

OFFICIAL STATEMENT

Dated March 3, 2009

Ratings:
Moody's: "Aa3"
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.

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$4,000,000
CITY OF KELLER, TEXAS
(Tarrant County)
GENERAL OBLIGATION BONDS, SERIES 2009

Dated Date: March 1, 2009

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$4,000,000 City of Keller, Texas General Obligation Bonds, Series 2009 (the "Bonds") will accrue from March 1, 2009 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2010, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds and Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company Trust Company, N.A., Dallas, Texas (see "The Bonds and Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Texas Government Code, Chapter 1331, as amended, and are direct obligations of the City of Keller, Texas (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 ordinance authorizing the Bonds (the "Bond Ordinance") (see "The Bonds and Certificates - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for library improvements, and to pay the costs associated with the issuance of the Bonds.

MATURITY SCHEDULE

CUSIP Prefix (1): 487684

Table with 10 columns: Principal Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1), Principal Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1). Rows show principal amounts from \$40,000 to \$190,000 with corresponding maturity dates from 2010 to 2019 and interest/yield rates.

(Accrued Interest from March 1, 2009 to be added)

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

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

SEPARATE ISSUES . . . The Bonds are being offered by the City concurrently with the "City of Keller, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2009" (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, and other features.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser 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, "Form of Bond Counsel's Opinions").

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on April 7, 2009.

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OFFICIAL STATEMENT

Dated March 3, 2009

Ratings:
Moody's: "Aa3"
S&P: "AA"
See ("Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

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

\$8,310,000

CITY OF KELLER, TEXAS
(Tarrant County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2009

Dated Date: March 1, 2009

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$8,310,000 City of Keller, Texas Combination Tax and Revenue Certificates of Obligation, Series 2009 (the "Certificates") will accrue from March 1, 2009 (the "Dated Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2010, 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 Bonds and Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company Trust Company, N.A., Dallas, Texas (see "The Bonds and Certificates - Paying Agent/Registrar").

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

PURPOSE . . . Proceeds from the sale of the Certificates will be used for: (i) constructing, improving and equipping fire stations including acquisition of fire apparatus and ambulances, and the acquisition of land and interests in land necessary therefor; (ii) installing and constructing improvements to the City's storm water and drainage system, including the acquisition of land and interests in land necessary therefor; (iii) acquiring approximately 11 acres of land for park purposes; (iv) improving Johnson Road Park parking lot; and (v) paying costs of issuance with respect to the Certificates.

MATURITY SCHEDULE

CUSIP Prefix (1): 487684

Table with 10 columns: Principal Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1), Principal Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1). Rows show principal amounts from \$115,000 to \$385,000 with corresponding maturity dates from 2010 to 2019 and CUSIP suffixes from S29 to T36.

(Accrued Interest from March 1, 2009 to be added)

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REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the "City of Keller, Texas, General Obligation Bonds, Series 2009" (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, and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser 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, "Form of Bond Counsel's Opinions").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on April 7, 2009.

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor. Any information and expressions of opinion herein contained 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 since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City nor its Financial Advisor make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The Bonds and Certificates are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Bonds and Certificates in accordance with applicable securities law provisions of the jurisdiction in which these securities have been registered or exempted should not be regarded as a recommendation thereof.

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

OFFICIAL STATEMENT SUMMARY

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

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

THE BONDS The \$4,000,000 General Obligation Bonds, Series 2009 are to mature on February 15 in the years 2010 through 2029 (see "The Bonds and Certificates - Description of the Bonds and Certificates").

THE CERTIFICATES The \$8,310,000 Combination Tax and Revenue Certificates of Obligation, Series 2009 are to mature on February 15 in the years 2010 through 2029 (see "The Bonds and Certificates - Description of the Bonds and Certificates").

PAYMENT OF INTEREST Interest on the Bonds and Certificates accrues from March 1, 2009, and is payable February 15, 2010, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Bonds and Certificates - Description of the Bonds and Certificates," "The Bonds and Certificates - Optional Redemption").

AUTHORITY FOR ISSUANCE..... The Bonds are issued pursuant to the general laws of the State, including particularly V.T.C.A., Texas Government Code, Chapter 1331, and a Bond Ordinance passed by the City Council of the City (see "The Bonds and Certificates - Authority for Issuance").

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

SECURITY FOR THE BONDS The Bonds constitute direct and voted obligations of the City, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "The Bonds and Certificates - 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 surplus net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Certificates Ordinance") (see "The Bonds and Certificates - Security and Source of Payment").

QUALIFIED TAX-EXEMPT OBLIGATIONS..... The City designated the Bonds and Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").

REDEMPTION The City reserves the right, at its option, to redeem Bonds or Certificates, as the case may be, having stated maturities on and after February 15, 2020, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds and Certificates - Optional Redemption").

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Bonds and Certificates will be excludable from gross income for federal income tax purposes under existing law subject to the matters described under "Tax Matters".

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for library improvements, and to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for: (i) constructing, improving and equipping fire stations including acquisition of fire apparatus and ambulances, and the acquisition of land and interests in land necessary therefor; (ii) installing and constructing improvements to the City's storm water and drainage system, including the acquisition of land and interests in land necessary therefor; (iii) acquiring approximately 11 acres of land for park purposes; (iv) improving Johnson Road Park parking lot; and (v) paying costs of issuance with respect to the Certificates.

RATINGS The Bonds, Certificates and the presently outstanding general obligation debt of the City are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P") (see "Other Information - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Bonds and Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds and Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds and Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds and 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 Bonds and Certificates (see "The Bonds and Certificates - Book-Entry-Only System").

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Net Tax	Per Capita Funded Tax Debt	Ratio Funded	
				Supported Debt Outstanding at End of Year		Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2005	33,112	\$2,661,363,572	\$ 80,375	\$ 42,781,137	\$ 1,292	1.61%	100.49%
2006	36,508	2,894,770,545	79,291	40,289,886	1,104	1.39%	100.95%
2007	37,685	3,209,226,856	85,159	36,262,409	962	1.13%	100.04%
2008	37,700	3,525,038,242	93,502	33,288,015	883	0.94%	101.23%
2009	38,402	3,734,198,090	97,240	41,998,599 ⁽¹⁾	1,094	1.12%	N/A

(1) Projected, includes the Bonds and a portion of the Certificates.

For additional information regarding the City, please contact:

Dan O'Leary City Manager City of Keller P.O. Box 770 Keller, Texas 76244 (817) 743-4010	or	David K. Medanich Nick Bulaich First Southwest Company 777 Main Street, Suite 1200 Fort Worth, Texas 76102 (817) 332-9710
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CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Pat McGrail Mayor	1 Year	May, 2009	Retired
Mitch Holmes Mayor Pro Tem, Place 5	5 Years	May, 2009	Civil Engineer
Ray Brown Councilmember, Place 1	1 Year	May, 2009	Certified Public Accountant
John Baker Councilmember, Place 2	Newly Elected	May, 2010	Retired
Tom Cawthra Councilmember, Place 3	Newly Elected	May, 2010	Vice President-Mortgage
Jim Thompson Councilmember, Place 4	Newly Elected	May, 2010	Pilot

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Dan O'Leary	City Manager	1 Year ⁽¹⁾
Johnny Phiifer	Director of Finance	12 1/2 Years ⁽²⁾
Sheila Stephens	City Secretary	35 1/2 Years
Gregory W. Dickens, P.E.	Director of Public Works	2 1/2 Years ⁽³⁾

- (1) Previously served as City Manager for other cities for 5 years.
 (2) Previously served as Director of Finance for other cities for 14 years.
 (3) Previously served 18 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

OFFICIAL STATEMENT

RELATING TO

\$4,000,000
GENERAL OBLIGATION BONDS,
SERIES 2009

\$8,310,000
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2009

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$4,000,000 City of Keller, Texas, General Obligation Bonds, Series 2009 (the "Bonds") and \$8,310,000 City of Keller, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2009 (the "Certificates") (collectively, the "Obligations"). The Bonds and the Certificates are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Bond Ordinance" and the "Certificate Ordinance", respectively) adopted by the City Council of the City, 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 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 Bond Ordinance and Certificate Ordinance 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 Bonds and Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the other terms of the three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical service), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2000 Census population for the City was 27,345, while the estimated 2009 population is 38,402. The City covers approximately 18.17 square miles.

THE BONDS AND CERTIFICATES

DESCRIPTION OF THE BONDS AND CERTIFICATES . . . The Bonds and Certificates are dated March 1, 2009, 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 be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing February 15, 2010. The definitive Bonds and Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds and Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds and 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 Bonds and Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended; at an election held on November 6, 2007, and passed by a majority of the participating voters; and the Bond Ordinance. See "Table 11 – Authorized But Unissued General Obligation Bonds."

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

SECURITY AND SOURCE OF PAYMENT . . .

The Bonds . . . The Bonds constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual 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 . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law. Additionally, the Certificates are payable from and secured by a limited pledge (not to exceed \$1,000) of surplus Net Revenues of the City's Waterworks and Sewer System, as provided in the Certificate Ordinance authorizing the Certificates.

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

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Bonds or Certificates, or both, having stated maturities on and after February 15, 2020 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2019 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption or if less than all of the Bonds or Certificates are to be redeemed, the City may select the maturities of Bonds or Certificates, as the case may be, to be redeemed. If less than all the Bonds or Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds and Certificates are in Book-Entry-Only form) shall determine by lot the Bonds and Certificates, or portions thereof, within such maturity to be redeemed. If a Bond or Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond or Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the 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 NOTWITHSTANDING WHETHER ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE. If an Obligation (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Obligation (or the portion of its principal sum to be redeemed) shall become due and payable, and, if monies for the payment of the redemption price 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.

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

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

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

The Depository Trust Company ("DTC"), New York, New York, 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 security certificate will be issued for the respective series of the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers

and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect 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 certificates 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Obligations unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County 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).

Redemption proceeds and 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 or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City, 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 Direct and Indirect 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, Bond certificates are required to be printed and delivered.

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

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

Effect of Termination of Book-Entry-Only System. In the event 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 securities certificates 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 Bonds and Certificates - Transfer, Exchange, and Registration" below.

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

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 earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond or Certificate to be paid on the Special Payment Date that appears 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.

REMEDIES . . . The Ordinances establishes specific events of default with respect to the Bonds and the Certificates, 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.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders 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 The Depository Trust Company. See "Book-Entry-Only System" herein.

DEFEASANCE . . . The respective Ordinances provide for the defeasance of the Bonds or Certificates when the payment of the principal of and premium, if any, on the Bonds or Certificates, as the case may be, 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 the Paying Agent/Registrar or other authorized entity, in trust (1) money sufficient to make such payment or (2) Government 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 Bonds or Certificates being defeased. The respective Ordinances provide that "Government Securities" means (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 Government Securities for the Government 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. After firm banking and financial arrangements for the discharge and final payment or redemption of such Obligations have been made as described above, all rights of the City to initiate proceedings to call such Obligations for redemption or take any other action

amending the terms of such Obligations are extinguished; provided, however, that the right to call the Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of such 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 authorize.

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

Each Ordinance further provides that the holders of the Bonds or Certificates, as applicable, aggregating in principal amount 51% of the outstanding Bonds or Certificates, as the case may be, shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds or Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds or Certificates; (ii) reducing the rate of interest borne by any of the outstanding Bonds Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds or Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds or Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds or Certificates necessary for consent to such amendment. Reference is made to the Ordinances for further provisions relating to the amendment thereof.

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 market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the 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: (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000.

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

As of January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax 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 and such freeze is transferable to a different residence homestead and to the surviving spouse living in such homestead who is disabled or is at least 55 years of age. Once established such freeze cannot 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.

