due to a decrease in depreciation expense (a non-cash expense). Recreation and leisure expenses decreased $2,680,672, or (6%), primarily because of the reclassification of the Recreation/Aquatic Center Fund from a governmental activity to a business-type activity, as discussed earlier. Public safety expenses increased $3,099,974, or 21.7%, due in part to additional expenses related to the addition of the Keller/Colleyville communications/jail merger, and an increase in depreciation expense (a non-cash expense). General government expenses increased $228,594, or (3%), due primarily to an increase in depreciation expense, (a non-cash expense). Community Development expenses increased $83,167, or 7.6%, primarily due to an increase in depreciation expense, a non-cash expense. Interest expense decreased $158,391, or 4.5%.

**Business-type Activities**

Net assets from business-type activities increased by $3,736,542, or (4.9%). Total expenses increased by $5,461,916, or (31.8%). Total revenues increased $10,029,799, (50.1%). Capital grants and contributions from developers increased $2,384,667 due to new residential development occurring within the City. Charges for services increased $7,137,991 due to an increase in demand for water usage by City of Keller customers, when compared to the previous year. In addition, as a result of the implementation GASB 54, related to fund balance classification, the Recreation/Aquatic Center Fund was changed from a governmental activity, to a business-type activity. Service charges for the Recreation/Aquatic Center Fund accounted for $3,002,013, or 42.1% of the total increase in charges for services.

The following table provides a summary of the City's operations for the year ended September 30, 2011.






## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $30,245,708, a decrease of $1,197,029, 3.8% in comparison with the prior year. Approximately 58.0%, or $17,554,282 of this total fund balance is restricted to indicate that it is not available for new spending because it has already been committed to: 1) general government, $241,967; 2) debt service, $564,353; 3) to pay for capital acquisition and construction, $12,410,163; 4) recreation and leisure, $680,266; and 5) for public safety, $3,657,533. Approximately 38.3% of the total amount, $11,596,853, constitutes unassigned fund balance, which is available for appropriation by the City Council. A portion of this unassigned fund balance, while not legally obligated, could be used for future one-time, non-recurring expenses, or capital projects.

In the General Fund, the City budgeted for a fund balance decrease in the current year of $1,372,737. One of the City's financial policies requires that the City maintain an undesignated fund balance equal to 16.7 percent, or 60 days of operating expenditures. Because overall actual revenues exceeded the final budget revenues, combined with actual expenditures less than final budget expenditures, the actual fund balance increased by $1,313,573 over the final budget estimate. Total expenditures were under the final budget by $2,105,735 due to overall efforts by all departments to keep actual expenditures below the final budgeted expenditures. Actual expenditures of all departments were below the final budget amounts. The most significant variance was $664,637 for Capital outlay and $636,011 for the Public safety activity. Capital outlay was below budgeted expenditures due to deferral of some projects to fiscal year 2011-2012. Public safety was below budgeted expenditures partly due to salary and benefit savings from staff turnover, combined with overall efforts to control line-item expenditures within the department. The most significant revenue variance is franchise taxes revenue, $171,103. The amount of excess fund balance exceeding the fiscal year 2011 budget will be addressed during fiscal year 2012 budget deliberations.

Debt Service fund balance decreased by $10,446 in 2011 primarily due to a planned (budgeted) decrease in the fund balance. There was no tax-supported debt issued in fiscal year 2010-11. The decrease in fund balance will be addressed in fiscal year 2012 budget deliberations.

The Capital Projects Fund balance decreased by $3,340,441, primarily due to capital improvements expenditures from proceeds of debt obligations issued in prior years. The remaining fund balance in 2011 will be used to fund the continued construction of capital projects.

**Enterprise Funds**

The City's Enterprise Fund statements provide the same type information found in the government-wide financial statements, but in more detail.

Total unrestricted net assets of Enterprise Funds were $9,177,880. Unrestricted net assets of the respective major funds are: Water and Wastewater, $7,370,963; and Drainage Utility, $1,343,133. The Water and Wastewater operations had an increase in net assets of $2,363,178, while the Drainage Utility had an increase in net assets of $1,224,160. The increase in net assets of the Drainage Utility resulted primarily from increases in intergovernmental capital contributions in addition to capital contributions from developers of $931,098, combined with a decrease in operating expenses. The increase in water and wastewater net assets is due primarily to an increase in service charges for water, ($3,741,630) and increases in capital contributions from developers, ($1,367,839), combined with a corresponding increase in wholesale water purchase expenses ($2,213,463), and an increase in contracted wastewater services ($391,663).

**General Fund Budgetary Highlights**

In fiscal year 2011, the City Council approved revisions to the original budget appropriations. Although not required by official City policy or Charter, the annual budget is traditionally amended by the City Council toward the end of the fiscal year, in conjunction with the review and adoption of the subsequent year's budget. During the current year review process, all revenue sources and line-item expenditures are reviewed and adjusted to account for increases and/or decreases occurring during the year. As a result, a revised (final) budget, which reflects the recommended changes made to the original adopted budget, is usually adopted each September. The revised budget amounts are used throughout this report as the amended adopted (final) budget.

Significant budget changes were:

- The original General Fund adopted budget included a net decrease of $1,082,170 in the unassigned fund balance, while the final budget reflected a decrease of $1,372,737 in the unassigned fund balance, a difference of $290,567.

- The original adopted budget included a total ending fund balance of $10,294,432, while the final adopted budget total ending fund balance was $10,003,865, a decrease of $290,567, or 2.8%.

- The final budgeted decrease in fund balance was primarily due to a $350,000 transfer to the debt service fund in order to cover a deficit in the fiscal year 2010-11 TIRZ assessments, primarily due to a reduction in the TIRZ property values.

- Total final budgeted revenues (including transfers in) increased $475,573 from the original budget. The primary increases occurred in franchise taxes, $421,883 and charges for services, $296,530, while there were decreases in permits, licenses and fees ($114,260), fines and forfeitures ($175,700), and investment earnings ($68,070).

- Total final budgeted expenditures (including transfers out) increased by $738,675 over the original budget.

- The most significant increase in budgeted expenditures from the original and final budget was the $350,000 transfer to the Debt Service Fund mentioned earlier, combined with an increase in the Public safety budget of $262,330.

Significant budget variances:

- Total actual revenues and transfers exceeded the final budgeted amounts by $826,505, or 2.96%.
- The most significant favorable variances were franchise taxes of $171,103, a 6.1% increase over the final budget amount; and permits, licenses and fees of $137,136, a 12.5% increase over the final budget amount. Franchise taxes increased primarily from an increase in solid waste franchise taxes combined with an increase in franchise taxes from electrical providers due to increased revenues related to an unusually hot summer. The increase in permits, licenses, and fees resulted primarily from an increase in development fees.
- There were no significant negative variances.
- Determined efforts by department managers to limit actual expenditures to a level below the final budgeted expenditures resulted in positive total actual expenditure variance from the final budget. All departments completed the year with lower actual expenditures compared to the final budget, with total expenditures (including transfers out) approximately 92.9 percent of the final budget amount.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to $230,376,419 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, improvements other than buildings, and construction in progress. The total increase in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was $6,675,328, or 2.9% (a 2.0% increase in capital assets for governmental activities and 1.0% decrease in capital assets for business-type activities, respectively).

Capital asset contributions, primarily from developers, for fiscal year 2011, were $3,902,205, an increase of $1,939,499, or 99% from the prior year.

Major capital asset events during the current fiscal year included the following (in thousands):

- FM 1709 water improvements, $1,456
- Marshall Ridge development (Phase III) water, wastewater, and drainage improvements, $837
- Ridge Parkway development water, wastewater, and drainage improvements, $480
- Highland Crossing drainage improvements, $560

Ongoing projects include (in thousands):

- Miscellaneous drainage improvements, $1,406
- North Tarrant Parkway improvements, $5,349
  (A joint project with Tarrant County and the City of North Richland Hills)
- Rufe Snow Drive street improvements, $4,979
  (A joint project with Tarrant County)
- Big Bear East Branch wastewater improvements, $619
- Katy Road drainage improvements, $311
- Shady Grove Road water improvements, $940
- Bourland Road water improvements, $537

The five-year capital improvements program (CIP) summary for fiscal years 2012-13 through 2015-16 was provided in the fiscal year 2011-12 budget document. The CIP identifies the estimated costs of proposed future capital projects, and the anticipated method of funding for each project.

**City of Keller's Capital Assets**
(net of depreciation)

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | $ 26,013,156 | $ 22,696,070 | $ 1,322,055 | $ 1,322,055 | $ 27,335,211 | $ 24,018,125 |
| Buildings | 52,019,384 | 39,197,288 | - | - | 52,019,384 | 39,197,288 |
| Equipment | 13,825,699 | 5,171,861 | 2,155,151 | 578,516 | 15,980,850 | 5,750,377 |
| Improvements | 163,251,341 | 74,244,441 | 110,174,226 | 69,936,516 | 273,425,567 | 144,180,957 |
| Capacity rights | - | - | 6,281,781 | 3,226,169 | 6,281,781 | 3,226,169 |
| Construction in progress | 12,897,047 | 7,230,714 | 4,606,900 | 3,097,461 | 17,503,947 | 10,328,175 |
| Total | $ 268,006,627 | $ 148,540,374 | $ 124,540,113 | $ 78,160,717 | $ 392,546,740 | $ 226,701,091 |

Additional information regarding the City's capital assets can be found in Note IV on pages 57 – 58 of this report.

**Long-term Debt**

At September 30, 2011, the City of Keller had total bonded debt outstanding of $97,928,547. Of this amount, $79,223,547 represents bonds secured by the full faith and credit of the City, and $18,705,000 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues. Total outstanding debt of governmental activities decreased $6,555,603 (7.6%), while total outstanding debt of business-type activities decreased $1,780,356 (8.6%).

**City of Keller's Outstanding Debt**

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| General obligations | $ 22,025,000 | $ 24,105,000 | $ 4,975,000 | $ 5,995,000 | $ 27,000,000 | $ 30,100,000 |
| Revenue bond payable | 275,000 | 405,000 | - | - | 275,000 | 405,000 |
| Certificates of obligation | 56,923,547 | 61,179,997 | 13,730,000 | 14,385,000 | 70,653,547 | 75,564,997 |
| Contractual obligations | - | - | 103,531 | 165,242 | 103,531 | 165,242 |
| Capital lease | 252,455 | 341,608 | 146,228 | 189,873 | 398,683 | 531,481 |
| Total | $ 79,476,002 | $ 86,031,605 | $ 18,954,759 | $ 20,735,115 | $ 98,430,761 | $ 106,766,720 |

As of September 30, 2011, of the $79,476,002 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 45.5%, or $43,317,455 is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1, $22,538,547; and
Keller Development Corporation, $13,620,000.

The City maintains favorable ratings from both Moody's and Standard and Poor's. Both rating categories classify the City's debt obligations as high-quality investment grade.

The City’s General Obligation, Combination Tax and Revenue Certificates of Obligation ratings are as follows:

| | Moody's Investors Service | Standard & Poor's |
|---|---|---|
| General obligation bonds (tax supported) | Aa2 | AA |
| Certificates of obligation (tax supported) | Aa2 | AA |

In September 2011, these ratings were confirmed by the respective rating agencies.

**Revenue Bonds**

At September 30, 2011, $275,000 revenue bond debt remains outstanding from Keller Development Corporation Sales Tax Revenue Refunding Bonds, Series 2005.

Additional information on the City of Keller’s long-term debt can be found in Note IV on pages 59 – 63 of this report.

## ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

In the fiscal year 2011-12 budget, general fund revenues (including transfers in) were budgeted to increase by $201,252 (0.7%) from the revised (final) 2010-11 budget, with general property taxes comprising about 46% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations (after adjustments) increased 1.76% over the prior year, compared to a decrease of 1.5% last year. A small increase of 1% was projected for sales tax receipts in fiscal year 2011-12 because sales tax receipts have been on an increasing trend over the last 12 months. Development-related budgeted revenues for fiscal year 2011-12 were increased by only $11,300 or, 5.6% over fiscal year 2010-11 as the rate of growth in development activity has maintained steady.

These conservative revenue projections, combined with an effort to maintain ending fund balances as required by the City's financial policies, resulted in a decrease in the projected ending fund balance at September 30, 2012. Budgeted expenditures, excluding one-time, non-recurring expenditures from fund balance, *decreased* $256,060 from the final 2010-11 budget or, 0.9%. However, expenditures for the 2011-12 adopted budget represent an increase of $472,000 or, 1.7% from the 2010-11 adopted budget. The adopted budget maintains the required ending fund balance at September 30, 2011 of 16.7% of operating expenditures (actual of 29.2%). The City's property tax rate for fiscal year 2011-12 remains unchanged at $0.44219 per $100 of property value. This was possible because the City’s conservative budget planning projects an ending fund balance exceeding the target fund balance. Including the one-time, non-recurring expenditures discussed below, the projected unassigned fund balance for the General Fund exceeds the targeted fund balance by approximately 19 days of operations (approximately $1.6 million).

Major items funded in the General Fund for fiscal year 2011-12 are:

- Fire department document imaging system, $14,950 (delayed in FY11); defibrillators and heart monitors ($105,000); replace Hurst “Jaws of Life” equipment, $15,000;
- Replace service vehicle for Public Works, $25,000;
- Parks equipment replacement, $16,920; pond aerator for Bear Creek Park, $6,050;
- Street reconstruction, $757,585; and
- Sand spreader and other maintenance equipment, $6,800.

In addition, the 2011-12 General Fund budget provided for one-time, non-recurring expenditures of $1,975,650 from available fund balance.

One-time, non recurring items funded in the General Fund for fiscal year 2011-12:

- Replace fire apparatus for the Keller Fire department, $1,250,000;
- Concrete repairs for Fire Station #3, $175,000;
- Concrete repairs for Keller Town Center, $30,000;
- Bear Creek Dan repairs/improvements, $75,000; and
- One-time stipend for employees (including fringe benefits), $445,650.

Significant items in other funds include:

Water and Wastewater Fund:

- Replace electronic meter reading equipment, $7,500;
- Implement a new online payment server, $6,500;
- Replacement of facilities maintenance equipment, $9,000;
- Water distribution and wastewater infrastructure improvements $554,450;
- Municipal Service Center facility improvements, $44,500; and
- Utility Service vehicle funded by Equipment Replacement fund, $24,000.

Keller Development Corporation ½-cent sales tax:

- Funding for land acquisition, $230,000; and
- Renovations/improvements to streets and parking areas in Bear Creek Park and Keller Sports Park, $117,950.

Recreation and Aquatic Center Fund (improvements at The Keller Pointe):

- Resurface indoor pool deck, $25,000;
- Replace carpet in Activity Room, $10,000;
- Replace heating, ventilation, and air conditioning units in the indoor pool area, $31,450;
- Furniture, fixtures and equipment replacement, $6,500; and
- Installation of a "sprayground," 300,000.

Keller Crime Control Prevention District ¼-cent sales tax:

- Planning and preliminary design services for facility improvements, $500,000;
- Furniture, fixtures, and equipment replacement, $54,700;
- Vehicle replacements, $161,500; and
- In addition, approximately $2.9 million is anticipated to be accumulated by the end of 2011-12 for Policy facility expansion and furniture, fixture, and equipment replacement for the Police facility.

The City is able to maintain its financial position because of having a stable tax and retail base, as well as a competitive tax rate. The City's property tax rate for fiscal year 2011-2012 ranks as the third lowest among 12 neighboring Tarrant County area cities.

## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Keller Finance Department, P. O. Box 770, Keller, Texas 76244-0770, call (817) 743-4025, or email at finance@CityofKeller.com.

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**BASIC
FINANCIAL STATEMENTS**

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# CITY OF KELLER, TEXAS

## STATEMENT OF NET ASSETS

## SEPTEMBER 30, 2011

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **ASSETS** | | | |
| Cash and equivalents | $ 744,184 | $ 234,036 | $ 978,220 |
| Investments | 29,020,398 | 10,459,457 | 39,479,855 |
| Receivables | 3,713,573 | 3,587,399 | 7,300,972 |
| Due from other governmental agencies | 949,724 | 44,963 | 994,687 |
| Inventories | 37,497 | 294,063 | 331,560 |
| Prepaid items | 401,503 | 196,338 | 597,841 |
| Deferred charges | 882,928 | 135,401 | 1,018,329 |
| Restricted assets: | | | |
| Investments | - | 9,418,266 | 9,418,266 |
| Capital assets: | | | |
| Land | 26,013,156 | 1,322,055 | 27,335,211 |
| Construction in progress | 12,897,047 | 4,606,900 | 17,503,947 |
| Buildings and improvements | 37,697,675 | - | 37,697,675 |
| Improvements | 70,053,031 | - | 70,053,031 |
| Water and sewer system | - | 69,382,268 | 69,382,268 |
| Machinery and equipment | 4,777,853 | 557,310 | 5,335,163 |
| Capacity rights | - | 3,069,124 | 3,069,124 |
| Total capital assets | 151,438,762 | 78,937,657 | 230,376,419 |
| Total assets | 187,188,569 | 103,307,580 | 290,496,149 |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenses | 3,381,444 | 2,977,394 | 6,358,838 |
| Unearned revenues | 45,564 | 811,028 | 856,592 |
| Accrued interest | 437,060 | 116,378 | 553,438 |
| Customer deposits | 91,431 | 762,469 | 853,900 |
| Noncurrent liabilities: | | | |
| Due within one year | 6,890,272 | 1,850,205 | 8,740,477 |
| Due in more than one year | 75,061,431 | 17,018,370 | 92,079,801 |
| Total liabilities | 85,907,202 | 23,535,844 | 109,443,046 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 75,942,510 | 61,139,904 | 137,082,414 |
| Restricted for: | | | |
| General government | 241,967 | - | 241,967 |
| Capital projects | 12,410,163 | 9,453,952 | 21,864,115 |
| Debt service | 564,353 | - | 564,353 |
| Recreation and leisure | 680,266 | - | 680,266 |
| Public safety | 3,657,533 | - | 3,657,533 |
| Unrestricted | 7,784,575 | 9,177,880 | 16,962,455 |
| Total net assets | $ 101,281,367 | $ 79,771,736 | $ 181,053,103 |

**The accompanying notes are an integral part of these financial statements.**

# CITY OF KELLER, TEXAS

## STATEMENT OF ACTIVITIES

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| Functions/Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions |
|---|---|---|---|---|
| **Primary government** | | | | |
| Governmental activities: | | | | |
| General government | $ 7,618,197 | $ 354,453 | $ 49,983 | $ - |
| Public safety | 17,358,623 | 1,919,797 | 5,195,220 | - |
| Public works | 2,560,006 | 35,207 | - | 630,960 |
| Community development | 1,183,353 | 1,168,615 | - | - |
| Recreation and leisure | 4,866,264 | 329,768 | 55,147 | - |
| Interest and fiscal charges | 3,632,289 | - | - | - |
| Total governmental activities | 37,218,732 | 3,807,840 | 5,300,350 | 630,960 |
| Business-type activities: | | | | |
| Water and wastewater utility | 17,807,093 | 21,461,471 | - | 2,222,014 |
| Drainage utility | 1,987,027 | 1,484,183 | - | 1,680,191 |
| Recreation / Aquatic Center | 2,854,913 | 3,002,013 | - | - |
| Total business-type activities | 22,649,033 | 25,947,667 | - | 3,902,205 |
| Total primary government | $ 59,867,765 | $ 29,755,507 | $ 5,300,350 | $ 4,533,165 |

**General revenues:**

Taxes:

Property taxes

Sales taxes

Franchise taxes

Alcoholic beverage taxes

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

**The accompanying notes are an integral part of these financial statements.**

| Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| $( 7,213,761) | $ - | $( 7,213,761) |
| ( 10,243,606) | - | ( 10,243,606) |
| ( 1,893,839) | - | ( 1,893,839) |
| ( 14,738) | - | ( 14,738) |
| ( 4,481,349) | - | ( 4,481,349) |
| ( 3,632,289) | - | ( 3,632,289) |
| ( 27,479,582) | - | ( 27,479,582) |
| - | 5,876,392 | 5,876,392 |
| - | 1,177,347 | 1,177,347 |
| - | 147,100 | 147,100 |
| - | 7,200,839 | 7,200,839 |
| ( 27,479,582) | 7,200,839 | ( 20,278,743) |
| 19,794,916 | - | 19,794,916 |
| 8,087,781 | - | 8,087,781 |
| 2,988,616 | - | 2,988,616 |
| 64,242 | - | 64,242 |
| 280,809 | 137,567 | 418,376 |
| 295,808 | 59,619 | 355,427 |
| 3,652,445 | ( 3,661,483) | ( 9,038) |
| 35,164,617 | ( 3,464,297) | 31,700,320 |
| 7,685,035 | 3,736,542 | 11,421,577 |
| 93,596,332 | 76,035,194 | 169,631,526 |
| $ 101,281,367 | $ 79,771,736 | $ 181,053,103 |

# CITY OF KELLER, TEXAS

## BALANCE SHEET

## GOVERNMENTAL FUNDS

## SEPTEMBER 30, 2011

| | General Fund | G.O. Debt Service | Capital Projects |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 183,827 | $ 66,811 | $ 42,498 |
| Investments | 12,164,327 | 381,412 | 7,337,212 |
| Receivables, net of allowances for uncollectibles | | | |
| Taxes | 1,858,610 | 130,900 | - |
| Accounts | 587,452 | - | - |
| Interest | 45,972 | 1,063 | 19,381 |
| Other | 18,995 | 9,295 | - |
| Due from other governments | 52,066 | - | 892,454 |
| Inventory | 37,497 | - | - |
| Prepaid items | 400,252 | - | - |
| Total assets | $ 15,348,998 | $ 589,481 | $ 8,291,545 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities: | | | |
| Accounts payable | $ 1,001,447 | $ 26 | $ 1,464,607 |
| Accrued liabilities | 789,951 | - | - |
| Deferred revenue | 775,994 | 101,919 | - |
| Customer deposits | 91,431 | - | - |
| Total liabilities | 2,658,823 | 101,945 | 1,464,607 |
| Fund balances: | | | |
| Non-spendable: | | | |
| Inventory | 37,497 | - | - |
| Prepaids | 400,252 | - | - |
| Restricted for: | | | |
| General government | - | - | - |
| Debt service | - | 487,536 | - |
| Capital acquisition and construction | - | - | 6,826,938 |
| Recreation and leisure | - | - | - |
| Public safety | - | - | - |
| Assigned for: | | | |
| Recreation | 83,315 | - | - |
| Joint Teen Court | 2,903 | - | - |
| Information services | 539,525 | - | - |
| Community Clean-Up | 29,830 | - | - |
| Unassigned | 11,596,853 | - | - |
| Total fund balances | 12,690,175 | 487,536 | 6,826,938 |
| Total liabilities and fund balances | $ 15,348,998 | $ 589,481 | $ 8,291,545 |