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.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . 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 103% of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. 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 August 15. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition the taxing unit may contact with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may not provide for a fee that exceeds 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$40,000.

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

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

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

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

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

The City has taken action to tax freeport property.

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

The City 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 was \$10,891,633, and the captured appraised value of property in the Zone for tax year 2008 is \$130,453,353. The City has issued an aggregate of \$32,675,000 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 Obligations.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2008/09 Market Valuation Established by Tarrant Appraisal District		\$ 3,886,631,885
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 49,742,153	
Over 65 Years of Age/Disabled	50,934,153	
Disabled Veterans Exemptions	1,723,000	
Open-Space Land Use Reductions	49,423,582	
Pollution	86,041	
Prorated Absolute	<u>524,866</u>	<u>152,433,795</u>
2008/09 Taxable Assessed Valuation		\$ 3,734,198,090
2008/09 Incremental Taxable Assessed Value of Real Property within Reinvestment Zone		<u>(130,453,353)</u>
2008/09 Taxable Assessed Valuation available for General Fund Obligation and Debt to City		<u><u>\$3,603,744,737</u></u>
City Funded Debt Payable from Ad Valorem Taxes (as of 1/1/09)		
General Obligation Bonds	\$ 25,605,000	
Tax and System Certificate of Obligation Debt	74,930,000	
The Bonds	4,000,000	
The Certificates	<u>8,310,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 112,845,000
Less Self-Supporting Debt: ⁽¹⁾		
Tax Increment Reinvestment Zone General Obligation Debt	\$ 29,230,000	
Development Corporation General Obligation Debt	16,725,000 ⁽²⁾	
Water and Sewer System General Obligation Debt	<u>21,891,985</u>	<u>67,846,985</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 44,998,015
Interest and Sinking Fund as of 1-1-09		\$ 3,235,792
Ratio Total Funded Debt to Taxable Assessed Valuation		3.02%
Ratio Net Funded Debt to Taxable Assessed Valuation		1.21%

2009 Estimated Population - 38,402
Per Capita Taxable Assessed Valuation - \$97,240
Per Capita Total Funded Debt \$2,939
Per Capita Net Funded Debt - \$1,172

(1) 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.

(2) Includes a portion of the Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2009		2008		2007	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$3,057,384,996	78.66%	\$2,901,043,525	79.15 %	\$2,669,234,846	79.97 %
Real, Residential, Multi-Family	93,447,493	2.40%	81,276,942	2.22 %	52,863,717	1.58 %
Real, Vacant Lots/Tracts	80,894,059	2.08%	71,848,432	1.96 %	72,566,658	2.17 %
Real, Acreage (Land Only)	50,833,762	1.31%	63,679,438	1.74 %	16,488,452	0.49 %
Real, Farm and Ranch Improvements	774,000	0.02%	14,608,152	0.40 %	65,461,644	1.96 %
Real, Commercial and Industrial	349,718,939	9.00%	318,514,002	8.69 %	289,859,208	8.68 %
Real, Oil, Gas and Mineral Reserve	7,441,270	0.19%	-	0.00 %	-	0.00 %
Real and Tangible Personal, Utilities	56,020,038	1.44%	50,883,012	1.39 %	48,388,606	1.45 %
Tangible Personal, Commercial	79,026,970	2.03%	76,462,838	2.09 %	57,253,161	1.72 %
Tangible Personal, Industrial	2,650,818	0.07%	2,815,148	0.08 %	3,616,995	0.11 %
Tangible Personal, Other	55,000	0.00%	-	0.00 %	321,977	0.01 %
Tangible Personal, Mobile Homes	114,700	0.00%	230,636	0.01 %	260,485	0.01 %
Real Property, Inventory	108,269,840	2.79%	83,843,546	2.29 %	61,482,387	1.84 %
Total Appraised Value Before Exemptions	\$3,886,631,885	100.00%	\$3,665,205,671	100.00%	\$3,337,798,136	100.00%
Adjustments	-		-		18,908,921	
Less: Total Exemption/Reductions	(152,433,795)		(140,167,429)		(147,480,201)	
Taxable Assessed Value	<u>\$3,734,198,090</u>		<u>\$3,525,038,242</u>		<u>\$3,209,226,856</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2006		2005	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$2,456,533,694	80.81%	\$2,253,064,989	80.38 %
Real, Residential, Multi-Family	47,581,414	1.57%	23,953,440	0.85 %
Real, Vacant Lots/Tracts	69,528,800	2.29%	55,663,897	1.99 %
Real, Acreage (Land Only)	15,196,621	0.50%	21,516,617	0.77 %
Real, Farm and Ranch Improvements	59,092,726	1.94%	70,668,949	2.52 %
Real, Commercial and Industrial	222,489,548	7.32%	206,248,508	7.36 %
Real, Oil, Gas and Mineral Reserve	-	0.00%	-	0.00 %
Real and Tangible Personal, Utilities	25,441,310	0.84%	33,913,499	1.21 %
Tangible Personal, Commercial	72,168,637	2.37%	71,064,969	2.54 %
Tangible Personal, Industrial	4,260,324	0.14%	3,026,564	0.11 %
Tangible Personal, Other	391,111	0.01%	-	0.00 %
Tangible Personal, Mobile Homes	246,980	0.01%	198,121	0.01 %
Real Property, Inventory	67,095,494	2.21%	63,833,637	2.28 %
Total Appraised Value Before Exemptions	\$3,040,026,659	100.00%	\$2,803,153,190	100.00%
Adjustments	(9,495,298)		(8,808,390)	
Less: Total Exemptions/Reductions	(135,760,816)		(132,981,228)	
Taxable Assessed Value	<u>\$2,894,770,545</u>		<u>\$2,661,363,572</u>	

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

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2005	33,112	\$2,661,363,572	\$ 80,375	\$ 42,781,137	1.61%	\$ 1,292
2006	36,508	2,894,770,545	79,291	40,289,886	1.39%	1,104
2007	37,685	3,209,226,856	85,159	36,262,409	1.13%	962
2008	37,700	3,525,038,242	93,502	33,288,015	0.94%	883
2009	38,402	3,734,198,090	97,240	41,998,599 ⁽¹⁾	1.12%	1,094

(1) Projected, includes the Bonds and a portion of the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2005	\$ 0.44413	\$0.29765	\$0.14648	\$11,819,914	99.28%	100.49%
2006	0.44413	0.30570	0.13843	12,856,544	99.96%	100.95%
2007	0.43219	0.30447	0.12772	13,827,290	99.17%	100.04%
2008	0.43219	0.31247	0.11972	15,366,000	99.30%	101.23%
2009	0.43219	0.31175	0.12044	16,715,930	In Process of Collection	

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2008/09 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Capri W Dtc	Multi-Family Dev./Town Center	\$ 47,030,212	1.26%
GTE Southwest Inc.	Telephone Utility	22,101,095	0.59%
Ktc Seniors Ltd	Multi-Family Dev./Town Center	17,577,800	0.47%
Amstar/Southern Art House LP	Mixed-Use Development/Town Center	17,350,032	0.46%
Regency Centers LP	Retail Shopping Center/Town Center	16,875,160	0.45%
Lo Land Assets	Residential Development	14,570,534	0.39%
Grand Estates at Keller Lp	Multi-Family Dev./Town Center	14,245,000	0.38%
Oncor Electric Delivery Company LLC	Electric Utility	13,956,890	0.37%
Lowe's Home Centers Inc.	Retail Store	13,453,178	0.36%
Home Depot USA Inc.	Retail Store	11,884,426	0.32%
		<u>\$ 189,044,327</u>	<u>5.06%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Bonds and Certificates – Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2009 Principal and Interest Requirements	\$ 4,372,319
\$0.1226 Tax Rate at 99% Collection Produces	\$ 4,374,009
Average Annual Principal and Interest Requirements, 2009 - 2029	\$ 2,980,908
\$0.0836 Tax Rate at 99% Collection Produces	\$ 2,982,603
Maximum Principal and Interest Requirements, 2010	\$ 5,041,043
\$0.1413 Tax Rate at 99% Collection Produces	\$ 5,041,170

(1) Net of self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2008/09 Taxable Assessed Value	2008/09 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt As of 1-1-09	Authorized But Unissued Debt As Of 1-1-09
City of Keller	\$ 3,603,744,737	\$ 0.432190	\$ 52,223,015	100.00%	\$ 52,223,015 ⁽¹⁾	\$ - ⁽²⁾
Keller Independent School District	10,212,543,961	1.416900	603,100,492	36.83%	222,121,911	142,300,000
Northwest Independent School District	9,512,495,457	1.335000	450,738,638	1.09%	4,913,051	260,000,000
Tarrant County	118,618,839,960	0.264000	346,495,000	3.04%	10,533,448	198,520,000
Tarrant County College District	119,246,325,772	0.137960	49,005,000	3.04%	1,489,752	-
Tarrant County Hospital District	118,631,744,393	0.227897	29,585,000	3.04%	899,384	-
Total Direct and Overlapping Tax Supported Debt					\$ 292,180,561	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					8.11%	
Per Capita Overlapping Tax Supported Debt					\$ 7,608.47	

(1) Includes the Bonds and excludes a portion of the Certificates and other self-supporting debt.

(2) Reflects remaining authorization after the issuance of the Bonds.

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		The Certificates ⁽³⁾		Total Outstanding Debt	Less: TIF Requirements	Less: Development Corporation Requirements ⁽⁴⁾	Less: Water and Sewere System Requirements	Total Debt Less Self- Supporting Requirements	% of Total Outstanding Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest						
2009	\$ 7,730,000	\$ 4,228,835	\$ -	\$ -	\$ -	\$ -	\$ 11,958,835	\$ 3,614,047	\$ 1,495,250	\$ 2,477,219	\$ 4,372,319	
2010	7,890,000	3,899,549	40,000	246,874	115,000	482,415	12,673,837	3,646,135	1,538,035	2,448,624	5,041,043	
2011	7,740,000	3,575,585	130,000	165,958	300,000	324,665	12,236,208	3,678,450	1,541,854	2,431,298	4,584,606	
2012	8,075,000	3,257,982	140,000	160,558	315,000	315,440	12,263,979	3,717,750	1,549,894	2,436,402	4,559,933	
2013	7,670,000	2,955,913	145,000	154,858	330,000	305,765	11,561,535	3,745,837	1,428,060	2,218,527	4,169,111	35.98%
2014	7,860,000	2,644,943	150,000	148,958	350,000	295,565	11,449,466	3,778,188	1,433,335	1,890,293	4,347,650	
2015	7,725,000	2,328,768	160,000	142,758	360,000	284,015	11,000,540	3,788,281	1,431,098	1,690,839	4,090,322	
2016	8,075,000	1,998,206	165,000	136,258	380,000	271,065	11,025,529	3,790,919	1,434,229	1,697,441	4,102,940	
2017	7,975,000	1,636,884	175,000	129,458	395,000	257,009	10,568,350	3,798,250	1,429,685	1,701,884	3,638,531	
2018	8,190,000	1,267,109	185,000	122,258	370,000	242,203	10,376,569	3,801,000	1,437,141	1,700,440	3,437,988	73.65%
2019	4,590,000	884,911	190,000	114,758	385,000	227,103	6,391,771	-	1,436,335	1,701,208	3,254,228	
2020	4,555,000	681,608	200,000	106,958	400,000	211,403	6,154,968	-	1,433,035	1,708,672	3,013,261	
2021	3,455,000	498,599	210,000	98,653	420,000	195,003	4,877,254	-	1,432,054	1,224,266	2,220,934	
2022	3,620,000	336,094	220,000	89,728	440,000	177,583	4,883,404	-	1,433,143	1,224,141	2,226,121	
2023	3,080,000	182,156	235,000	80,055	460,000	158,903	4,196,114	-	1,435,978	1,226,469	1,533,667	93.54%
2024	1,715,000	69,516	245,000	69,613	485,000	138,815	2,722,943	-	45,590	1,231,016	1,446,337	
2025	310,000	20,781	255,000	58,549	510,000	117,168	1,271,498	-	48,958	330,781	891,759	
2026	320,000	7,000	270,000	46,800	530,000	94,023	1,267,823	-	47,178	327,000	893,645	
2027	-	-	280,000	34,355	565,000	69,103	948,458	-	50,243	-	898,215	
2028	-	-	295,000	21,200	585,000	42,506	943,706	-	48,161	-	895,545	99.18%
2029	-	-	310,000	7,208	615,000	14,453	946,660	-	46,058	-	900,603	100.00%
	<u>\$ 100,575,000</u>	<u>\$ 30,474,438</u>	<u>\$ 4,000,000</u>	<u>\$ 2,135,807</u>	<u>\$ 8,310,000</u>	<u>\$ 4,224,200</u>	<u>\$ 149,719,445</u>	<u>\$ 37,358,857</u>	<u>\$ 22,175,311</u>	<u>\$ 29,666,520</u>	<u>\$ 60,518,757</u>	

DEBT INFORMATION

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt.
(2) Average life of the issue - 12.253 years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.
(3) Average life of the issue - 11.931 years. Interest on the Certificates has been calculated at the rates illustrated on page 3 hereof.
(4) Includes a portion of the Certificates.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-09 ⁽¹⁾		\$4,372,319
Interest and Sinking Fund, 9-30-08	\$1,026,975	
Budget Interest and Sinking Fund Tax Levy	4,604,930	
Other Income	5,000	
Estimated Investment Income	<u>40,000</u>	<u>5,676,905</u>
Estimated Balance, 9-30-09		<u><u>\$1,304,586</u></u>

(1) Net of self-supporting debt.

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

Unaudited Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-08 ..	\$ 8,034,325
Less: Revenue Bonds Requirements, 2009 Fiscal Year	<u>-</u>
Balance Available for Other Purposes	\$ 8,034,325
System General Obligation Bond Requirements, 2009 Fiscal Year	<u>2,477,219</u>
Balance	<u><u>\$ 5,557,106</u></u>
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 2008/09	\$ 3,693,339
TIRZ General Obligation Bond Requirements, 2009 Fiscal Year	<u>3,614,047</u>
Balance	<u><u>\$ 79,292</u></u>
Percentage of TIRZ General Obligation Bonds, Self-Supporting	100.00%
Budgeted Funds Available for Debt Service from Keller Development	
Corporation collected for Fiscal Year 2008/09	\$ 2,957,764
KDC General Obligation Bond Requirements, 2009 Fiscal Year	<u>1,495,250</u>
Balance	<u><u>\$ 1,462,514</u></u>
Percentage of KDC General Obligation Bonds, Self-Supporting	100.00%

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

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Amount Being Issued</u>	<u>Unissued Balance</u>
Municipal Library	11/6/2007	\$ 4,000,000	\$ 0	\$ 4,000,000	\$ 0

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

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, 2008.

<u>Due Fiscal Year Ending September 30,</u>	<u>Scheduled Annual Payment</u>
2009	\$ 105,048
2010	105,048
2011	105,048
2012- 2014	<u>274,469</u>
	\$ 589,614
Less Interest	<u>108,680</u>
	<u>\$ 480,934</u>

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

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to pension benefits, the City provides certain other post-employment benefits for retired employees ("OPEB"). The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. Commencing in fiscal year 2009, the City will implement GASB 43 and GASB 45. In 2007, an actuarial study from an outside consultant regarding the City's GASB 45 OPEB obligation was prepared. The study indicated an Actuarial Accrued Liability as of October 1, 2007 of \$39,844. The City intends to update the actuarial study on a bi-annual basis, with the first bi-annual update anticipated during fiscal year 2008-09.

For more information concerning the City's post-employment benefits, see the City's Basic Financial Statements and the notes thereto ("Appendix B").

FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2008 ⁽¹⁾	2007	2006	2005	2004
Revenues:					
Program Revenues					
Charges for Services	\$ 7,247,960	\$ 10,122,119	\$ 10,025,176	\$ 9,252,013	\$ 5,987,201
Operating Grants and Contributions	2,673,309	241,636	259,871	379,393	218,851
Capital Grants and Contributions	6,297,308	2,640,281	2,904,694	5,278,123	402,644
General Revenues					
Property Taxes	17,325,312	16,079,035	14,459,067	13,570,085	12,217,245
Other Taxes	11,378,826	11,531,144	10,673,282	9,094,729	7,966,635
Investment Earnings	859,258	1,412,474	934,806	534,625	412,998
Total Revenues	\$ 45,781,973	\$ 42,026,689	\$ 39,256,896	\$ 38,108,968	\$ 27,205,574
Expenses:					
General Government	\$ 5,630,782	\$ 5,380,333	\$ 4,814,291	\$ 4,103,531	\$ 3,357,345
Planning & Community Development	1,291,819	1,231,362	1,251,056	1,128,547	984,186
Public Safety	13,970,135	12,162,132	10,627,205	9,889,821	8,625,240
Public Works	9,067,983	7,800,979	7,735,718	7,402,595	4,621,754
Recreation and Leisure	8,592,564	8,449,576	8,089,054	7,322,427	5,332,567
Interest on Long-Term Debt	3,794,400	3,909,308	4,303,912	4,458,890	4,555,553
Non-Departmental	-	115,376	231,915	1,140,907	745,630
Total Expenses	\$ 42,347,683	\$ 39,049,066	\$ 37,053,151	\$ 35,446,718	\$ 28,222,275
Increase in Net Assets					
before Transfers	\$ 3,434,290	\$ 2,977,623	\$ 2,203,745	\$ 2,662,250	\$ (1,016,701)
Transfers	3,185,538	1,892,406	2,192,110	2,243,800	2,162,960
Increase (Decrease) in Net Assets	\$ 6,619,828	\$ 4,870,029	\$ 4,395,855	\$ 4,906,050	\$ 1,146,259
Adjustments	\$ -	\$ -	\$ (1,461)	\$ -	\$ -
Adjustment for Street Infrastructure Assets	-	-	-	47,226,145	-
Net Assets - October 1	85,996,296	81,126,267	76,731,872	24,599,677	23,453,418
Net Assets - September 30	\$ 92,616,124	\$ 85,996,296	\$ 81,126,266	\$ 76,731,872	\$ 24,599,677

(1) Unaudited.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

Revenues	Fiscal Year Ended September 30,				
	2008 ⁽¹⁾	2007	2006	2005	2004
Total Property Tax	\$ 11,252,822	\$ 9,807,896	\$ 8,894,456	\$ 8,052,609	\$ 7,562,530
Sales Tax	4,360,294	4,148,974	3,757,724	3,218,819	2,869,276
Franchise/Other Local Tax	2,631,856	3,236,163	3,138,860	2,654,700	2,375,766
Permits, Licenses and Fees	1,715,127	1,914,637	2,641,279	2,599,740	2,223,221
Intergovernmental Revenue	1,999,717	1,452,871	821,336	774,551	731,720
Charges for Services	891,081	738,684	618,299	263,229	182,441
Fines and Warrants	956,146	1,076,532	1,071,737	898,352	813,480
Interest on Investments	371,848	557,136	372,162	131,584	47,549
Miscellaneous	279,088	219,382	211,931	113,847	136,041
Donations	101,010	11,353	11,353	780	102,964
Total Revenues	\$ 24,558,989	\$ 23,163,628	\$ 21,539,137	\$ 18,708,211	\$ 17,044,988
Expenditures:					
General Government	\$ 3,551,827	\$ 3,481,037	\$ 2,877,303	\$ 2,563,982	\$ 2,403,052
Police Department	6,883,630	6,163,389	5,425,749	5,031,289	4,535,718
Public Works Department	2,048,563	1,208,865	1,889,684	1,700,778	1,650,381
Library	1,195,525	1,156,777	1,092,693	1,051,270	946,742
Fire Department	5,816,709	4,814,507	4,135,352	3,918,154	3,462,398
Planning and Development	1,265,371	1,888,375	1,216,936	1,094,295	957,446
Parks and Recreation	2,375,034	2,293,353	2,224,738	1,865,872	1,652,462
Nondepartmental	-	378,409	166,707	676,049	705,497
Capital Outlay	972,649	851,337	250,866	436,344	322,646
Total Expenditures	\$ 24,109,308	\$ 22,236,049	\$ 19,280,028	\$ 18,338,033	\$ 16,636,342
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 449,681	\$ 927,579	\$ 2,259,109	\$ 370,178	\$ 408,646
Operating Transfers In	2,330,573	1,203,053	1,237,000	1,188,500	1,188,500
Operating Transfers Out	(1,611,223)	(2,110,308)	(1,624,684)	(225,370)	(193,030)
Increase (Decrease) in Fund Balance	\$ 1,169,031	\$ 20,324	\$ 1,871,425	\$ 1,333,308	\$ 1,404,116
Beginning Fund Balance	7,097,190	7,076,866	5,051,319	3,740,047	2,335,931
Adjustments	-	-	154,122	(22,036)	-
Residual Equity Transfer	-	-	-	-	-
Ending Fund Balance	\$ 8,266,221	\$ 7,097,190	\$ 7,076,866	\$ 5,051,319	\$ 3,740,047

(1) Unaudited.

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1992, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation for the aforementioned purposes. In November, 2001, the voters approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8th of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code, which was subsequently reduced to ¼ of 1% in November 2007. Said sales tax is collected solely for the benefit of the Keller Crime Control and Protection District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighth of one percent (1/8th of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code, which was subsequently increased to ¼ of 1% in November 2007. Said sales tax is collected solely for the repair, rehabilitation and reconstruction of existing streets and may be pledged to secure payment of sales tax revenue bond issues.

Fiscal Year Ended	1% Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2005	\$ 3,119,508	26.39%	\$ 0.1172	\$ 94
2006	3,692,244	28.72%	0.1275	101
2007	4,076,297	29.48%	0.1270	108
2008	4,380,679	28.51%	0.1243	116
2009 ⁽²⁾	1,350,694	8.08%	0.0362	35

(1) Excludes the Keller Development Corporation sales tax, the Keller Crime Control Prevention District sales tax, and the street maintenance tax.

(2) Collection for part year only, through January 2009

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.000¢
Economic and Community Development	0.500¢
City Sales & Use Tax	1.000¢
Crime Control Prevention	0.250¢
Street Maintenance Tax	0.250¢
State Sales & Use Tax	<u>6.250¢</u>
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 and in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) effective September 1, 2005, certificates of deposit (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 Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where: (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (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 may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service and has or which has a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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, any additions and changes to market value, and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

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

TABLE 15 - CURRENT INVESTMENTS

As of January 1, 2009, the City's investable funds were invested in the following categories:

Description	Book Value as a % of Total	Book Value	Market Value
U.S. Agency Discount/ Callable Notes	53.13%	\$ 22,127,037	\$ 22,341,578
Commercial Paper	2.36%	981,625	999,941
Certificates of Deposit	2.88%	1,200,000	1,200,000
Money Market Mutual Funds	0.24%	100,170	100,170
Investment Pools	41.39%	17,235,382	17,235,382
	<u>100.00%</u>	<u>\$ 41,644,214</u>	<u>\$ 41,877,071</u>

TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds and Certificates, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the Issuer, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds and Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds and Certificates are obligations described in section 1503 of The American Recovery and Reinvestment Act of 2009 and accordingly, the interest on the Bonds will not be included in the owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds and Certificates. See Appendix C - Form of Opinions of Bond Counsel.