**The accompanying notes are an integral part of these financial statements.**

| | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| | $ 451,048 | $ 744,184 |
| | 9,137,447 | 29,020,398 |
| | | |
| | 825,915 | 2,815,425 |
| | - | 587,452 |
| | 21,726 | 88,142 |
| | 194,264 | 222,554 |
| | 5,204 | 949,724 |
| | - | 37,497 |
| | 1,251 | 401,503 |
| | | |
| | $ 10,636,855 | $ 34,866,879 |
| | | |
| | $ 112,350 | $ 2,578,430 |
| | 13,063 | 803,014 |
| | 270,383 | 1,148,296 |
| | - | 91,431 |
| | 395,796 | 4,621,171 |
| | | |
| | - | 37,497 |
| | 1,251 | 401,503 |
| | | |
| | 241,967 | 241,967 |
| | 76,817 | 564,353 |
| | 5,583,225 | 12,410,163 |
| | 680,266 | 680,266 |
| | 3,657,533 | 3,657,533 |
| | | |
| | - | 83,315 |
| | - | 2,903 |
| | - | 539,525 |
| | - | 29,830 |
| | - | 11,596,853 |
| | 10,241,059 | 30,245,708 |
| | | |
| | $ 10,636,855 | $ 34,866,879 |

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# CITY OF KELLER, TEXAS

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

## SEPTEMBER 30, 2011

| | |
|---|---|
| Total fund balance, governmental funds | $ 30,245,708 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. | 151,438,762 |
| Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. | 1,102,732 |
| Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. | ( 81,505,835) |
| Net assets of governmental activities in the Statement of Net Assets | $ 101,281,367 |

**The accompanying notes are an integral part of these financial statements.**

# CITY OF KELLER, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

## GOVERNMENTAL FUNDS

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | General Fund | G.O. Debt Service | Capital Projects |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes: | | | |
| Property | $ 12,339,661 | $ 5,140,668 | $ - |
| Sales | 4,069,146 | - | - |
| Franchise | 2,988,616 | - | - |
| Mixed beverage | 64,242 | - | - |
| Permits, licenses and fees | 1,234,576 | - | - |
| Intergovernmental | 2,276,509 | - | 2,709,962 |
| Charges for services | 1,462,751 | - | - |
| Fines and forfeitures | 796,966 | - | - |
| Special assessments and impact fees | - | - | - |
| Donations | 31,022 | - | - |
| Investment earnings | 129,268 | 11,105 | 67,081 |
| Miscellaneous | 328,516 | 9,566 | - |
| Total revenues | 25,721,273 | 5,161,339 | 2,777,043 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 5,898,576 | - | - |
| Public safety | 13,920,499 | - | - |
| Public works | 2,003,200 | - | - |
| Community development | 966,920 | - | - |
| Recreation and leisure | 3,822,122 | - | - |
| Capital outlay | 613,508 | - | 6,207,484 |
| Debt service: | | | |
| Principal | - | 3,399,153 | - |
| Interest and other charges | - | 1,822,007 | - |
| Total expenditures | 27,224,825 | 5,221,160 | 6,207,484 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | ( 1,503,552) | ( 59,821) | ( 3,430,441) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Sale of capital assets | 22,890 | - | - |
| Transfers in | 3,145,165 | 959,155 | - |
| Transfers out | ( 350,930) | ( 909,780) | - |
| Total other financing sources and uses | 2,817,125 | 49,375 | - |
| **NET CHANGE IN FUND BALANCES** | 1,313,573 | ( 10,446) | ( 3,430,441) |
| **FUND BALANCES, BEGINNING** | 11,376,602 | 497,982 | 10,257,379 |
| **FUND BALANCES, ENDING** | $ 12,690,175 | $ 487,536 | $ 6,826,938 |

**The accompanying notes are an integral part of these financial statements.**

| Other Governmental Funds | Total Governmental Funds |
|---|---|
| | |
| $ 2,296,499 | $ 19,776,828 |
| 4,018,635 | 8,087,781 |
| - | 2,988,616 |
| - | 64,242 |
| 37,000 | 1,271,576 |
| 535,433 | 5,521,904 |
| 10,603 | 1,473,354 |
| 86,850 | 883,816 |
| 406,801 | 406,801 |
| 34,964 | 65,986 |
| 73,025 | 280,479 |
| 12,481 | 350,563 |
| 7,512,291 | 41,171,946 |
| | |
| 130,821 | 6,029,397 |
| 263,260 | 14,183,759 |
| 88,585 | 2,091,785 |
| - | 966,920 |
| 154,110 | 3,976,232 |
| 1,963,507 | 8,784,499 |
| | |
| 3,156,450 | 6,555,603 |
| 1,664,888 | 3,486,895 |
| 7,421,621 | 46,075,090 |
| | |
| 90,670 | ( 4,903,144) |
| | |
| 30,780 | 53,670 |
| 990,650 | 5,094,970 |
| ( 181,815) | ( 1,442,525) |
| 839,615 | 3,706,115 |
| 930,285 | ( 1,197,029) |
| 9,310,774 | 31,442,737 |
| $ 10,241,059 | $ 30,245,708 |

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# CITY OF KELLER, TEXAS

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | |
|---|---|
| Net change in fund balances - total governmental funds: | $( 1,197,029) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 2,898,388 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 79,376 |
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 6,555,603 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. | ( 651,303) |
| Change in net assets of governmental activities | $ 7,685,035 |

**The accompanying notes are an integral part of these financial statements.**

# CITY OF KELLER, TEXAS

## STATEMENT OF NET ASSETS
## PROPRIETARY FUNDS
## SEPTEMBER 30, 2011

| | Water and Wastewater Utilities | Drainage Utility | Recreation/ Aquatic Center | Total Enterprise Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 140,997 | $ 39,009 | $ 54,030 | $ 234,036 |
| Investments | 7,789,049 | 1,416,765 | 1,253,643 | 10,459,457 |
| Receivables, net of allowances for uncollectible | | | | |
| Accounts | 3,433,662 | 75,852 | 12,952 | 3,522,466 |
| Interest | 52,758 | 4,914 | 4,692 | 62,364 |
| Other | 2,569 | - | - | 2,569 |
| Deferred charges | 135,401 | - | - | 135,401 |
| Due from other governments | 44,963 | - | - | 44,963 |
| Inventory | 294,063 | - | - | 294,063 |
| Prepaid items | 195,489 | 546 | 303 | 196,338 |
| Restricted assets: | | | | |
| Investments | 9,418,266 | - | - | 9,418,266 |
| Total current assets | 21,507,217 | 1,537,086 | 1,325,620 | 24,369,923 |
| Non-current assets: | | | | |
| Capital assets: | | | | |
| Land | 1,295,055 | 27,000 | - | 1,322,055 |
| Water and sewer system | 84,659,448 | 25,514,778 | - | 110,174,226 |
| Machinery and equipment | 1,773,331 | 381,820 | - | 2,155,151 |
| Capacity rights | 6,281,781 | - | - | 6,281,781 |
| Construction in progress | 4,241,302 | 365,598 | - | 4,606,900 |
| Less accumulated depreciation | ( 33,132,593) | ( 12,469,863) | - | ( 45,602,456) |
| Total non-current assets | 65,118,324 | 13,819,333 | - | 78,937,657 |
| Total assets | 86,625,541 | 15,356,419 | 1,325,620 | 103,307,580 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Accounts payable | 2,686,180 | 5,008 | 85,429 | 2,776,617 |
| Accrued liabilities | 131,547 | 20,096 | 49,134 | 200,777 |
| Accrued interest payable | 116,378 | - | - | 116,378 |
| Deferred revenue | 89,043 | - | 721,985 | 811,028 |
| Customer deposits | 757,181 | - | 5,288 | 762,469 |
| Compensated absences | 35,602 | 3,770 | - | 39,372 |
| Certificates of obligation | 650,000 | - | - | 650,000 |
| General obligation bonds | 1,011,157 | - | - | 1,011,157 |
| Contractual obligations | 103,531 | - | - | 103,531 |
| Capital leases | - | 46,145 | - | 46,145 |
| Total current liabilities | 5,580,619 | 75,019 | 861,836 | 6,517,474 |
| Non-current liabilities | | | | |
| Compensated absences | 117,147 | 18,852 | - | 135,999 |
| Certificates of obligation | 13,080,000 | - | - | 13,080,000 |
| General obligation bonds | 3,702,289 | - | - | 3,702,289 |
| Capital leases | - | 100,082 | - | 100,082 |
| Total non-current liabilities | 16,899,436 | 118,934 | - | 17,018,370 |
| Total liabilities | 22,480,055 | 193,953 | 861,836 | 23,535,844 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 47,320,571 | 13,819,333 | - | 61,139,904 |
| Restricted for capital projects | 9,453,952 | - | - | 9,453,952 |
| Unrestricted | 7,370,963 | 1,343,133 | 463,784 | 9,177,880 |
| Total net assets | $ 64,145,486 | $ 15,162,466 | $ 463,784 | $ 79,771,736 |

**The accompanying notes are an integral part of these financial statements.**

# CITY OF KELLER, TEXAS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

## PROPRIETARY FUNDS

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Water and Wastewater Utilities | Drainage Utility | Recreation/ Aquatic Center | Total Enterprise Funds |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Water revenue | $ 15,878,101 | $ - | $ - | $ 15,878,101 |
| Sewer revenue | 5,184,258 | - | - | 5,184,258 |
| Drainage revenue | - | 1,484,183 | - | 1,484,183 |
| Recreation / Aquatic Center revenue | - | - | 3,002,013 | 3,002,013 |
| Tap and connection fees | 77,178 | - | - | 77,178 |
| Intergovernmental | 321,934 | - | - | 321,934 |
| Miscellaneous revenues | 45,709 | 999 | 12,911 | 59,619 |
| Total operating revenues | 21,507,180 | 1,485,182 | 3,014,924 | 26,007,286 |
| **OPERATING EXPENSES** | | | | |
| Personnel services | 2,769,357 | 522,103 | 1,342,521 | 4,633,981 |
| Supplies and maintenance | 618,029 | 63,711 | 431,315 | 1,113,055 |
| Services and other | 885,218 | 78,098 | 1,081,077 | 2,044,393 |
| Wholesale water purchases | 7,377,420 | - | - | 7,377,420 |
| Wastewater services contracted | 2,025,236 | - | - | 2,025,236 |
| Depreciation and amortization | 2,861,947 | 1,185,778 | - | 4,047,725 |
| Total operating expenses | 16,537,207 | 1,849,690 | 2,854,913 | 21,241,810 |
| **OPERATING INCOME (LOSS)** | 4,969,973 | ( 364,508) | 160,011 | 4,765,476 |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | |
| Interest and investment revenues | 116,870 | 11,189 | 9,508 | 137,567 |
| Gain (loss) on disposal of assets | ( 320,655) | ( 126,755) | - | ( 447,410) |
| Interest expense | ( 949,231) | ( 10,582) | - | ( 959,813) |
| Total non-operating revenues (expenses) | ( 1,153,016) | ( 126,148) | 9,508 | ( 1,269,656) |
| **INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS** | 3,816,957 | ( 490,656) | 169,519 | 3,495,820 |
| Capital contributions | 2,222,014 | 1,680,191 | - | 3,902,205 |
| Transfers in | 40,000 | 188,080 | - | 228,080 |
| Transfers out | ( 3,715,793) | ( 153,455) | ( 20,315) | ( 3,889,563) |
| **CHANGE IN NET ASSETS** | 2,363,178 | 1,224,160 | 149,204 | 3,736,542 |
| **TOTAL NET ASSETS, BEGINNING** | 61,782,308 | 13,938,306 | 314,580 | 76,035,194 |
| **TOTAL NET ASSETS, ENDING** | $ 64,145,486 | $ 15,162,466 | $ 463,784 | $ 79,771,736 |