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds and the Certificates in order for interest on the Bonds and the Certificates 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 Bonds and the Certificates to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Issuer with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds or the Certificates.

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 Bonds or the Certificates.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the Certificates or the property financed or refinanced with proceeds of the Bonds or the Certificates. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds or the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders or 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 Bonds or the Certificates may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds or the Certificates 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 Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds or the Certificates less the amount of all periodic interest payments made thereon. 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 Obligation 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 Obligation 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 Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation 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 Obligation was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Obligation is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds or the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation 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 Obligation.

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 Obligation 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 Obligation.

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 Bonds and the Certificates. 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 BONDS OR THE CERTIFICATES.

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

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

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

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

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

OTHER INFORMATION

RATINGS

The Bonds, Certificates and the presently outstanding tax supported debt of the City are rated "Aa3" 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 organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds and Certificates.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS AND CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

The Obligations. Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudence standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

The Certificates. Section 271.051, Texas Local Government Code, provides that the Certificates are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the sinking funds of municipalities, school districts, and other political subdivisions or public agencies of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the state, municipalities, school districts, and other political subdivisions of the state, and are legal security for those deposits to the extent of their market value.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Obligations may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The delivery of the Bonds and Certificates are subject to the approval of the Attorney General of Texas to the effect that such Obligations are valid and legally binding obligations of the City payable from sources and secured in the manner provided in the Bond Ordinance and the Certificate Ordinance and the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on such Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein. The forms of Bond Counsel's opinions are attached hereto in Appendix C. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds or Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding

Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds and Certificates in the Official Statement to verify that such description conforms to the provisions of the respective Ordinances. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds and Certificates is contingent on the sale and delivery of the Certificates. The legal opinions will accompany the Bonds and Certificates deposited with DTC or will be printed on the Bonds or Certificates in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the various legal opinions to be delivered concurrently with the delivery of the Bonds and the Certificates 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 the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 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 or after 2009. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

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

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

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Obligations; (7) modifications to rights of holders of the Obligations; (8) Bond calls; (9)

defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to each NRMSIR .

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

The SEC has approved amendments to SEC Rule 15c2-12, to become effective July 1, 2009, to designate the MSRB as the sole NRMSIR. To make such continuing disclosure information available to investors free of charge, the MSRB has established the Electronic Municipal Market Access ("EMMA") system. The City will be required to file its continuing disclosure information using the EMMA system beginning on July 1 2009. Investors will be able to access continuing disclosure information filed with the MSRB at its website located at www.emma.msrb.org.

AMENDMENTS . . . The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the 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 may submit a bid for the Obligations, either independently or as a member of a syndicate organized to submit a bid for the Obligations. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER OF THE BONDS

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

INITIAL PURCHASER OF THE CERTIFICATES

After requesting competitive bids for the Certificates, the City accepted the bid of Morgan Keegan & Co., Inc. (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on page 3 of the Official Statement at a price of par plus a cash premium of \$11,194.15. The Initial Purchaser of the Certificates can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser of the Certificates. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Certificates.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements including 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.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

The respective 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 Initial Purchasers.

PAT McGRAIL
Mayor
City of Keller, Texas

ATTEST:

SHEILA STEPHENS
City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION AND HISTORY . . . The City of Keller, Texas (the "City") is a retail center located in Tarrant County, approximately 10 miles north of Fort Worth on U.S. Highway 377, and 25 miles northwest of downtown Dallas. It is a part of the "Metroplex" of North Central Texas, which includes the Cities of Dallas and Fort Worth with a total population exceeding 6.1 million.

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

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

POPULATION . . . The City has noted significant population increases in the past decade . . . the 1970 Census was 1,474 . . . the 1980 Census was 4,156 . . . the 1990 Census was 13,683 . . . the 2000 Census was 27,345 and the estimated 2009 population is 38,402.

ECONOMICS . . . The City of Keller has a staff of approximately 335 full-time employees, including 71 police department personnel and 47 fire/EMS department employees. There are currently 14 local banks serving the City. These banks include, American Bank, N.A., Bank of America, N.A. (2), Bank of Texas, N.A., Capital One Bank, N.A., Compass Bank, N.A., First Financial Bank, N.A., Frost National Bank, JP Morgan Chase Bank, N.A. (2), Prosperity Bank, Regions Bank, Wachovia, Washington Mutual, Wells Fargo Bank, N.A., and Woodforest National Bank.

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. U.S. highway 377 was recently widened in North Keller between Johnson Road and Highway 170, drastically improving traffic flow in this area. Also, plans are underway to widen Rufe Snow Drive between Bear Creek Parkway and Rapp Road, which will help alleviate traffic congestion. Both of these transportation projects will boost commercial development opportunities in Keller. In terms of commercial and residential development, Marshall Ridge has become one of the fastest growing residential developments in the DFW Metroplex. Plans are also underway to develop over 400,000 square feet of commercial space along Highway 377 in front of Marshall Ridge that will include retailers, service businesses, restaurants, and a hotel. A concept plan for the Marshall Ridge Commercial Center has been approved that will include about 60,000 square-feet of retail/office space. Other projects include the Shops at Cindy (10,000 square-foot retail shopping center), which is currently under construction and Zaxby's Restaurant, which was completed at the end of 2008.

Development continues to boom in Keller Town Center. The Arthouse at Keller Town Center, which is a \$26 million dollar mixed-use development, was completed last year. Apartment units are already 70% occupied after one-year and several retail businesses have located in the development. Phase I of the \$42 million Uptown at Keller Town Center began construction last year with the first four of 48 live-work units on the west side of Countrybrook Lane. Phase II of Uptown at Keller Town Center was also approved that will consist of a three-story 54,411 square-foot mixed used building with 24 live-work units. The Square at Keller Town Center recently commenced with construction of the first phase of 77,600 square-feet of retail/office space. Other recent projects in Keller Town Center include a 4,043 square-foot Wachovia Bank and the 10,000 square-foot Pecan Office Park. Keller anticipates more projects coming forward in 2009 that will continue to enhance the quality of life and tax base of the city.

Residential growth remains strong in terms of quantity and value of new development. The City issued 260 building permits having an average construction permit value in excess of \$303,000. In addition, the continued increase in population as depicted above combined with over 13,190 households has stimulated steady commercial and retail growth. The permit value of new commercial/retail business completions (certificates of occupancy) totaled over \$24.6 million.

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 43 square miles and conducts programs for K-12. The District has 35 campuses serving more than 30,000 students. Approximately 1,700 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:

3	High schools (9-12)
5	Middle schools (7-8)
5	Intermediate schools (5-6)
21	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

	November	Average	Average	Average
	2008	Annual	Annual	Annual
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Keller:				
Civilian Labor Force	19,257	19,637	19,401	18,952
Unemployed	908	673	743	741
Percent of Unemployed	4.72%	3.43%	3.83%	3.91%
Fort Worth/Arlington PMSA:				
Civilian Labor Force	999,403	1,027,813	1,016,425	1,000,655
Unemployed	58,162	43,613	48,105	50,922
Percent of Unemployed	5.82%	4.24%	4.73%	5.09%
Tarrant County				
Civilian Labor Force	848,783	873,142	863,479	849,320
Unemployed	50,038	37,270	41,094	43,609
Percent of Unemployed	5.90%	4.27%	4.76%	5.13%

Source: Texas Workforce Commission.

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APPENDIX B

EXCERPTS FROM THE

CITY OF KELLER, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2007

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2007, 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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RUTLEDGE CRAIN & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
2401 Garden Park Court, Suite B
Arlington, Texas 76013

Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Keller, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas, as of and for the year ended September 30, 2007, 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. 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 12 through 22 and 53 through 58, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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


March 16, 2008

CITY OF KELLER, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2007 (Unaudited)

As management of the City of Keller (the City), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information provided in the transmittal letter at the front of this report, and the City's financial statements, which follow this section.

Financial Highlights

- The City's assets exceeded its liabilities at the close of the 2007 fiscal year by \$156,723,548 (net assets). Of this amount, \$26,028,387 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors, in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$6,036,002, or 4%. The net assets of governmental activities increased \$4,870,029, or approximately 6%. This increase in net assets resulted in part from slight increases in ad valorem (property) taxes, sales, and franchise taxes. The assets of business-type activities increased by \$1,165,973, or 1.7%. The increase was due in part to weather conditions which resulted in lower water usage and associated water revenues, combined with lower costs for wholesale water purchases because of decreased customer water demands.
- As of September 30, 2007, the City's governmental funds reported combined ending fund balances of \$20,501,471. Approximately 67% of this total amount, \$13,745,990, is unreserved and available for use within the City's designation and policies. Reservations for (1) encumbrances \$2,489,485, (2) special uses \$4,088,939, and (3) debt service \$89,000, total \$6,667,424, and represent over 32% of the total fund balance.
- Total cost of all the City's programs was \$55,532,963 in 2007, compared to \$53,554,548 in 2006.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$6,620,147, or 30% of total expenditures. This represents a decrease of \$90,568, or 1% from the prior fiscal year due mainly to planned (budget) increases in property, sales, and franchise taxes, combined with planned (budget) increases in general fund expenditures.
- The City's total debt outstanding (excluding bond premiums and discounts) decreased by \$8,750,929, or 7.35% during the current fiscal year, primarily the result of retirement of existing debt. The City issued no certificates of obligation during the year.

Overview of Financial Statements

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

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

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

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

The *Statement of Activities* presents information showing how the City's net assets change during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of

CITY OF KELLER, TEXAS

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the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

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

- *Governmental activities* – These are functions such as public safety, public works, planning and development, general government, and recreation and leisure, 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 in Exhibits A-1 and A-2 of this report.

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

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

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

The City maintains 20 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 and debt service funds, both of which are considered to be major funds. Data from the other 18 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.

The basic governmental fund financial statements can be found in Exhibits A-3 and A-5 of 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 both the water and sewer, and drainage utilities. 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 basic proprietary fund financial statements can be found in Exhibits A-7 through A-9 of this report.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 34 through 50 of this report.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Keller, assets exceeded liabilities by \$156,723,548 as of September 30, 2007.

The largest portion of the City's net assets, \$118.4 million (75%), 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, \$12.3 million (7.9%), represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$26 million (16.6%), may be used to meet the City's ongoing obligations to citizens and creditors.

Total assets of governmental activities decreased by \$1,404,212, or 0.8% during fiscal year 2007. The decrease in total assets of governmental activities results primarily from a decrease in net capital assets. The decrease in net capital assets of \$4,525,352 (3%) is net of accumulated depreciation, a non-cash expense. During the year, completed capital assets were transferred from the construction in process category, where assets are not depreciated, to completed construction, where assets are depreciated. Even though total assets decreased, net assets of governmental activities increased \$4,870,029, or 6%. Total liabilities of governmental activities decreased \$6,274,241, or 6.5%. Non-current liabilities of governmental activities decreased by \$6,654,155 or 7.2%. The reduction in liabilities of governmental activities is primarily due to the retirement of outstanding debt service.

Total assets of business-type activities decreased by \$320,723, or 0.3%. Total current assets decreased \$944,699 (4%), while total capital assets increased \$623,976 (0.8%), respectively. Net assets of business-type activities increased \$1,165,973, or 1.7%. The decrease in current and other assets is primarily due to a decrease in receivables during the year from the City of Southlake related to amounts due to the City of Keller for wholesale water purchases during fiscal year 2006-2007. Total capital assets increased as a result of the construction of new capital projects for water and wastewater improvements. The total liabilities for business-type activities decreased \$1,489,697, or 5% primarily due to the retirement of outstanding debt service.