**The accompanying notes are an integral part of these financial statements.**

# CITY OF KELLER, TEXAS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Water and Wastewater Utilities | Drainage Utility | Recreation / Aquatic Center | Total Enterprise Funds |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash received from customers | $ 20,702,057 | $ 1,555,439 | $ 3,017,611 | $ 25,275,107 |
| Cash payments for goods and services | (10,698,385) | ( 126,636) | ( 1,347,410) | ( 12,172,431) |
| Cash payments to employees/retirees | ( 2,730,304) | ( 520,282) | ( 1,340,467) | ( 4,591,053) |
| Net cash provided by operating activities | 7,273,368 | 908,521 | 329,734 | 8,511,623 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Cash paid to other funds | 335,047 | - | - | 335,047 |
| Transfers from other funds | 40,000 | 188,080 | - | 228,080 |
| Transfers to other funds | ( 3,715,793) | ( 153,455) | ( 20,315) | ( 3,889,563) |
| Net cash provided (used) by noncapital financing activities | ( 3,340,746) | 34,625 | ( 20,315) | ( 3,326,436) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Principal paid on debt | ( 2,663,472) | ( 43,646) | - | ( 2,707,118) |
| Interest and fiscal charges on debt | 2,018 | ( 10,582) | - | ( 8,564) |
| Acquisition and construction of capital assets | ( 802,147) | ( 74,604) | - | ( 876,751) |
| Disposal of capital assets | ( 320,655) | ( 126,755) | - | ( 447,410) |
| Net cash used by capital and related financing activities | ( 3,784,256) | ( 255,587) | - | ( 4,039,843) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of investment securities | - | ( 661,652) | ( 264,735) | ( 926,387) |
| Proceeds from sale and maturities of securities | ( 187,363) | - | - | ( 187,363) |
| Interest on investments | 179,994 | 13,102 | 9,346 | 202,442 |
| Net cash used by investing activities | ( 7,369) | ( 648,550) | ( 255,389) | ( 911,308) |
| **NET INCREASE IN CASH** | 140,997 | 39,009 | 54,030 | 234,036 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | - | - | - | - |
| **CASH AND CASH EQUIVALENTS, ENDING** | $ 140,997 | $ 39,009 | $ 54,030 | $ 234,036 |

**(continued)**

# CITY OF KELLER, TEXAS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS
## (Continued)
## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Water and Wastewater Utilities | Drainage Utility | Recreation / Aquatic Center | Total Enterprise Funds |
|---|---|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | |
| Operating income (loss) | $ 4,969,973 | $( 364,508) | $ 160,011 | $ 4,765,476 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 2,861,947 | 1,185,778 | - | 4,047,725 |
| Change in assets and liabilities: | | | | |
| Decrease (increase) in assets: | | | | |
| Customer receivables | ( 774,853) | 70,257 | 2,687 | ( 701,909) |
| Due from other funds | - | 33,338 | 80,032 | 113,370 |
| Due from other governments | ( 44,963) | - | - | ( 44,963) |
| Prepaid items | ( 10,409) | 2,304 | 37,113 | 29,008 |
| Inventory | 1,336 | - | - | 1,336 |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | 216,591 | ( 20,469) | 15,531 | 211,653 |
| Accrued liabilities | ( 22,136) | ( 987) | 2,054 | ( 21,069) |
| Unearned revenue | 15,303 | - | 29,992 | 45,295 |
| Customer deposits | 14,693 | - | 2,314 | 17,007 |
| Compensated absences | 45,886 | 2,808 | - | 48,694 |
| Total adjustments | 2,303,395 | 1,273,029 | 169,723 | 3,746,147 |
| Net cash provided by operating activities | $ 7,273,368 | $ 908,521 | $ 329,734 | $ 8,511,623 |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | | | |
| Contributions of capital assets | $ 2,222,014 | $ 1,680,191 | $ - | $ 3,902,205 |

**The accompanying notes are an integral part of these financial statements.**

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The City of Keller, Texas, was incorporated in 1955. The City operates under the Council-Manager form of government as adopted by a home rule charter approved in 1982. The City provides a full range of municipal services including general government, planning and community development, public safety (police, fire, animal control, and emergency medical services), public works, recreation and leisure. In addition, the City provides water and sewer service, and storm water drainage as proprietary functions of the City.

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

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

**Blended Component Units**

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

Since the KDC 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 KDC Board, the financial information of KDC is blended as a governmental fund into the primary government.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### A. Reporting Entity (Continued)

**Blended Component Units** (Continued)

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

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

***Keller Crime Control Prevention District (KCCPD)*** **–** In accordance with Section 363 of the Texas Local Government Code, the City Council appointed a temporary KCCPD Board, who then developed and proposed a two-year financial plan to the residents of the City for a public vote. In November 2001, the residents of the City, by referendum, approved an additional three-eighths of one percent (0.375%) sales and use tax to be used for public safety crime control and prevention programs, including public safety equipment, and improvements to public safety facilities. Following voter approval of KCCPD, a Board of Directors was officially appointed by the City Council, and the two-year budget was then adopted by the Board and City Council. By statute, the life of KCCPD cannot exceed five years without re-authorization by another referendum. The additional sales tax became effective in April 2002. The tax was authorized for an initial period of five years. In May 2006, voters re-authorized the tax for an additional period of 15 years. In November 2007, voters authorized a reduction in the rate from three-eighths of one percent (0.375%) to one-quarter of one percent (0.25%).

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

Separate financial statements for the component units are not prepared.

### B. Government-wide and Fund Financial Statements

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

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Government-wide and Fund Financial Statements (Continued)

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The ***Capital Projects Fund*** is used to account for acquisition or construction of capital assets.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major proprietary funds:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Equity

#### *1. Deposits and Investments*

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

The City's investment policy is more restrictive than required by state statutes. The investment policy authorizes the City to invest in (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-backed securities; (4) collateralized certificates of deposit issued by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor, (B) secured by obligations that are described by Section 2256.009(a) of the Texas Public Funds Investment Act, including mortgage-backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage-backed securities of the nature described in Section 2256.009(b) of the Act, (C) secured in any other manner and amount provided by law for deposits of the City; or, (5) eligible local government investment pools which invest in instruments and follow practices allowed by current law as defined in Section 2256.016 of the Texas Public Funds Investment Act; (6) regulated no-load money market mutual funds that are (A) registered with and regulated by the Securities and Exchange Commission; (B) having a dollar-weighted average portfolio of ninety (90) days or less; (C) the investment objectives include the maintenance of a stable net asset value of one dollar ($1.00) per share; and (D) the fund is continuously rated no lower than "AAA" or its equivalent rating by at least one nationally recognized rating service; and (7) repurchase agreements and fully flexible repurchase agreements ("flex repos"), to the extent authorized under the Act (Texas Government Code 2256.001). The use of flex repos is limited to the investment of bond proceeds and the maturity date of any such agreement shall not exceed the expected proceeds draw schedule.

#### *2. Receivables and Payables*

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

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

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

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. <u>Assets, Liabilities and Net Assets or Equity</u>** (Continued)

***3. Inventories and Prepaid Items***

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

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

***4. Restricted Assets***

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

***5. Capital Assets***

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure assets (e.g., streets, sidewalks, bridges, underground structures and piping, roads, bridges, sidewalks, and similar items), and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Generally, capital assets are defined by the City as assets with an estimated useful life in excess of one year and an initial, individual cost of $10,000 – $20,000 for subclasses of real property and $5,000 – $10,000 for subclasses of personal property. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

| Assets | Years |
|---|---|
| Buildings and building improvements | 20 - 40 |
| Improvements other than buildings | 20 - 40 |
| Water and sewer system infrastructure | 20 - 40 |
| Storm drainage system infrastructure | 20 - 40 |
| Capacity rights | 40 |
| Heavy equipment | 10 - 15 |
| Fire trucks and ambulances | 15 - 20 |
| Furniture and fixtures | 5 - 10 |
| Machinery and equipment | 5 - 10 |
| Police pursuit vehicles | 3 |
| Other vehicles | 3 - 6 |

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. <u>Assets, Liabilities and Net Assets or Equity</u> (Continued)

#### *6. Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits up to specified limits. Vacation benefits are accrued at 6.67, 10.00, or 13.34 hours per month for employees with less than 5, 10, or more than 10 years of service, respectively. Regular full-time employees having 5 years of service or less may accrue up to 160 hours; 6 - 10 years of service, 240 hours; 11 - 20 years of service; 320 hours; and over 20 years of service, 400 hours respectively. Directors shall accrue at the same rate as all regular fulltime employees but may accrue up to a maximum of 400 hours. Sick leave is accrued at 8.0 hours per month without limitation. Upon termination or retirement, any accumulated sick leave expires. Unused compensatory time for nonexempt employees is paid on termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are matured, for example, unused reimbursable leave payable as a result of employee resignations and retirements.

#### *7. Long-term Obligations*

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

#### *8. Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: Includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid expenses.

Spendable Fund Balance:

- Restricted: Includes amounts that are not constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed: Includes amounts that are constrained for specific purposes that are *internally imposed* by the City through formal action of the City Council. Commitments may be changed only by formal action of the City Council. This includes balances formally approved by the City Council during the budget adoption and amendment process.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Equity (Continued)

#### *8. Fund Balance Classification* (Continued)

- Assigned: Includes amounts that are intended for specific purposes that are considered neither restricted nor committed. Intent can be expressed by the City Council, or by an official to which the City Council delegates the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- Unassigned: The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**Explanation of Certain Differences Between the Government Fund Balance Sheet and the Government-wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bond payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.” The details of this $(81,505,835) difference are as follows:

| | |
|---|---|
| General obligation bonds | $( 22,025,000) |
| Certificates of obligation | ( 56,923,547) |
| Revenue bonds | ( 275,000) |
| Premiums on bonds | ( 1,018,688) |
| Deferred loss on refunding | 1,275,360 |
| Accrued interest payable | ( 437,060) |
| Capitalized lease obligations | ( 252,455) |
| Compensated absences | ( 1,456,360) |
| Deferred charge for bond issuance costs | 882,928 |
| OPEB liability | ( 129,211) |
| TMRS net pension obligation | ( 1,146,802) |
| Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities* | $( 81,505,835) |

## II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

**Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $2,898,388 difference are as follows:

| | |
|---|---|
| Capital outlay | $ 11,638,498 |
| Depreciation expense | ( 8,740,110) |
| Net adjustment to increase *net change in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities* | $ 2,898,388 |

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this $79,376 difference are as follows:

| | |
|---|---|
| Property taxes | $ 18,088 |
| Ambulance fees | 122,350 |
| Assessments | ( 41,305) |
| Court fines | 20,855 |
| Other | ( 40,612) |
| Net adjustment to decrease *net change in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities* | $ 79,376 |

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $(651,303) difference are as follows:

| | |
|---|---|
| Compensated absences | $( 104,238) |
| Interest payable | 72,024 |
| Amortization of deferred charge on refunding | ( 144,129) |
| Amortization of issuance costs | ( 196,434) |
| Amortization of bond discounts/premiums | 123,145 |
| Other post employment benefits | ( 39,359) |
| TMRS net pension obligation | ( 362,312) |
| Net adjustment to decrease *net change in fund balances - total governmental funds* to arrive at *change in net assets of governmental activities* | $( 651,303) |

## III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Information

The City Charter of the City of Keller establishes the fiscal year as October 1 through September 30. The Charter requires the City Manager to submit a proposed budget and accompanying budget message to the City Council each year. The proposed budget is presented to the City Council by the City Manager and Department Directors at a series of budget work sessions. Copies of the proposed budget are made available to the public and the press and the public hearing schedule is confirmed. Before the public hearings are held, notices of the public hearings on the proposed budget are posted and published in the newspaper. Following a public hearing at a regular City Council meeting, the Council may adopt the proposed budget, with or without an amendment. The budget ordinance is to be adopted no later than the 27$^{th}$ day of September and requires an affirmation vote of a majority of the Council. The City maintains budgetary control by adopting an annual operating budget for the General Fund, Debt Service Funds, Special Revenue Funds (excepting the Public Safety Fund and Contributions/Donations Fund), and certain Capital Projects Funds (Park Development, Street/Sidewalk Improvements, and Equipment Replacement Funds). Revisions that increase the total expenditures of any fund must be approved by Council.

### B. Expenditures in Excess of Appropriations

The following governmental funds had expenditures in excess of appropriations:

| | |
|---|---|
| Debt service funds: | |
| G. O. debt service | $ 30 |

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

As of September 30, 2011, the City had the following investments:

| Investment Type | Fair Value | Weighted Average Maturity (Days) | Ratings (Standard & Poor's) |
|---|---|---|---|
| Certificates of Deposit | $ 27,303,488 | 139 | |
| TexPool | 5,623,385 | 48 | AAAm |
| LOGIC | 1,144,794 | 46 | AAAm |
| Money Market Mutual Funds | 14,826,445 | 1 | AAAm |

Investments in the local government investment pools, TexPool and LOGIC, and the money market mutual funds are stated at fair value which is the same as the value of the pool and fund shares.

**A. Deposits and Investments** (Continued)

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-backed securities; (4) collateralized certificates of deposit issued by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor, (B) secured by obligations that are described by Section 2256.009(a) of the Texas Public Funds Investment Act, including mortgage-backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage-backed securities of the nature described in Section 2256.009(b) of the Act, (C) secured in any other manner and amount provided by law for deposits of the City; or, (5) eligible local government investment pools which invest in instruments and follow practices allowed by current law as defined in Section 2256.016 of the Texas Public Funds Investment Act; (6) regulated no-load money market mutual funds that are (A) registered with and regulated by the Securities and Exchange Commission; (B) having a dollar-weighted average portfolio of ninety (90) days or less; (C) the investment objectives include the maintenance of a stable net asset value of one dollar ($1.00) per share; and (D) the fund is continuously rated no lower than "AAA" or its equivalent rating by at least one nationally recognized rating service; and (7) repurchase agreements and fully flexible repurchase agreements (“flex repos”), to the extent authorized under the Act (Texas Government Code 2256.001). The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City is a member of two local government investment pools – TexPool and LOGIC. TexPool is an external investment pool operated by the Texas Comptroller of Public Accounts and is not SEC registered. The Texas Interlocal Cooperation Act and the Texas Public Funds Investments Act provide for creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory board members review the investment policy and management fee structure. TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

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 operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, to the extent such rule is applicable to its operations. Accordingly, LOGIC uses the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. The investment activities of LOGIC are administered by third party advisors. There is no regulatory oversight by the State of Texas over LOGIC.

***Custodial Credit Risk –*** In the case of deposits, this is the risk, that in the event of a bank failure, the City’s deposits may not be returned to it. State and City statutes require that all deposits in financial institutions be fully collateralized by U. S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2011, $26,659,705 of the City’s $28,159,705 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, $1,500,000, was covered by FDIC insurance.

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### A. Deposits and Investments (Continued)

Under a contractual agreement with Trinity River Authority, depository accounts are maintained by TRA for interest sinking, debt and construction reserves totaling $69,712 which are separately insured or secured by collateral pledged by TRA's depository. The City's liability for its share of TRA contract revenue bonds is reduced by this amount.

***Credit Risk –*** It is the City's policy to limit its investments to investment types with an investment quality rating not less than AAA or its equivalent by a nationally recognized statistical rating organization. The City's investment pools are rated AAAm by Standard & Poor's Investors Service.

***Concentration of Credit Risk –*** With the exception of U. S. Government Securities (100%), as authorized, and authorized local government investment pools (up to 60%), no more than 50% of the total investment portfolio may be invested in any one security type or with a single financial institution. Investments in money market mutual funds are limited to 10% of the City's total portfolio. Direct investment in commercial paper is limited to 10% of the City's total portfolio.

***Interest Rate Risk –*** In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its portfolio to less than three years.

### B. Receivables

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

| | Governmental | | | | Proprietary | | | |
|---|---|---|---|---|---|---|---|---|
| | General | G. O. Debt Service | Capital Projects | Other Governmental | Water and Wastewater Operations | Drainage Utility | Recreational Aquatic Center | Total |
| Receivables: | | | | | | | | |
| Property taxes | $ 334,723 | $ 144,134 | $ - | $ 75,384 | $ - | $ - | $ - | $ 554,241 |
| Sales taxes | 776,664 | - | - | 750,531 | - | - | - | 1,527,195 |
| Franchise taxes | 776,407 | - | - | - | - | - | - | 776,407 |
| Alcoholic beverage taxes | - | - | - | - | - | - | - | - |
| Ambulance | 1,335,905 | - | - | - | - | - | - | 1,335,905 |
| Municipal court fine | 391,707 | - | - | - | - | - | - | 391,707 |
| Customer accounts | 68,983 | - | - | - | 3,521,263 | 99,152 | 12,952 | 3,689,398 |
| Intergovernmental | 52,066 | - | 892,454 | 5,204 | 44,963 | - | - | 994,687 |
| Interest | 45,972 | 1,063 | 19,381 | 21,726 | 52,758 | 4,914 | 4,692 | 145,814 |
| Other | 18,995 | 9,295 | - | 194,264 | 2,569 | - | - | 225,123 |
| Gross receivables | 3,801,422 | 154,492 | 911,835 | 1,047,109 | 3,621,553 | 104,066 | 17,644 | 9,640,477 |
| Less: allowance for uncollectibles | 1,238,327 | 13,234 | - | - | 87,601 | 23,300 | - | 1,362,462 |
| Net total receivables | $ 2,563,095 | $ 141,258 | $ 911,835 | $ 1,047,109 | $ 3,533,952 | $ 80,766 | $ 17,644 | $ 8,278,015 |

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

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### B. Receivables (Continued)

| | Unavailable | Unearned |
|---|---|---|
| General fund: | | |
| Delinquent property taxes receivable | $ 243,523 | $ - |
| Ambulance revenue receivable | 447,908 | - |
| Municipal court fines receivable | 70,562 | - |
| Other | 14,001 | - |
| Total general fund | 775,994 | - |
| General obligation debt service fund: | | |
| Delinquent property taxes receivable | 101,919 | - |
| Total general obligation debt service fund | 101,919 | - |
| Other governmental funds: | | |
| Delinquent TIF taxes | 75,384 | - |
| Assessments receivable | 155,622 | - |
| Due from other governments | - | 39,377 |
| Total other governmental funds | 231,006 | 39,377 |
| Total governmental funds | $ 1,108,919 | $ 39,377 |

### C. Capital Assets

Capital assets activity for the year ended September 30, 2011, are as follows:

**Primary Government**

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 22,696,070 | $ 3,287,245 | $ - | $ 29,841 | $ 26,013,156 |
| Construction in progress | 7,230,714 | 6,208,935 | - | ( 542,602) | 12,897,047 |
| Total assets not being depreciated | 29,926,784 | 9,496,180 | - | ( 512,761) | 38,910,203 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 51,789,055 | 230,329 | - | - | 52,019,384 |
| Improvements | 161,401,375 | 1,618,613 | - | 231,353 | 163,251,341 |
| Machinery and equipment | 13,562,720 | 586,238 | ( 380,767) | 57,508 | 13,825,699 |
| Total capital assets being depreciated | 226,753,150 | 2,435,180 | ( 380,767) | 288,861 | 229,096,424 |
| Less accumulated depreciation: | | | | | |
| Buildings | ( 12,591,767) | ( 1,729,942) | - | - | ( 14,321,709) |
| Improvements | ( 87,156,934) | ( 6,041,376) | - | - | ( 93,198,310) |
| Machinery and equipment | ( 8,390,859) | ( 968,792) | 311,805 | - | ( 9,047,846) |
| Total accumulated depreciation | ( 108,139,560) | ( 8,740,110) | 311,805 | - | ( 116,567,865) |
| Total capital assets being depreciated, net | 118,613,590 | ( 6,304,930) | ( 68,962) | 288,861 | 112,528,559 |
| Governmental activities capital assets, net | $ 148,540,374 | $ 3,191,250 | $( 68,962) | $( 223,900) | $ 151,438,762 |

## C. Capital Assets (Continued)

| | Beginning Balance | Additions | Deletions | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 1,322,055 | $ - | $ - | $ - | $ 1,322,055 |
| Construction in progress | 3,097,461 | 1,509,439 | - | - | 4,606,900 |
| Total assets not being depreciated | 4,419,516 | 1,509,439 | - | - | 5,928,955 |
| Capital assets, being depreciated: | | | | | |
| Improvements other than buildings | 107,007,986 | 3,308,701 | ( 453,710) | 311,249 | 110,174,226 |
| Machinery and equipment | 2,080,177 | 107,426 | ( 59,882) | 27,430 | 2,155,151 |
| Capacity rights | 6,281,781 | - | - | - | 6,281,781 |
| Total capital assets being depreciated | 115,369,944 | 3,416,127 | ( 513,592) | 338,679 | 118,611,158 |
| Less accumulated depreciation: | | | | | |
| Improvements other than buildings | ( 37,071,470) | ( 3,853,335) | 132,847 | - | ( 40,791,958) |
| Machinery and equipment | ( 1,501,661) | ( 156,062) | 59,882 | - | ( 1,597,841) |
| Capacity rights | ( 3,055,612) | ( 157,045) | - | - | ( 3,212,657) |
| Total accumulated depreciation | ( 41,628,743) | ( 4,166,442) | 192,729 | - | ( 45,602,456) |
| Total capital assets being depreciated, net | 73,741,201 | ( 750,315) | ( 320,863) | 338,679 | 73,008,702 |
| Business-type activities capital assets, net | $ 78,160,717 | $ 759,124 | $( 320,863) | $ 338,679 | $ 78,937,657 |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 1,813,326 |
| Public safety | 4,265,731 |
| Public works | 629,099 |
| Recreation and leisure | 2,031,954 |
| Total depreciation expense - governmental activities | $ 8,740,110 |
| Business-type activities: | |
| Water and wastewater utilities | $ 2,980,664 |
| Drainage utilities | 1,185,778 |
| Total depreciation expense - business-type activities | $ 4,166,442 |

**Construction Commitments**

The City has active construction projects as of September 30, 2011. The projects include land acquisition, street construction, park improvements, water system improvements, and sewer system improvements.