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CITY OF KELLER'S CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 26,098,938	\$ 22,977,798	\$ 22,631,423	\$ 23,579,122	\$ 48,730,361	\$ 46,556,920
Capital assets	149,525,171	154,050,523	76,254,032	75,630,056	225,779,203	229,680,579
Total Assets	175,624,109	177,028,321	98,885,455	99,209,178	274,509,564	276,237,499
Long term liabilities	85,734,899	92,389,054	24,538,531	26,549,289	110,273,430	118,938,343
Other liabilities	3,892,914	3,513,000	3,619,672	3,098,611	7,512,586	6,611,611
Total liabilities	89,627,813	95,902,054	28,158,203	29,647,900	117,786,016	125,549,954
Net Assets:						
Invested in capital assets, net of related debt	64,573,383	63,207,052	53,805,294	52,467,582	118,378,677	115,674,634
Restricted	11,798,349	9,909,962	518,135	481,856	12,316,484	10,391,818
Unrestricted	9,624,564	8,009,253	16,403,823	16,611,841	26,028,387	24,621,094
Total Net Assets	\$ 85,996,296	\$ 81,126,267	\$ 70,727,252	\$ 69,561,279	\$ 156,723,548	\$ 150,687,546

Analysis of the City's Operations – The following table provides a summary of the City's operations for year ended September 30, 2007. Overall the City had an increase in net assets of \$6,036,002.

Government Activities

Government activities increased the City's net assets by \$4,870,029, or 6% from the prior year. Total governmental revenues increased \$2,769,794 (7%). Major increases in revenues were ad valorem taxes (\$1,619,968); sales tax revenues (\$760,559); and investment (interest) earnings (\$323,255). Ad valorem taxes increased because of the increase in taxable values from the prior year by approximately 9.7%. Sales taxes increased due to an increase in retail establishments and related taxable sales, resulting from continuing economic development activity. Interest earnings increased because of increasing market rates throughout the year. The average yield to maturity on the City's portfolio for fiscal year 2006-2007 was 5.25%, compared to the prior year yield to maturity of 4.42%.

Total governmental expenses increased by \$1,995,915 (5.4%). The largest change in expenses was an increase of \$1,534,929 or 14.4% in public safety expenses. This increase is primarily due to the addition of new dispatchers and jailers related to the new Keller/Southlake combined jail and dispatch operations, as well as the addition of 6 new firefighters, in anticipation of the addition of Fire Station No. 4 (the City of Southlake is reimbursing the City of Keller for all additional costs related to the combined jail/dispatch operations). General government and non-departmental expenses increased by \$449,501 or 9%. This increase is due to a combination of factors, including an increase in legal services necessary for defending the City in various on-going lawsuits; planned (budget) increases in personnel services related to funding for new employees and retirements; and reclassification of other city-wide expenses previously classified in other programs. Recreation and leisure expenses increased by \$360,522 or 4%. This increase is also due to a combination of factors, including parks capital improvements, and expenses related to the operations of The Keller Pointe Recreation and Aquatic Center. Interest expense decreased \$394,604, or 9.2%, primarily due to a combination of retirement of long-term debt and no issuance of new debt during the year.

Business-type Activities

Net assets from business-type activities increased by \$1,165,973, or 1.7%. Total expenses decreased by \$17,500, or 0.1%. Total revenues decreased \$5,275,799 (21.3%), including a decrease of \$3,588,461 (18.4%) in charges for services, related to a decreased demand in water usage by City of Keller customers. Capital grants and contributions decreased by \$1,976,150 (43.4%), primarily because of a decrease in developer contributions related to new residential development.

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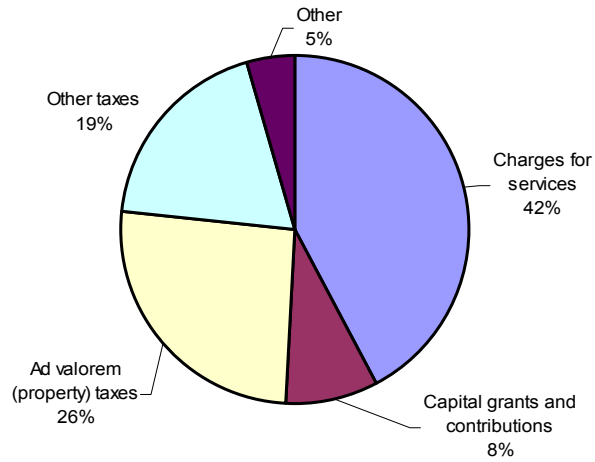
CITY OF KELLER'S CHANGES IN NET ASSETS

	Government Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 10,122,119	\$ 10,025,176	\$ 15,956,011	\$ 19,544,472	\$ 26,078,130	\$ 29,569,648
Operating grants and contributions	241,636	259,871			241,636	259,871
Capital grants & contributions	2,640,281	2,904,694	2,579,605	4,555,755	5,219,886	7,460,449
General revenues:						
Ad valorem (property) taxes	16,079,035	14,459,067			16,079,035	14,459,067
Sales taxes	8,294,981	7,534,422			8,294,981	7,534,422
Other taxes	3,236,163	3,138,860			3,236,163	3,138,860
Investment earnings	1,253,401	930,146	947,920	715,249	2,201,321	1,645,395
Miscellaneous	314,929	4,660	66,392	(5,051)	381,321	(391)
Gain (loss) on sale/retirement of fixed assets	(155,856)		(7,652)	7,650	(163,508)	7,650
Total revenues	<u>42,026,689</u>	<u>39,256,896</u>	<u>19,542,276</u>	<u>24,818,075</u>	<u>61,568,965</u>	<u>64,074,971</u>
Expenses:						
General government	5,380,332	4,814,291			5,380,332	4,814,291
Community development	1,231,365	1,251,056			1,231,365	1,251,056
Public safety	12,162,131	10,627,205			12,162,131	10,627,205
Public works	7,800,979	7,735,718			7,800,979	7,735,718
Recreation & leisure	8,449,576	8,089,054			8,449,576	8,089,054
Non-departmental	115,375	231,915			115,375	231,915
Interest on long-term debt	3,909,308	4,303,912			3,909,308	4,303,912
Water and sewer operations			14,664,225	14,859,712	14,664,225	14,859,712
Drainage utility			1,819,672	1,641,685	1,819,672	1,641,685
Total expenses	<u>39,049,066</u>	<u>37,053,151</u>	<u>16,483,897</u>	<u>16,501,397</u>	<u>55,532,963</u>	<u>53,554,548</u>
Increase (decrease) in net assets before transfers	2,977,623	2,203,745	3,058,379	8,316,678	6,036,002	10,520,423
Transfers in (out)	1,892,406	2,192,110	(1,892,406)	(2,192,110)	—	—
Increase (decrease) in net assets	<u>4,870,029</u>	<u>4,395,855</u>	<u>1,165,973</u>	<u>6,124,568</u>	<u>6,036,002</u>	<u>10,520,423</u>
Net assets – October 1	81,126,267	76,730,412	69,561,279	63,436,711	150,687,546	140,167,123
Net assets – September 30	<u>\$ 85,996,296</u>	<u>\$ 81,126,267</u>	<u>\$ 70,727,252</u>	<u>\$ 69,561,279</u>	<u>\$ 156,723,548</u>	<u>\$ 150,687,546</u>

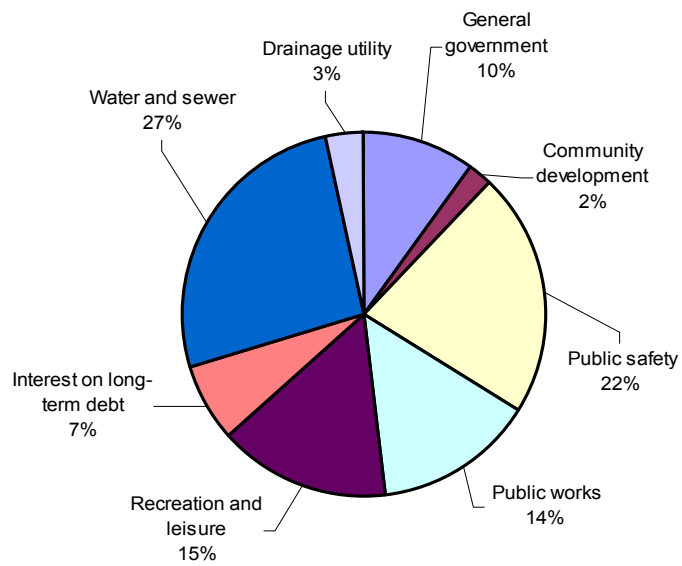
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Total Sources of Revenue – \$61,568,966



Total Expenses by Activity – \$55,532,963



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Financial Analysis of the City's Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$20,501,471, an increase of \$1,978,841 (10.7%) in comparison with the prior year. Approximately 33%, or \$6,667,424 of this total fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) pay for encumbrances, or liquidate contracts and purchase orders at the end of the year (\$2,489,485); 2) for special uses (\$4,088,939); and 3) to pay for debt service (\$89,000). Approximately 67% of the total amount (\$13,745,990) constitutes unreserved fund balance, which is available for appropriation by the City Council. A portion of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

Enterprise Funds – The City's enterprise fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Total unrestricted net assets of enterprise funds were \$16,403,823. Unrestricted net assets of the respective funds are: Water and Wastewater-\$16,113,847, and Drainage Utility-\$289,976. The Water and Wastewater operations had an increase in net assets of \$1,373,477, while the Drainage Utility had a decrease in net assets of \$207,502. The decrease in the net assets of the Drainage Utility resulted primarily from a decrease in capital contributions from developers over the previous year of \$751,282, combined with increases in service charges and transfers, as well as increases in operating expenses. The increase in water and wastewater net assets is due primarily to a decrease in wholesale water purchase costs, resulting from decreased customer demand for water, combined with decreases in water revenues and capital contributions from developers.

General Fund Budgetary Highlights – In fiscal year 2007, 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:

The original general fund adopted budget included a net decrease of \$1,635,450 in the unreserved fund balance, while the final budget reflected a decrease of \$1,161,113 in the unreserved fund balance, a difference of \$474,337. The original budget included a total ending fund balance of \$3,880,869, while the final budget total ending fund balance was \$5,915,752. The final budgeted increase in fund balance was part of the City's plan to maintain the current property tax rate, while also meeting the City's financial policy target balance of 13% of operating expenditures. Total final budgeted revenues and transfers in increased \$832,925 from the original budget, with the primary increase resulting from intergovernmental revenue from the City of Southlake (\$462,000) related to the City of Keller/City of Southlake combined public safety dispatch and jail agreement, which became effective April 1, 2007. Other significant increases include interest revenue (\$210,000), ambulance services fees (\$160,000), and municipal court fines and fees (\$150,000). Total final budgeted expenditures and transfers out increased by \$358,588 over the original budget. The most significant increase in budgeted expenditures was to account for expenditures related to the previously mentioned City of Keller/City of Southlake combined public safety dispatch and jail agreement, which became effective April 1, 2007 (\$462,000). This increase was combined with other decreases in expenditures throughout all the departments of the City.

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Significant budget variances:

Total actual revenues and transfers in exceeded the final budgeted amounts by \$126,126, or 1%. The most significant variance was sales taxes (\$244,474, a 6.3% increase over the final budget amount), resulting primarily continuing strong retail sales. Interest income exceeded the final budget amount by \$97,136, or 21%, resulting primarily from increased market rates, combined with additional funds available for investment. The most significant negative variances in revenue categories were in franchise taxes (\$189,409, or 9.5% below the final budget amount) and permits, licenses, and fees (\$107,688, or 9.5% below the final budget amount). During the summer months of 2007, the North Texas area experienced below normal temperatures, combined with above normal rainfall. The combination of these two factors impacted franchise revenues and building activity. Total actual expenditures and transfers out were less than final budgeted expenditures by \$1,055,331, or 9.6%. The positive total actual expenditure variance from the final budget was primarily due to efforts of all department managers to keep actual expenditures below the final budgeted expenditures, as all departments completed the year with actual expenditures less than the final budget.

As a measure of liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 30% (financial policy target = 13%) of total fund expenditures, while the total fund balance represents 32% of that same amount. The actual total ending fund balance of \$7,097,190 at September 30, 2007 is an increase of \$20,324 (0.3%) over the final adopted budget.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$225,779,203 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, improvements other than buildings, and construction in progress. The total decrease in the City's investment in capital assets, net of accumulated depreciation, for the current fiscal year was \$3,901,376, or 1.7% (a 2.9% decrease in capital assets for governmental activities and 0.8% increase in capital assets for business-type activities, respectively).

Capital asset contributions, primarily from developers, for fiscal year 2007 were \$5,219,886, a decrease of \$2,240,563 or 30% from the prior year.

This year's major additions (completed projects) include (000's):

1 million gallon elevated water storage tank on Keller-Smithfield Road	\$ 2,079
Keller-Smithfield Road water distribution improvements	1,569
3 million gallon water ground storage tank on Pearson Road	1,785
Street improvements funded from the 1/8 th cent street maintenance sales tax	<u>1,421</u>
Total	<u>\$ 6,854</u>

Ongoing projects (000's):

Pearson Pump Station Expansion and improvements	\$ 874
Land acquisition and design for new Fire Station No. 4	488

In addition to the above ongoing projects, there are several street improvement projects that are in the design phase, including Elm Street Bridge improvements (Texas Department of Transportation), North Tarrant Parkway design (a joint project with Tarrant County, Keller, and the city of North Richland Hills), and the Elm Street/U.S. Highway 377 one-way couplet (Texas Department of Transportation).

The five-year capital improvements program for fiscal years 2007-08 through 2011-12 identifies approximately \$92.4 million of capital projects, comprised primarily of streets and drainage improvements (46%), water and wastewater improvements (24%), and public safety (police and fire departments) improvements (20%). Currently, none of the \$92.4 million projects have been authorized or funded at this time.

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**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Government Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 19,268,180	\$ 18,871,354	\$ 1,153,640	\$ 1,122,730	\$ 20,421,820	\$ 19,994,084
Buildings	39,607,019	41,198,595	–	–	39,607,019	41,198,595
Equipment	3,544,770	3,850,605	665,677	806,898	4,210,447	4,657,503
Improvements	85,651,869	89,329,996	69,278,802	69,721,519	154,930,671	159,051,515
Capacity Rights	–	–	3,697,304	3,854,348	3,697,304	3,854,348
Construction in Progress	1,453,333	799,973	1,458,609	124,561	2,911,942	924,534
Total	<u>\$ 149,525,171</u>	<u>\$ 154,050,523</u>	<u>\$ 76,254,032</u>	<u>\$ 75,630,056</u>	<u>\$ 225,779,203</u>	<u>\$ 229,680,579</u>

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

Debt administration. At the end of the current fiscal year, the City of Keller had a total debt outstanding and capital leases payable (excluding bond premiums and discounts) of \$110,364,295. Of this amount, \$85,528,392 comprises debt backed by the full faith and credit of the City, and \$24,835,902 represents bonds secured solely by self-supporting activities, i.e., the water and sewer revenues. Total outstanding debt of governmental activities decreased \$6,681,823 (7.3%), while total outstanding debt of business-type activities decreased \$2,069,107 (7.7%).

Outstanding Debt at Year End

Type of Debt	Government Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation	\$ 19,577,410	\$ 21,226,400	\$ 8,782,587	\$ 9,768,600	\$ 28,359,997	\$ 30,995,000
Revenue bonds	775,000	890,000	–	–	775,000	890,000
Certificates of obligation	64,590,000	69,425,000	14,850,000	15,515,000	79,440,000	84,940,000
Contractual obligations	–	–	1,203,316	1,621,410	1,203,316	1,621,410
Capital leases	585,982	668,814	–	–	585,982	668,814
Total	<u>\$ 85,528,392</u>	<u>\$ 92,210,214</u>	<u>\$ 24,835,903</u>	<u>\$ 26,905,010</u>	<u>\$ 110,364,295</u>	<u>\$ 119,115,224</u>

As of September 30, 2007, of the \$85,528,392 in outstanding debt of governmental activities backed by the full faith and credit of the City, approximately 56%, or \$47,905,000, is self-supported debt from the following sources:

Keller Tax Increment Reinvestment Zone No. 1	\$30,855,000
Keller Development Corporation	17,050,000

Therefore 43%, or \$37,623,392, is backed by the full faith and credit of the City's general property tax base.

- During the fiscal year, the City's total outstanding debt decreased by \$8,750,929, or 7.4%. The decrease was primarily due to current year debt payments

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

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General obligation bonds (tax supported)	A1	A+
Certificates of obligation (tax supported)	A1	A+

Revenue bonds: As of September 30, 2007, the only remaining revenue bond debt outstanding is \$775,000 Keller Development Corporation Sales Tax Revenue Refunding Bonds, Series 2005.

Several of the City's outstanding bonds are insured by various commercial companies, and thus are rated "Aaa" by Moody's and "AAA" by S&P. In July 2006, Moody's Investors Services upgraded the City's general obligation and certificates of obligation debt from A2 to A1. Since 2000, the City's debt has been upgraded a total of 5 times.

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

Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2007-08 budget, general fund revenues and transfers in were budgeted to increase by \$2,133,750 (8.8%) from the revised 2006-07 budget, with general property taxes comprising about 42.1% of General Fund budgeted revenues and transfers in. Certified taxable assessed valuations (after adjustments) increased 11.1% over the prior year, compared to an increase of 8.5% last year. Projected increases in sales tax receipts (4%) continue in fiscal year 2006-07 because of new retail outlets opening in Keller, and continued increases in historical growth trends. Development-related budgeted revenues for the 2007-08 fiscal year were increased by \$263,975, or 13.4% over fiscal year 2006-07 as development activity is anticipated to continue at a strong pace because of continued growth in the area.

These revenue projections, combined with an effort to maintain ending fund balances as required by the City's financial policies, resulted in an increase in the projected ending fund balance at September 30, 2007. Budgeted expenditures increased by 4.4%, primarily as a result of an increase in capital outlay expenditures primarily for street improvements and replacement of essential equipment, maintaining the employee compensation plan, and the addition of approximately 12 full-time equivalent positions for the Fire Department, in anticipation of the opening of the new Fire Station No. 4 in the first calendar quarter of 2009. The adopted budget maintains the required ending fund balance at September 30, 2007 of 13% of operating expenditures (actual of 19.6%). The City's property tax rate was reduced to \$0.43219 cents per \$100 of assessed value, a decrease of \$0.01194 cents, or 2.7%.

Major items funded in the General Fund for fiscal year 2007-08 are:

Seven solar school crossing street lights	\$ 70,000
Increase in funding for street improvements	703,385
Replacement of Fire Department vehicles & equipment	84,000
Replacement of Street Department vehicles & equipment	77,000
Public Arts purchases	55,000

Significant items in other funds:

Information Services Fund – replace 3 network servers at Keller Town Hall-\$23,500; expansion of wireless Internet access capability-\$3,500; audio/visual improvements to pre-council room and council chambers-\$20,000; upgrade GIS plotter--\$7,500

Municipal Court – funding for document imaging system-\$32,100

Keller Development Corporation – funding for land acquisition-\$100,000; 5-gang reel mower for Keller Sports Park-440,000; replacement maintenance utility vehicle-\$26,500

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(Unaudited)*

Street/Drainage Improvements Fund – provide street, curb, gutter and sidewalk improvements totaling \$1,490,000 from the 1/8th of one percent street maintenance sales tax

Keller Crime Control Prevention District – provide (set-aside) contingency funding for jail improvements-\$1 million, vehicle replacement-\$196,725, digital phone and radio recording system-\$118,000

The City's financial position continues to improve because of an expanding property tax base, a growing retail base, and a competitive tax rate (the City's property tax rate for 2007-08 ranks the 3rd lowest among 12 Tarrant County-area cities).

Requests for Information

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

CITY OF KELLER, TEXAS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Cash</i>	\$ 105,036	\$ 400	\$ 105,436
<i>Investments</i>	21,381,102	4,879,346	26,260,448
<i>Receivables (net of allowances for uncollectibles):</i>	2,257,380	2,639,336	4,896,716
<i>Special assessments</i>	27,038	--	27,038
<i>Internal balances</i>	(152,693)	152,693	--
<i>Due from other governments</i>	1,541,506	245,698	1,787,204
<i>Inventories</i>	22,314	315,479	337,793
<i>Prepaid items</i>	51,311	11,727	63,038
<i>Deferred charges</i>	865,944	301,011	1,166,955
Restricted assets:			
<i>Investments</i>	--	14,085,733	14,085,733
Capital assets (net of accumulated depreciation, where applicable):			
<i>Land</i>	19,268,180	1,153,640	20,421,820
<i>Construction in progress</i>	1,453,333	1,458,609	2,911,942
<i>Buildings</i>	39,607,019	--	26,222,367
<i>Improvements other than buildings</i>	85,651,869	69,278,802	162,355,127
<i>Machinery and equipment</i>	3,544,770	665,677	10,170,643
<i>Capacity rights (net of accumulated amortization)</i>	--	3,697,304	3,697,304
Total Assets	<u>175,624,109</u>	<u>98,885,455</u>	<u>274,509,564</u>
LIABILITIES			
<i>Accounts payable</i>	2,047,806	2,527,380	4,575,186
<i>Accrued liabilities and other payables</i>	605,609	113,316	718,925
<i>Unearned revenue</i>	718,606	85,093	803,699
<i>Customer deposits</i>	44,186	737,875	782,061
<i>Accrued interest payable</i>	476,707	156,008	632,715
Noncurrent liabilities:			
<i>Due within one year</i>	6,045,755	2,176,566	8,222,321
<i>Due in more than one year</i>	79,689,144	22,361,965	102,051,109
Total Liabilities	<u>89,627,813</u>	<u>28,158,203</u>	<u>117,786,016</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	64,573,383	53,805,294	118,378,677
Restricted For:			
Debt Service	1,154,079	518,135	1,672,214
Capital Projects	10,644,270	--	10,644,270
Unrestricted	<u>9,624,564</u>	<u>16,403,823</u>	<u>26,028,387</u>
Total Net Assets	<u>\$ 85,996,296</u>	<u>\$ 70,727,252</u>	<u>\$ 156,723,548</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
<i>General government</i>	\$ 5,380,332	\$ 543,332	\$ 11,853	\$ --
<i>Community development</i>	1,231,365	3,272,575	--	--
<i>Public safety</i>	12,162,131	1,901,519	175,823	--
<i>Public works</i>	7,800,979	920,400	--	2,271,281
<i>Recreation and leisure</i>	8,449,576	3,484,293	53,960	369,000
<i>Non-departmental</i>	115,375	--	--	--
<i>Interest on long-term debt</i>	3,909,308	--	--	--
Total Governmental Activities	<u>39,049,066</u>	<u>10,122,119</u>	<u>241,636</u>	<u>2,640,281</u>
Business-type Activities:				
Water and Wastewater Utility	14,664,225	15,100,194	--	2,025,767
Drainage Utility	1,819,672	855,817	--	553,838
Total Business-type Activities	<u>16,483,897</u>	<u>15,956,011</u>	<u>--</u>	<u>2,579,605</u>
Total Primary Government	<u>\$ 55,532,963</u>	<u>\$ 26,078,130</u>	<u>\$ 241,636</u>	<u>\$ 5,219,886</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Alcoholic Beverage Taxes
Unrestricted Investment Earnings
Miscellaneous Income
Gain on Sale of Capital Assets
Litigation Settlement
Transfers
 Total General Revenues
 Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (4,825,147)		\$ (4,825,147)
2,041,210		2,041,210
(10,084,789)		(10,084,789)
(4,609,298)		(4,609,298)
(4,542,323)		(4,542,323)
(115,375)		(115,375)
(3,909,308)		(3,909,308)
<u>(26,045,030)</u>		<u>(26,045,030)</u>
--	\$ 2,461,736	2,461,736
--	(410,017)	(410,017)
--	<u>2,051,719</u>	<u>2,051,719</u>
<u>(26,045,030)</u>	<u>2,051,719</u>	<u>(23,993,311)</u>
16,079,035	--	16,079,035
8,294,981	--	8,294,981
3,182,681	--	3,182,681
53,482	--	53,482
1,253,401	947,920	2,201,321
16,680	66,392	83,072
(155,856)	(7,652)	(163,508)
298,249	--	298,249
<u>1,892,406</u>	<u>(1,892,406)</u>	--
<u>30,915,059</u>	<u>(885,746)</u>	<u>30,029,313</u>
4,870,029	1,165,973	6,036,002
<u>81,126,267</u>	<u>69,561,279</u>	<u>150,687,546</u>
<u>\$ 85,996,296</u>	<u>\$ 70,727,252</u>	<u>\$ 156,723,548</u>