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

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### C. Capital Assets (Continued)

**Construction Commitments** (Continued)

| | Spent to Date | Remaining Commitment |
|---|---|---|
| Mains & Services Construction | $ 84,711 | $ 368,708 |
| Signalizations Improvements | 3,500,145 | 1,418,134 |
| Bourland Road & Mount Gilead Road Intersection Improvements | 177,838 | 36,846 |
| Highland Oaks Crossing Channel Improvements | 37,300 | 759,768 |
| North Tarrant Parkway-Interlocal Agreement (City of North Richland Hills) | 591,463 | 1,778,241 |
| Daryll Lane, Garden Lane & Melissa Drive Drainage Improvements | 723,188 | 279,971 |
| Total | $ 5,114,645 | $ 4,641,668 |

### D. Interfund Transfers

The following schedule briefly summarizes the City's transfer activity:

| Transfers in | Transfers out | Amount |
|---|---|---|
| General | Water and wastewater utilities | $ 2,988,465 |
| | Drainage utility | 97,885 |
| | Nonmajor governmental | 38,500 |
| | Nonmajor proprietary | 20,315 |
| General obligation debt service | Water and wastewater utilities | 465,840 |
| | Nonmajor governmental | 143,315 |
| | General | 350,000 |
| Nonmajor governmental | General | 930 |
| | General obligation debt service | 909,780 |
| | Water and wastewater utilities | 64,370 |
| | Drainage utility | 15,570 |
| Drainage utility | Water and wastewater utilities | 188,080 |
| Water and wastewater utilities | Drainage utility | 40,000 |
| | | $ 5,323,050 |

Transfers are used to: 1) move revenues from the fund required by statute or budget to collect them to the fund required by statute or budget to expend them; and 2) fund the City's match portion for grants.

In the fund financial statements, total "transfers out" of $6,192,893 are greater than total "transfers in" of $6,183,855 because of the treatment of transfers of capital assets from the Water and Wastewater Utility Fund. During the year, existing capital assets related to Enterprise Funds, with a book value of $9,038, were transferred to governmental activities. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the proprietary funds did report a "transfer out" for the capital resources provided.

### E. Long-term Debt

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

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### E. Long-term Debt (Continued)

General debt currently outstanding is as follows:

**Governmental Activities Debt:**

| Purpose | Original Principal | Year of Issue | Final Maturity | Interest Rate | Balance 09/30/11 |
|---|---|---|---|---|---|
| General obligation bonds: | | | | | |
| City: | | | | | |
| Refunding | 700,000 | 2002 | 2014 | 3.00% - 4.00% | $ 145,000 |
| Refunding | 11,125,000 | 2004 | 2017 | 3.00% - 4.00% | 2,855,000 |
| Refunding | 9,980,000 | 2005 | 2014 | 3.00% - 4.00% | 8,080,000 |
| Improvements | 4,000,000 | 2009 | 2029 | 4.00% - 4.65% | 3,830,000 |
| Refunding | 2,000,000 | 2010 | 2020 | 2.00% - 3.50% | 1,605,000 |
| Refunding | 562,000 | 2010 | 2022 | 2.00% - 4.00% | 5,510,000 |
| | | | | | 22,025,000 |
| Certificates of obligation: | | | | | |
| City: | | | | | |
| Improvements | 8,615,000 | 2002 | 2022 | 4.00% - 5.00% | 405,000 |
| Improvements | 1,690,000 | 2003 | 2023 | 2.50% - 4.25% | 895,000 |
| Improvements | 6,540,000 | 2004 | 2024 | 4.00% - 5.00% | 5,285,000 |
| Improvements | 8,310,000 | 2009 | 2029 | 3.00% - 4.70% | 7,895,000 |
| Improvements | 6,710,000 | 2010 | 2030 | 2.00% - 4.00% | 6,560,000 |
| Keller TIRZ (TIF) | | | | | |
| Refunding | 17,400,000 | 2005 | 2018 | 3.50% - 5.00% | 16,290,000 |
| Refunding | 6,299,997 | 2010 | 2028 | 1.00% - 4.125% | 6,248,547 |
| Keller Development Corp. | | | | | |
| Improvements | 18,120,000 | 2003 | 2023 | 2.50% - 4.25% | 13,230,000 |
| Improvements | 755,000 | 2004 | 2024 | 4.00% - 5.00% | 115,000 |
| | | | | | 56,923,547 |
| Revenue bonds: | | | | | |
| Keller Development Corp. | | | | | |
| Refunding | 890,000 | 2006 | 2013 | 4.20% | 275,000 |
| Less: bond issue (discount)/premium | | | | | 1,018,688 |
| Less: deferred loss on refunding | | | | | ( 1,275,360) |
| Total governmental activities debt | | | | | $ 78,966,875 |

## E. Long-term Debt (Continued)

### Business-type Activities Debt:

| Purpose | Original Principal | Year of Issue | Final Maturity | Interest Rate | Balance 09/30/11 |
|---|---|---|---|---|---|
| General obligation bonds: | | | | | |
| City: | | | | | |
| Refunding | $ 5,360,000 | 2002 | 2013 | 3.00% - 4.00% | $ 1,145,000 |
| Refunding | 440,000 | 2004 | 2017 | 3.00% - 4.00% | 35,000 |
| Refunding | 3,390,000 | 2004 | 2020 | 3.00% - 4.20% | 2,810,000 |
| Refunding | 1,290,000 | 2010 | 2020 | 2.00% - 3.50% | 985,000 |
| | | | | | 4,975,000 |
| Certificates of obligation: | | | | | |
| City: | | | | | |
| Improvements | 11,310,000 | 2004 | 2024 | 4.00% - 5.00% | 8,620,000 |
| Improvements | 4,255,000 | 2006 | 2026 | 4.25% - 5.37% | 3,545,000 |
| Improvements | 1,600,000 | 2010 | 2030 | 2.00% - 4.25% | 1,565,000 |
| | | | | | 13,730,000 |
| Contractual obligations: | | | | | |
| City: | | | | | |
| Refunding | 697,116 | 2005 | 2013 | 2.50% - 3.50% | 173,700 |
| | | | | | 173,700 |
| Less: TRA deferred loss on refunding | | | | | ( 1,448) |
| Less: TRA accrued interest and cash reserves | | | | | ( 68,721) |
| | | | | | ( 70,169) |
| Less: bond issue (discount)/premium | | | | | 7,575 |
| Less: deferred loss on refunding | | | | | ( 269,129) |
| | | | | | ( 261,554) |
| Total business-type activities debt | | | | | 18,546,977 |
| Total long-term debt | | | | | $ 97,513,852 |

Annual debt service requirements to maturity for general debt:

| Year Ending September 30, | Governmental Activities Principal | Governmental Activities Interest | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|---|---|
| 2012 | $ 6,513,527 | $ 3,207,960 | $ 1,765,000 | $ 780,845 |
| 2013 | 6,203,126 | 3,009,539 | 1,610,000 | 709,188 |
| 2014 | 6,616,894 | 2,781,387 | 1,335,000 | 652,153 |
| 2015 | 6,745,000 | 2,395,161 | 1,190,000 | 557,471 |
| 2016 | 7,015,000 | 2,135,481 | 1,245,000 | 560,207 |
| 2017-2021 | 26,050,000 | 6,721,522 | 6,695,000 | 1,858,938 |
| 2022-2026 | 13,835,000 | 2,569,393 | 4,435,000 | 496,201 |
| 2027-2030 | 5,970,000 | 439,288 | 430,000 | 37,903 |
| Total | $ 78,948,547 | $ 23,259,731 | $ 18,705,000 | $ 5,652,906 |

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### E. **Long-term Debt** (Continued)

Annual debt services requirements for revenue bonds are as follows:

| Year Ending September 30, | Governmental Activities Principal | Governmental Activities Interest | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|---|---|
| 2012 | $ 135,000 | $ 8,736 | $ 85,692 | $ 6,080 |
| 2013 | 140,000 | 2,947 | 88,008 | 3,080 |
| Total | $ 275,000 | $ 11,683 | $ 173,700 | $ 9,160 |

#### Capital Lease Obligation

The City acquired fire apparatus with a cost of $825,000 and an excavator with a cost of $244,100 subject to a capital lease obligation. The scheduled remaining payments are shown below:

| Year Ending September 30, | Governmental Activities | Business-type Activities |
|---|---|---|
| 2012 | $ 105,048 | $ 54,227 |
| 2013 | 105,048 | 54,227 |
| 2014 | 64,373 | 54,227 |
| | 274,469 | 162,681 |
| Less interest portion | ( 22,014) | ( 16,453) |
| Obligations under capital leases | $ 252,455 | $ 146,228 |

#### Changes in Long-term Liabilities

During the year ended September 30, 2011, the following changes occurred in general government long-term debt:

| Description | Balance 09/30/10 | Additions | Reductions | Balance 09/30/11 | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation bonds | $ 24,105,000 | $ - | $( 2,080,000) | $ 22,025,000 | $ 2,105,000 |
| Certificates of obligation | 61,179,997 | - | ( 4,256,450) | 56,923,547 | 4,408,527 |
| Revenue bonds | 405,000 | - | ( 130,000) | 275,000 | 135,000 |
| Deferred loss on refunding | ( 1,471,794) | - | 196,434 | ( 1,275,360) | ( 196,434) |
| Bond premiums/discounts | 1,141,833 | - | ( 123,145) | 1,018,688 | 115,112 |
| Total bonds payable | 85,360,036 | - | ( 6,393,161) | 78,966,875 | 6,567,205 |
| Capital lease obligation | 341,608 | - | ( 89,153) | 252,455 | 93,302 |
| Compensated absences | 1,352,122 | 1,506,148 | ( 1,401,910) | 1,456,360 | 229,765 |
| OPEB liability | 89,852 | 56,480 | ( 17,121) | 129,211 | - |
| TMRS net pension obligation | 784,490 | 2,869,831 | ( 2,507,519) | 1,146,802 | - |
| | $ 87,928,108 | $ 4,432,459 | $( 10,408,864) | $ 81,951,703 | $ 6,890,272 |

## IV. DETAILED NOTES ON ALL FUNDS (Continued)

### E. Long-term Debt (Continued)

| Description | Balance 09/30/10 | Additions | Reductions | Balance 09/30/11 | Due Within One Year |
|---|---|---|---|---|---|
| Business-type activities: | | | | | |
| General obligation bonds | $ 5,995,000 | $ - | $( 1,020,000) | $ 4,975,000 | $ 1,055,000 |
| Certificates of obligation | 14,385,000 | - | ( 655,000) | 13,730,000 | 650,000 |
| Deferred loss on refunding | ( 316,302) | - | 47,173 | ( 269,129) | ( 47,173) |
| Bond premiums/discounts | 10,905 | - | ( 3,330) | 7,575 | 3,330 |
| Total bonds payable | 20,074,603 | - | ( 1,631,157) | 18,443,446 | 1,661,157 |
| Capital lease obligation | 189,873 | - | ( 43,645) | 146,228 | 46,145 |
| Contractual obligations | 165,242 | - | ( 61,711) | 103,531 | 103,531 |
| Compensated absences | 148,050 | 173,091 | ( 145,770) | 175,371 | 39,372 |
| | $ 20,577,768 | $ 173,091 | $( 1,882,283) | $ 18,868,576 | $ 1,850,205 |

For governmental activities, TMRS net pension obligation, OPEB liability, and compensated absences are, and were in prior years, generally liquidated by the General Fund.

**Conduit Debt Obligations**

Certain revenue bonds have been issued in the past to provide financial assistance to nonprofit and public entities for the acquisition and construction of educational and student housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bonds. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2011, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was $30,230,000.

## V. OTHER INFORMATION

### A. Risk Management

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

### B. Contingent Liabilities and Commitments

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

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

## V. OTHER INFORMATION (Continued)

### B. Contingent Liabilities and Commitments (Continued)

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

### C. Employee Retirement Systems and Pension Plans

The City participates in the Texas Municipal Retirement System.

**Plan Description**

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

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

Plan provisions for the City were as follows:

| | Plan Year 2010 | Plan Year 2011 |
|---|---|---|
| Employee deposit rate | 7.0% | 7.0% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% repeating, transfers | 100% repeating, transfers |
| Annuity increase (to retirees) | 70% of CPI repeating | 70% of CPI repeating |

**Contributions**

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

## V. OTHER INFORMATION (Continued)

### C. Employee Retirement Systems and Pension Plans (Continued)

**Contributions** (Continued)

| | |
|---|---|
| Annual Required Contribution (ARC) | $ 2,859,585 |
| Interest on Net Pension Obligation | 58,836 |
| Adjustment to the ARC | ( 48,590) |
| Annual Pension Cost | 2,869,831 |
| Contributions Made | ( 2,507,519) |
| Increase (Decrease) in Net Pension Obligation | 362,312 |
| Net Pension Obligation/(Asset), beginning of year | 784,490 |
| Net Pension Obligation/(Asset), ending of year | $ 1,146,802 |

**Three-Year Trend Information**

| Accounting Year Ending | Annual Pension Cost (APC) | Actual Contribution Made | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| 09/30/09 | $ 2,558,787 | $ 2,219,394 | 86.74% | $ 339,393 |
| 09/30/10 | 2,780,523 | 2,335,426 | 83.99% | 784,490 |
| 09/30/11 | 2,869,831 | 2,507,519 | 87.38% | 1,146,802 |

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

| Actuarial Valuation Date | 12/31/08 | 12/31/09 | 12/31/10 |
|---|---|---|---|
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Level percent of payroll | Level percent of payroll | Level percent of payroll |
| Remaining amortization period | 29 years - closed | 28 years - closed | 27 years - closed |
| Asset valuation method | Amortized cost | smoothed market | smoothed market |
| Actuarial Assumptions: | | | |
| Investment rate of return | 7.5% | 7.5% | 7.0% |
| Projected salary increases | varies by age and service | varies by age and service | varies by age and service |
| Inflation | 3.0% | 3.0% | 3.0% |
| Cost-of-living adjustments | 2.1% | 2.1% | 2.1% |

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Percentage Funded | Unfunded Actuarial Accrued Liability | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 12/31/2008 | $ 27,242,602 | $ 42,915,914 | 63.5% | $ 15,673,312 | $ 17,320,261 | 90.5% |
| 12/31/2009 | 31,447,480 | 49,301,322 | 63.8% | 17,853,842 | 18,170,814 | 98.3% |
| 12/31/2010 | 40,413,402 | 58,504,638 | 69.1% | 18,091,236 | 17,408,027 | 103.9% |

## V. OTHER INFORMATION (Continued)

### D. Other Postemployment Benefits

**Annual OPEB Cost and Net OPEB Obligation**

The City's single-employer annual other postemployment benefit (OPEB) cost (expense) plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information is listed below:

| | | |
|---|---|---|
| Annual Required Contribution (ARC) | $ | 52,437 |
| Interest on Net Pension Obligation | | 4,043 |
| Adjustment to the ARC | | - |
| Annual Pension Cost | | 56,480 |
| Contributions Made | | ( 17,121) |
| Increase (Decrease) in Net Pension Obligation | | 39,359 |
| Net Pension Obligation/(Asset), beginning of year | | 89,852 |
| Net Pension Obligation/(Asset), ending of year | $ | 129,211 |

The City does not issue separate financial statements for the plan and the City has not established a trust to fund the plan.

In addition to the employer contribution, the retirees paid $19,988 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization) is shown in the chart below:

| Fiscal Year Ended | Annual OPEB Cost | Employer Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 09/30/09 | $ 52,437 | $ 11,629 | 22.8% | $ 40,808 |
| 09/30/10 | 52,437 | 5,229 | 10.0% | 89,852 |
| 09/30/11 | 52,437 | 17,121 | 32.7% | 129,211 |

**Funding Status and Funding Progress**

As of December 31, 2010, the actuarial accrued liability for benefits was $482,084 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $17,635,929 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7%.

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**D. <u>Other Postemployment Benefits</u>** (Continued)

**Actuarial Methods and Assumptions**

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of investment expenses) and an annual health care costs trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2011, was 28 years. Inflation rates were assumed to be 6%.

**E. <u>Supplemental Death Benefits Plan (SDBF)</u>**

**Supplemental Death Benefits Fund**

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

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

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

The City's contributions to the TMRS SDBF for the years ended September 30, 2011, 2010, and 2009, were $26,251, $24,055, and $22,860, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

| Accounting Year Ending | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| 09/30/09 | .14% | .14% | 100% | $ - |
| 09/30/10 | .14% | .14% | 100% | - |
| 09/30/11 | .16% | .16% | 100% | - |

## V. OTHER INFORMATION (Continued)

### F. Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

### G. Subsequent Event

**Bond Refunding**

On November 1, 2011, the City and the Keller Development Corporation issued $9,860,000 of Sales Tax Revenue Refunding Bonds. The net proceeds from the issuance of the bonds were used to purchase U. S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments. A deposit of $9,709,548 was made to the escrow account to provide for the advance refunding of $1,690,000 of the Series 2003 Combination Tax and Revenue Certificates and $18,120,000 of the Keller Development Corporation Series 2003 Combination Tax and Revenue Certificates. The advance refunded bonds are considered legally defeased and the liability for these bonds has been removed. The reacquisition price exceeded the net carrying amount of the old debt by $699,548. The City and the Keller Economic Development Corporation refunded the bonds to reduce its total debt service payments by $464,483 and to obtain an economic gain of $396,045 (present value). The book loss on this refunding was $699,548.

## REQUIRED
## SUPPLEMENTARY INFORMATION

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# CITY OF KELLER, TEXAS

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

## GENERAL FUND

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual | Variance with Final Budget - Positive (Negative) |
| **REVENUES** | | | | |
| Taxes: | | | | |
| Property | $ 12,257,500 | $ 12,316,500 | $ 12,339,661 | $ 23,161 |
| Sales | 3,989,100 | 4,033,700 | 4,069,146 | 35,446 |
| Franchise | 2,395,630 | 2,817,513 | 2,988,616 | 171,103 |
| Mixed beverage | 59,520 | 68,350 | 64,242 | ( 4,108) |
| Permits, licenses and fees | 1,211,700 | 1,097,440 | 1,234,576 | 137,136 |
| Intergovernmental | 2,183,535 | 2,228,790 | 2,276,509 | 47,719 |
| Charges for services | 1,091,700 | 1,388,230 | 1,462,751 | 74,521 |
| Fines and forfeitures | 942,000 | 766,300 | 796,966 | 30,666 |
| Donations | 44,000 | 24,800 | 31,022 | 6,222 |
| Investment earnings | 157,000 | 88,930 | 129,268 | 40,338 |
| Miscellaneous | 349,500 | 326,205 | 328,516 | 2,311 |
| Total revenues | 24,681,185 | 25,156,758 | 25,721,273 | 564,515 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 6,346,055 | 6,273,405 | 5,898,576 | 374,829 |
| Public safety | 14,294,180 | 14,556,510 | 13,920,499 | 636,011 |
| Public works | 2,175,420 | 2,317,810 | 2,003,200 | 314,610 |
| Community development | 1,045,915 | 1,021,210 | 966,920 | 54,290 |
| Recreation and leisure | 3,913,180 | 3,883,480 | 3,822,122 | 61,358 |
| Capital outlay | 1,167,135 | 1,278,145 | 613,508 | 664,637 |
| Total expenditures | 28,941,885 | 29,330,560 | 27,224,825 | 2,105,735 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | ( 4,260,700) | ( 4,173,802) | ( 1,503,552) | 2,670,250 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Sale of capital assets | 5,900 | 5,900 | 22,890 | 16,990 |
| Transfers in | 3,172,630 | 3,145,165 | 3,145,165 | - |
| Transfers out | - | ( 350,000) | ( 350,930) | ( 930) |
| Total other financing sources and uses | 3,178,530 | 2,801,065 | 2,817,125 | 16,060 |
| **NET CHANGE IN FUND BALANCE** | ( 1,082,170) | ( 1,372,737) | 1,313,573 | 2,686,310 |
| **FUND BALANCE, BEGINNING** | 11,376,602 | 11,376,602 | 11,376,602 | - |
| **FUND BALANCE, ENDING** | $ 10,294,432 | $ 10,003,865 | $ 12,690,175 | $ 2,686,310 |

## BUDGETARY INFORMATION

Annual appropriated budgets are legally adopted for the General Fund, Debt Service Funds, Special Revenue Funds (excepting the Public Safety Fund), and certain Capital Projects Funds (Park Development, Street/Sidewalk Improvements, and Equipment Replacement Funds) on a basis consistent with generally accepted accounting principles. An annual non-appropriated budget is adopted for the City's Water and Wastewater Utilities and Drainage Utility Enterprise Funds on a non-GAAP basis for managerial control. Project length budgets are adopted for certain Capital Projects Funds (Capital Projects, Roadway Impact fee, and Parks Capital Improvements Funds), and Public Safety Fund and amended on an annual basis to reflect the uncompleted portion of the projects. These funds adopt their budget based on individual projects that cross fund years. An annual comparison does not fairly represent the budgetary results for multiple year projects.

The original budget is adopted by the City Council prior to the beginning of the fiscal year. Amendments are made during the year, provided amendments do not result in an increase in total expenditures. All budget amendments resulting in an increase in total expenditures require approval by the City Council. Unused budget appropriations lapse at year-end unless carried forward to the next year by Council action. The final budget is legally adopted by the Council prior to September 30 of each year.

The City Manager has the authority to transfer appropriation balances from one expenditure category to another within a fund. Although costs are monitored by expenditure category, the legal level of control (level at which expenditures may not exceed budget) is the department level. The reported budgetary data has been revised for amendments authorized during the year.

**COMBINING AND INDIVIDUAL FUND**
**STATEMENTS AND SCHEDULES**

## NONMAJOR GOVERNMENTAL FUNDS

## SPECIAL REVENUE FUNDS

***Special Revenue Funds*** are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

***Keller Development Corporation Fund –*** This fund is used to account for collection of sales and use taxes for the payment of bonds or other forms of indebtedness to finance the cost of Keller parks.

***Library Fund –*** This fund accounts for public donations and revenues designated for Library improvements.

***Municipal Court Fund –*** This fund accounts for technology and building security fees collected from Municipal Court citations. Expenditures from these fees are specifically designated by state law.

***Public Safety Fund –*** This fund accounts for revenues derived from forfeiture and seizure of assets resulting from illegal narcotic activity. Expenditures are restricted for the Police Department to be used in illegal narcotic enforcement.

***Contributions/Donations Fund –*** This fund is to account for contributions, donations, and other resources that are dedicated for specific uses or purposes.

***Crime Control Prevention District –*** This fund is to account for collection of sales and use taxes, in accordance with Section 363 of the Texas Local Government Code, to be used to public safety crime control and prevention programs.

## DEBT SERVICE FUND

***Debt Service Funds*** are used to account for the accumulation of resources for, and payment of, general obligation principal and interest, except for those certificates of obligation serviced by the Enterprise Fund.

***TIF #1 Interest and Sinking Fund –*** This fund is to account for accumulation of incremental property taxes from within the zone for payment of TIF debt.

## CAPITAL PROJECTS FUND

The ***Capital Projects Funds*** account for all resources used for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

***Roadway Impact Fees Fund –*** This fund is used to account for revenues that are restricted for roadway improvements. Authorized expenditures include improvements and engineering.

***Park Development Fund –*** This fund is used to account for resources received primarily from park development fees and expenditures to specific park improvements.