CITY OF KELLER, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	General Fund	G.O. Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Cash</i>	\$ 67,389	\$ --	\$ 37,646	\$ 105,035
<i>Investments</i>	6,866,118	720,939	13,794,041	21,381,098
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	783,652	101,069	--	884,721
<i>Accounts</i>	415,294	--	2,269	417,563
<i>Interest</i>	94,471	8,321	163,766	266,558
<i>Other</i>	211,088	53,625	430,998	695,711
<i>Special assessments</i>	--	--	19,865	19,865
<i>Intergovernmental</i>	785,607	--	755,899	1,541,506
<i>Due from other funds</i>	32,178	--	49,501	81,679
<i>Advance to other funds</i>	--	--	14,432	14,432
<i>Inventories</i>	22,314	--	--	22,314
<i>Prepaid items</i>	30,080	--	21,231	51,311
Total Assets	\$ 9,308,191	\$ 883,954	\$ 15,289,648	\$ 25,481,793
LIABILITIES AND FUND BALANCES				
Liabilities:				
<i>Accounts payable</i>	\$ 954,096	\$ --	\$ 1,093,710	\$ 2,047,806
<i>Accrued liabilities and other payables</i>	496,688	--	108,921	605,609
<i>Due to other funds</i>	--	57,729	120,415	178,144
<i>Advance from other funds</i>	--	56,229	14,432	70,661
<i>Customer deposits</i>	42,752	--	1,434	44,186
<i>Deferred revenue</i>	717,465	148,254	1,168,197	2,033,916
Total Liabilities	2,211,001	262,212	2,507,109	4,980,322
Fund Balances:				
Reserved Fund Balances				
<i>Reserved for encumbrances</i>	370,780	--	2,118,705	2,489,485
<i>Reserved for special uses</i>	53,869	--	4,035,070	4,088,939
<i>Reserved for interfund advances</i>	--	--	14,432	14,432
<i>Reserved for prepaid items</i>	30,080	--	21,231	51,311
<i>Reserved for inventory</i>	22,314	--	--	22,314
<i>Reserved for debt service</i>	--	--	89,000	89,000
Unreserved, reported in:				
<i>General Fund</i>	6,620,147	--	--	6,620,147
<i>Special Revenue Funds</i>	--	--	1,928,273	1,928,273
<i>Debt Service Funds</i>	--	621,742	247,354	869,096
<i>Capital Projects Funds</i>	--	--	4,328,474	4,328,474
Total Fund Balances	7,097,190	621,742	12,782,539	20,501,471
Total Liabilities and Fund Balances	\$ 9,308,191	\$ 883,954	\$ 15,289,648	\$ 25,481,793

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2007

Total fund balances - governmental funds balance sheet	\$ 20,501,471
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	149,525,170
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	598,201
Payables for bond principal which are not due in the current period are not reported in the funds.	(84,221,009)
Payables for bond interest which are not due in the current period are not reported in the funds.	(476,708)
Payables for notes which are not due in the current period are not reported in the funds.	(585,982)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(927,909)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	865,952
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.	88,719
Ambulance receivables unavailable to pay for current period expenditures are deferred in the funds.	315,528
Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>312,863</u>
Net assets of governmental activities - statement of net assets	<u>\$ 85,996,296</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General Fund	G.O. Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
<i>Taxes</i>	\$ 17,193,033	\$ 4,118,098	\$ 6,125,180	\$ 27,436,311
<i>Permits, licenses and fees</i>	1,914,637	--	67,000	1,981,637
<i>Intergovernmental</i>	1,452,871	--	131,521	1,584,392
<i>Charges for services</i>	738,684	--	2,904,111	3,642,795
<i>Fines</i>	1,076,532	--	101,119	1,177,651
<i>Special assessments and impact fees</i>	--	--	865,963	865,963
<i>Donations</i>	11,353	--	485,749	497,102
<i>Interest income</i>	557,136	67,997	628,268	1,253,401
<i>Miscellaneous</i>	219,382	9	682,671	902,062
Total revenues	<u>23,163,628</u>	<u>4,186,104</u>	<u>11,991,582</u>	<u>39,341,314</u>
Expenditures:				
Current:				
<i>General government</i>	3,481,037	--	1,237,900	4,718,937
<i>Community development</i>	1,208,865	--	--	1,208,865
<i>Public safety</i>	10,977,896	--	133,486	11,111,382
<i>Public works</i>	1,888,375	--	55,775	1,944,150
<i>Recreation and leisure</i>	3,450,130	--	3,062,262	6,512,392
<i>Non-departmental</i>	378,409	--	--	378,409
<i>Capital outlay</i>	851,337	--	2,015,150	2,866,487
Debt service:				
<i>Principal</i>	--	2,986,820	3,695,000	6,681,820
<i>Interest and fiscal charges</i>	--	1,735,135	2,097,299	3,832,434
Total expenditures	<u>22,236,049</u>	<u>4,721,955</u>	<u>12,296,872</u>	<u>39,254,876</u>
Excess (deficiency) of revenues over (under) expenditures	927,579	(535,851)	(305,290)	86,438
Other financing sources (uses):				
<i>Transfers in</i>	1,203,053	648,970	2,921,073	4,773,096
<i>Transfers out</i>	(2,110,308)	--	(770,382)	(2,880,690)
Total other financing sources (uses)	<u>(907,255)</u>	<u>648,970</u>	<u>2,150,691</u>	<u>1,892,406</u>
Net change in fund balances	20,324	113,119	1,845,401	1,978,844
Fund balances, October 1	<u>7,076,866</u>	<u>508,623</u>	<u>10,937,138</u>	<u>18,522,627</u>
Fund balances, September 30	<u>\$ 7,097,190</u>	<u>\$ 621,742</u>	<u>\$ 12,782,539</u>	<u>\$ 20,501,471</u>

The accompanying notes are an integral part of this statement.

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, 2007

Net change in fund balances - total governmental funds	\$ 1,978,844
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,029,772
The depreciation of capital assets used in governmental activities is not reported in the funds.	(8,699,575)
The gain or loss on the sale of capital assets is not reported in the funds.	(155,856)
Donations of capital assets increase net assets in the SOA but not in the funds.	2,300,307
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	173,867
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	6,598,987
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	82,832
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(129,868)
(Increase) decrease in accrued interest, bond premium/discount and deferred refunding items.	52,995
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(21,833)
Certain ambulance receivables are deferred in the funds. This is the change in these amounts this year.	30,665
Certain assessment revenues are deferred in the funds. This is the change in these amounts this year.	312,561
Revenues in the SOA for court fines not providing current financial resources are not reported in the funds.	23,831
Payment of accrued litigation settlement is an expenditure in the funds but is not an expense in the SOA.	<u>292,500</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 4,870,029</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF NET ASSETS