***Street/Sidewalk Improvements Fund –*** This fund is used to account for revenues that are restricted for street and sidewalk improvements. Authorized expenditures include improvements and engineering.

***Equipment Replacement Fund –*** This fund is used to account for capital equipment acquisitions that are financed by either intergovernmental transfers, short-term debt (debt maturing in five years or less), or a combination of both.

***Parks Capital Projects Fund –*** This fund is to account for acquisition or construction of capital assets.

# CITY OF KELLER, TEXAS

## COMBINING BALANCE SHEET

## NONMAJOR GOVERNMENTAL FUNDS

## SEPTEMBER 30, 2011

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Keller Development Corporation | Library | Municipal Court | Public Safety |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 23,044 | $ 32,726 | $ 36,918 | $ 60,438 |
| Investments | 219,589 | 28,212 | 180,529 | 51,118 |
| Receivables, net of allowances for uncollectibles | | | | |
| Taxes | 382,070 | - | - | - |
| Interest | 581 | 210 | 1,641 | 393 |
| Other | - | - | - | - |
| Due from other governments | - | - | - | 5,204 |
| Prepaid items | 11 | - | 500 | 740 |
| Total assets | $ 625,295 | $ 61,148 | $ 219,588 | $ 117,893 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ - | $ 712 | $ 990 | $ 1,168 |
| Accrued liabilities | 5,454 | - | 1,900 | 5,709 |
| Deferred revenue | - | - | - | 39,377 |
| Total liabilities | 5,454 | 712 | 2,890 | 46,254 |
| Fund balances: | | | | |
| Non-spendable | 11 | - | 500 | 740 |
| Restricted | 619,830 | 60,436 | 216,198 | 70,899 |
| Total fund balances | 619,841 | 60,436 | 216,698 | 71,639 |
| Total liabilities and fund balances | $ 625,295 | $ 61,148 | $ 219,588 | $ 117,893 |

| Special Revenue Funds | | Debt Service Fund | Capital Project Funds | | |
|---|---|---|---|---|---|
| Contributions/ Donations | Crime Control Prevention District | TIF #1 Interest and Sinking | Roadway Impact Fee | Park Development Fee | Street/ Sidewalk Improvements |
| $ 25,431 | $ 37,756 | $ 55,384 | $ 53,069 | $ 25,792 | $ 48,701 |
| 250 | 3,372,081 | 21,433 | 3,523,961 | 50,488 | 975,248 |
| - | 177,419 | 75,384 | - | - | 191,042 |
| 88 | 178 | - | 12,345 | 263 | 3,387 |
| - | - | - | 194,193 | - | 71 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| $ 25,769 | $ 3,587,434 | $ 152,201 | $ 3,783,568 | $ 76,543 | $ 1,218,449 |
| $ - | $ 800 | $ - | $ 98,637 | $ - | $ 10,043 |
| - | - | - | - | - | - |
| - | - | 75,384 | 155,565 | - | 57 |
| - | 800 | 75,384 | 254,202 | - | 10,100 |
| - | - | - | - | - | - |
| 25,769 | 3,586,634 | 76,817 | 3,529,366 | 76,543 | 1,208,349 |
| 25,769 | 3,586,634 | 76,817 | 3,529,366 | 76,543 | 1,208,349 |
| $ 25,769 | $ 3,587,434 | $ 152,201 | $ 3,783,568 | $ 76,543 | $ 1,218,449 |

**(continued)**

## CITY OF KELLER, TEXAS

### COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS
### (continued)
### SEPTEMBER 30, 2011

| | Capital Project Funds | | |
|---|---|---|---|
| | Equipment Replacement | Parks Capital Improvements | Total Nonmajor Governmental Funds |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 42,389 | $ 9,400 | $ 451,048 |
| Investments | 684,587 | 29,951 | 9,137,447 |
| Receivables, net of allowances for uncollectibles | | | |
| Taxes | - | - | 825,915 |
| Interest | 2,504 | 136 | 21,726 |
| Other | - | - | 194,264 |
| Due from other governments | - | - | 5,204 |
| Prepaid items | - | - | 1,251 |
| Total assets | $ 729,480 | $ 39,487 | $ 10,636,855 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities: | | | |
| Accounts payable | $ - | $ - | $ 112,350 |
| Accrued liabilities | - | - | 13,063 |
| Deferred revenue | - | - | 270,383 |
| Total liabilities | - | - | 395,796 |
| Fund balances: | | | |
| Non-spendable | - | - | 1,251 |
| Restricted | 729,480 | 39,487 | 10,239,808 |
| Total fund balances | 729,480 | 39,487 | 10,241,059 |
| Total liabilities and fund balances | $ 729,480 | $ 39,487 | $ 10,636,855 |

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# CITY OF KELLER, TEXAS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

## NONMAJOR GOVERNMENTAL FUNDS

## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Keller Development Corporation | Library | Municipal Court | Public Safety |
| **REVENUES** | | | | |
| Taxes: | | | | |
| Property | $ - | $ - | $ - | $ - |
| Sales | 2,034,573 | - | - | - |
| Permits, licenses and fees | - | - | - | - |
| Intergovernmental | - | 8,443 | - | 256,990 |
| Charges for services | - | 2,873 | - | 4,541 |
| Fines and forfeitures | - | - | 86,850 | - |
| Special assessments and impact fees | - | - | - | - |
| Donations | - | 16,671 | - | 18,293 |
| Investment earnings | 1,188 | 451 | 3,307 | 620 |
| Miscellaneous | 12,000 | - | - | 385 |
| Total revenues | 2,047,761 | 28,438 | 90,157 | 280,829 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | - | - | 130,821 | - |
| Public safety | - | - | - | 82,675 |
| Public works | - | - | - | - |
| Recreation and leisure | 143,680 | 10,430 | - | - |
| Capital outlay | 13,975 | - | 10,000 | 204,439 |
| Debt service: | | | | |
| Principal | 1,100,000 | - | - | - |
| Interest and other charges | 542,747 | - | - | - |
| Total expenditures | 1,800,402 | 10,430 | 140,821 | 287,114 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 247,359 | 18,008 | ( 50,664) | ( 6,285) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Sale of capital assets | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers out | ( 181,815) | - | - | - |
| Total other financing sources and uses | ( 181,815) | - | - | - |
| **NET CHANGE IN FUND BALANCES** | 65,544 | 18,008 | ( 50,664) | ( 6,285) |
| **FUND BALANCES, BEGINNING** | 554,297 | 42,428 | 267,362 | 77,924 |
| **FUND BALANCES, ENDING** | $ 619,841 | $ 60,436 | $ 216,698 | $ 71,639 |

| Special Revenue Funds | | Debt Service Fund | Capital Project Funds | | |
|---|---|---|---|---|---|
| Contributions/ Donations | Crime Control Prevention District | TIF #1 Interest and Sinking | Roadway Impact Fee | Park Development Fee | Street/ Sidewalk Improvements |
| $ - | $ - | $ 2,296,499 | $ - | $ - | $ - |
| - | 966,775 | - | - | - | 1,017,287 |
| - | - | - | - | 37,000 | - |
| - | - | - | 270,000 | - | - |
| 3,189 | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 401,814 | - | 4,987 |
| - | - | - | - | - | - |
| 150 | 11,779 | 9,326 | 32,431 | 642 | 7,435 |
| 25 | - | - | - | - | - |
| 3,364 | 978,554 | 2,305,825 | 704,245 | 37,642 | 1,029,709 |
| | | | | | |
| - | - | - | - | - | - |
| - | 180,585 | - | - | - | - |
| - | - | - | - | - | 88,585 |
| - | - | - | - | - | - |
| - | 158,688 | - | 740,153 | - | 739,564 |
| - | - | 2,056,450 | - | - | - |
| - | - | 1,122,141 | - | - | - |
| - | 339,273 | 3,178,591 | 740,153 | - | 828,149 |
| 3,364 | 639,281 | ( 872,766) | ( 35,908) | 37,642 | 201,560 |
| - | 30,780 | - | - | - | - |
| 930 | - | 909,780 | - | - | - |
| - | - | - | - | - | - |
| 930 | 30,780 | 909,780 | - | - | - |
| 4,294 | 670,061 | 37,014 | ( 35,908) | 37,642 | 201,560 |
| 21,475 | 2,916,573 | 39,803 | 3,565,274 | 38,901 | 1,006,789 |
| $ 25,769 | $ 3,586,634 | $ 76,817 | $ 3,529,366 | $ 76,543 | $ 1,208,349 |

**(continued)**

# CITY OF KELLER, TEXAS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

## NONMAJOR GOVERNMENTAL FUNDS
## (Continued)
## FOR THE YEAR ENDED SEPTEMBER 30, 2011

| | Capital Project Funds | | |
|---|---|---|---|
| | Equipment Replacement | Parks Capital Improvements | Total Nonmajor Governmental Funds |
| **REVENUES** | | | |
| Taxes: | | | |
| Property | $ - | $ - | $ 2,296,499 |
| Sales | - | - | 4,018,635 |
| Permits, licenses and fees | - | - | 37,000 |
| Intergovernmental | - | - | 535,433 |
| Charges for services | - | - | 10,603 |
| Fines and forfeitures | - | - | 86,850 |
| Special assessments and impact fees | - | - | 406,801 |
| Donations | - | - | 34,964 |
| Investment earnings | 5,548 | 148 | 73,025 |
| Miscellaneous | - | 71 | 12,481 |
| Total revenues | 5,548 | 219 | 7,512,291 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | - | - | 130,821 |
| Public safety | - | - | 263,260 |
| Public works | - | - | 88,585 |
| Recreation and leisure | - | - | 154,110 |
| Capital outlay | 26,607 | 70,081 | 1,963,507 |
| Debt service: | | | |
| Principal | - | - | 3,156,450 |
| Interest and other charges | - | - | 1,664,888 |
| Total expenditures | 26,607 | 70,081 | 7,421,621 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | ( 21,059) | ( 69,862) | 90,670 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Sale of capital assets | - | - | 30,780 |
| Transfers in | 79,940 | - | 990,650 |
| Transfers out | - | - | ( 181,815) |
| Total other financing sources and uses | 79,940 | - | 839,615 |
| **NET CHANGE IN FUND BALANCES** | 58,881 | ( 69,862) | 930,285 |
| **FUND BALANCES, BEGINNING** | 670,599 | 109,349 | 9,310,774 |
| **FUND BALANCES, ENDING** | $ 729,480 | $ 39,487 | $ 10,241,059 |

## APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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**Proposed Form of Opinion of Bond Counsel**

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

**CITY OF KELLER, TEXAS**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $11,465,000**

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AS BOND COUNSEL FOR THE CITY OF KELLER, TEXAS, (the "Issuer") in connection with the issuance of the General Obligation Refunding Bonds, Series 2012, described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Ordinance").

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; and except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

Respectfully,

**Proposed Form of Opinion of Bond Counsel**

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

**CITY OF KELLER, TEXAS**
**COMBINATION TAX AND LIMITED SURPLUS REVENUE**
**CERTIFICATES OF OBLIGATION, SERIES 2012A**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $6,000,000**

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AS BOND COUNSEL FOR THE CITY OF KELLER, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2012A, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, which bear interest from the dates and mature and are subject to redemption on the dates, in accordance with the terms and conditions stated in the text of the Certificates of Obligation. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance").

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates of Obligation is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates of Obligation are not "specified private activity bonds" and that, accordingly, interest on the Certificates of Obligation will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates of Obligation and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

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

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates of Obligation, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

Respectfully,

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