ENTERPRISE FUNDS

SEPTEMBER 30, 2007

	Water and Wastewater Utility	Drainage Utility	Total Enterprise Funds
ASSETS			
Current Assets:			
<i>Cash</i>	\$ 400	\$ --	\$ 400
<i>Investments</i>	4,497,826	381,520	4,879,346
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	5,381	--	5,381
<i>Accounts</i>	2,379,488	45,648	2,425,136
<i>Interest</i>	193,716	4,602	198,318
<i>Other</i>	10,501	--	10,501
<i>Intergovernmental</i>	245,698	--	245,698
<i>Due from other funds</i>	165,897	2,653	168,550
<i>Advance to other funds</i>	56,229	--	56,229
<i>Inventories</i>	315,479	--	315,479
<i>Prepaid items</i>	11,678	49	11,727
Total Current Assets	<u>7,882,293</u>	<u>434,472</u>	<u>8,316,765</u>
Noncurrent Assets:			
Restricted assets:			
<i>Investments</i>	14,085,733	--	14,085,733
Total Restricted Assets	<u>14,085,733</u>	<u>--</u>	<u>14,085,733</u>
<i>Property, Plant and Equipment</i>			
<i>Land</i>	1,126,640	27,000	1,153,640
<i>Improvements other than buildings</i>	75,947,176	20,231,262	96,178,438
<i>Machinery and equipment</i>	1,694,422	527,161	2,221,583
<i>Construction in progress</i>	1,458,609	--	1,458,609
<i>Capacity rights</i>	6,281,781	--	6,281,781
<i>Accumulated Depreciation</i>	(22,952,153)	(8,087,866)	(31,040,019)
Net Property, Plant and Equipment	<u>63,556,475</u>	<u>12,697,557</u>	<u>76,254,032</u>
<i>Deferred charges</i>	301,011	--	301,011
Total Noncurrent Assets	<u>77,943,219</u>	<u>12,697,557</u>	<u>90,640,776</u>
Total Assets	<u>85,825,512</u>	<u>13,132,029</u>	<u>98,957,541</u>
LIABILITIES			
Current Liabilities:			
<i>Accounts payable</i>	2,521,275	6,105	2,527,380
<i>Accrued liabilities and other payables</i>	97,416	15,900	113,316
<i>Due to other funds</i>	--	72,086	72,086
<i>Accrued interest payable</i>	156,008	--	156,008
<i>Unearned revenue</i>	85,093	--	85,093
<i>Customer deposits</i>	697,875	40,000	737,875
<i>Current portion of compensated absences</i>	32,352	3,357	35,709
<i>Current portion of certificates of obligation</i>	720,000	--	720,000
<i>Current portion of general obligation bonds</i>	980,272	--	980,272
<i>Current portion of contractual obligations</i>	440,585	--	440,585
Total Current Liabilities	<u>5,730,876</u>	<u>137,448</u>	<u>5,868,324</u>
Noncurrent Liabilities:			
Compensated absences payable	49,111	7,048	56,159
<i>Certificates of obligation</i>	14,130,000	--	14,130,000
<i>Contractual obligations</i>	762,731	--	762,731
<i>General obligations</i>	7,413,075	--	7,413,075
Total Noncurrent Liabilities	<u>22,354,917</u>	<u>7,048</u>	<u>22,361,965</u>
Total Liabilities	<u>28,085,793</u>	<u>144,496</u>	<u>28,230,289</u>
NET ASSETS			
<i>Invested in capital assets, net of related debt</i>	41,107,737	12,697,557	53,805,294
<i>Restricted</i>	518,135	--	518,135
<i>Unrestricted</i>	16,113,847	289,976	16,403,823
Total Net Assets	<u>\$ 57,739,719</u>	<u>\$ 12,987,533</u>	<u>\$ 70,727,252</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Water and Wastewater Utility	Drainage Utility	Total Enterprise Funds
OPERATING REVENUES:			
<i>Charges for services - water</i>	\$ 10,273,194	\$ --	\$ 10,273,194
<i>Charges for services - sewer</i>	4,435,132	--	4,435,132
<i>Charges for services - drainage</i>	--	855,817	855,817
<i>Tap and connection fees</i>	103,917	--	103,917
<i>Intergovernmental</i>	258,791	--	258,791
Total Operating Revenues	<u>15,071,034</u>	<u>855,817</u>	<u>15,926,851</u>
OPERATING EXPENSES:			
<i>Personnel services</i>	2,575,702	495,447	3,071,149
<i>Supplies and maintenance</i>	570,557	85,949	656,506
<i>Services and other</i>	1,944,993	199,040	2,144,033
<i>Wholesale water purchases</i>	4,147,890	--	4,147,890
<i>Wastewater services contracted</i>	1,639,664	--	1,639,664
<i>Depreciation and amortization</i>	2,617,685	1,037,095	3,654,780
Total Operating Expenses	<u>13,496,491</u>	<u>1,817,531</u>	<u>15,314,022</u>
Operating Income (Loss)	<u>1,574,543</u>	<u>(961,714)</u>	<u>612,829</u>
NON-OPERATING REVENUES (EXPENSES):			
<i>Interest income</i>	928,797	19,124	947,921
<i>Gain from disposal of assets</i>	--	(7,652)	(7,652)
<i>Miscellaneous income</i>	95,451	101	95,552
<i>Interest and fiscal charges</i>	(1,167,734)	(2,141)	(1,169,875)
Total Non-operating Revenues (Expenses)	<u>(143,486)</u>	<u>9,432</u>	<u>(134,054)</u>
Net Income (Loss) before Capital Contributions and Transfers	<u>1,431,057</u>	<u>(952,282)</u>	<u>478,775</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS:			
<i>Capital Contributions</i>	2,025,766	553,838	2,579,604
<i>Transfers in</i>	51,459	224,000	275,459
<i>Transfers out</i>	(2,134,805)	(33,060)	(2,167,865)
Total Capital Contributions and Transfers	<u>(57,580)</u>	<u>744,778</u>	<u>687,198</u>
Change in Net Assets	<u>1,373,477</u>	<u>(207,504)</u>	<u>1,165,973</u>
Total Net Assets, October 1	<u>56,366,242</u>	<u>13,195,037</u>	<u>69,561,279</u>
Total Net Assets, September 30	<u>\$ 57,739,719</u>	<u>\$ 12,987,533</u>	<u>\$ 70,727,252</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

STATEMENT OF CASH FLOWS

ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Water & Wastewater Operations	Drainage Utility	Totals
Cash Flows from Operating Activities:			
<i>Cash received from customers and users</i>	\$ 15,284,035	\$ 853,288	\$ 16,137,323
<i>Cash payments to suppliers for goods and services</i>	(7,237,264)	(300,026)	(7,537,290)
<i>Cash payments to employees for services</i>	(2,545,008)	(488,178)	(3,033,186)
Net Cash Provided (Used) by Operating Activities	<u>5,501,763</u>	<u>65,084</u>	<u>5,566,847</u>
Cash Flows from Non-capital Financing Activities:			
<i>Transfers from other funds</i>	51,459	224,000	275,459
<i>Transfers to other funds</i>	(2,134,805)	(33,060)	(2,167,865)
<i>Cash received from other funds</i>	259,880	--	259,880
<i>Cash paid to other funds</i>	(58,482)	(37,639)	(96,121)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,881,948)</u>	<u>153,301</u>	<u>(1,728,647)</u>
Cash Flows from Capital and Related Financing Activities:			
<i>Acquisition or construction of capital assets</i>	(1,446,191)	(257,611)	(1,703,802)
<i>Principal payments on debt</i>	(2,149,953)	--	(2,149,953)
<i>Interest paid</i>	(1,136,543)	(2,141)	(1,138,684)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(4,732,687)</u>	<u>(259,752)</u>	<u>(4,992,439)</u>
Cash Flows from Investing Activities:			
<i>Purchase of investments</i>	(4,744,889)	(90,509)	(4,835,398)
<i>Investment interest received</i>	876,770	27,029	903,799
Net Cash Provided (Used) for Investing Activities	<u>(3,868,119)</u>	<u>(63,480)</u>	<u>(3,931,599)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(4,980,991)</u>	<u>(104,847)</u>	<u>(5,085,838)</u>
Cash and cash equivalents - beginning	2,283,800	211,252	2,495,052
Restricted cash and cash equivalents - beginning	7,880,544	--	7,880,544
	<u>10,164,344</u>	<u>211,252</u>	<u>10,375,596</u>
Cash and cash equivalents - ending	1,254,843	106,405	1,361,248
Restricted cash and cash equivalents - ending	3,928,510	275,115	4,203,625
	<u>\$ 5,183,353</u>	<u>\$ 381,520</u>	<u>\$ 5,564,873</u>
Cash	\$ 400	\$ --	\$ 400
Investments classified as cash equivalents	1,254,443	106,405	1,360,848
	<u>\$ 1,254,843</u>	<u>\$ 106,405</u>	<u>\$ 1,361,248</u>
Restricted investments classified as cash equivalents	<u>\$ 3,928,510</u>	<u>\$ 12,697,557</u>	<u>\$ 16,626,067</u>

	Enterprise Funds		
	Water & Wastewater Operations	Drainage Utility	Totals
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities:			
Operating income (loss)	\$ 1,574,543	\$ (961,714)	\$ 612,829
Adjustments to reconcile operating income to net cash			
Provided by Operating Activities			
<i>Depreciation and amortization</i>	2,617,685	1,037,095	3,654,780
<i>Miscellaneous income (expense)</i>	95,451	101	95,552
(Increase) decrease in assets			
<i>Accounts receivable</i>	1,659	(2,630)	(971)
<i>Other receivables/accrued interest</i>	7,624	--	7,624
<i>Due from other governments</i>	702,755	--	702,755
<i>Prepaid items</i>	(900)	(6)	(906)
<i>Inventory</i>	(24,941)	--	(24,941)
Increase (decrease) in liabilities:			
<i>Accounts payable</i>	529,847	(15,031)	514,816
<i>Accrued liabilities and other payables</i>	(125,169)	4,196	(120,973)
<i>Customer deposits</i>	23,174	--	23,174
<i>Compensated absences</i>	14,942	3,073	18,015
<i>Deferred revenue</i>	85,093	--	85,093
Total Adjustments	<u>3,927,220</u>	<u>1,026,798</u>	<u>4,954,018</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,501,763</u>	<u>\$ 65,084</u>	<u>\$ 5,566,847</u>
Noncash Investing, Capital, and Financing Activities			
<i>Developer contributions of infrastructure</i>	<u>\$ 2,025,766</u>	<u>\$ 553,838</u>	<u>\$ 2,579,604</u>

The accompanying notes are an integral part of this statement.

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

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 November 16, 1955. The City provides a full range of municipal services including general government, planning & community development, public safety (police, fire, animal control, and emergency medical services), public works, recreation and leisure, and other. In addition, the City provides water and sewer service, and storm water drainage as proprietary functions of the City.

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

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

Blended Component Units

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

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.

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

Since the TIF Board of Directors 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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

authorized for an initial period of five years. In May 2006, voters re-authorized the tax for an additional period of 15 years.

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.

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

The City reports the following major proprietary funds:

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

The City's investment policy is more restrictive than permitted 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, reverse repurchase agreements, bankers' acceptances and commercial paper, to the extent they are contained in the portfolios of approved public funds investment pools in which the City invests.

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

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."

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

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

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

3. Inventories and prepaid items

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

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

4. Restricted assets

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

5. Capital assets

Capital assets, which include 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 assets lives are not capitalized.

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

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

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

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. Non-exempt employees may accrue up to 40 hours while exempt employees may accrue up to 320 hours. Sick leave is accrued at 8.0 hours per month without limitation. Upon termination or retirement, any accumulated sick leave expires. Unused compensatory time for nonexempt employees is paid on termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are 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 equity

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

II. DETAILED NOTES ON ALL FUNDS

Cash

A. Deposits and investments

In accordance with "GASB Statement No. 3, Deposits and Financial Institutions," the City classifies its deposits as to custodial credit risk. At year end, the carrying amount of the City's deposits and cash on hand was \$105,035 and the bank balance was \$499,776. \$100,000 of the bank balance was covered by federal deposit insurance and the remainder was covered by collateral pledged by the depository in the City's name and held by the depository's agent.

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

Under a contractual agreement with Trinity River Authority, depository accounts are maintained by TRA for interest sinking, debt and construction reserves totaling \$1,169,500 which are separately insured or secured by collateral pledged by TRA's depository. The City's liability for its share of TRA contract revenue bonds is reduced by this amount.

Investments

Investments are categorized to give an indication of the level of credit risk assumed by the City. At September 30, 2007, all of the City's investments are classified as Category I investments (lowest risk category), which are defined as securities held by the City or its agent in the City's name. At year end the City's investments were:

Description	Carrying Amount	Fair Value	% of Total (Cost)	Ratings (Standard & Poor's)	
				Minimum	Actual
U.S. Agency Discount/Callable Notes	\$ 27,758,067	\$ 27,926,080	69%		
Money Market Mutual Funds	354,289	354,289	1%		
Government Sponsored Investment Pools					
TexPool	9,146,525	9,146,525	22%	AAA	AAAm
LOGIC	3,087,300	3,087,300	8%	AAA	AAAm
	<u>\$ 40,346,181</u>	<u>\$ 40,514,194</u>	<u>100%</u>		
Unrestricted	\$ 26,260,448				
Restricted	<u>14,085,733</u>				
	<u>\$ 40,346,181</u>				

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.

Weighted Average Maturity - Fair Value		
Maturity Range	% Minimum	Actual %
Within 1 Month	25.0%	34.4%
Within 3 Months	33.0%	52.6%
Within 6 Months	50.0%	74.4%
Within 1 Year	75.0%	89.0%
Within 3 Years	100.0%	100.0%

Credit Risk – The City's investment policy limits investments as described previously in Note I.D.1.

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.

Custodial Credit Risk – Deposits. 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. The City requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or collateralized by qualified securities pledged by the City's depository in the City's name and held by the depository's agent.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

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

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

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.

B. Receivables

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

	Governmental Funds				Proprietary Funds		
	General	G. O. Debt Service	Nonmajor	Total	Water & Wastewater Operations	Drainage Utility	Total
Taxes receivable	\$ 813,655	\$ 114,974	\$ -	\$ 928,629	\$ 5,381	\$ -	\$ 5,381
Allowance for uncollectible taxes	(30,003)	(13,905)	-	(43,908)	-	-	-
	<u>783,652</u>	<u>101,069</u>	<u>-</u>	<u>884,721</u>	<u>5,381</u>	<u>-</u>	<u>5,381</u>
Accounts receivable	2,056,079	-	13,216	2,069,295	2,668,147	75,966	2,744,113
Allowance for uncollectible accounts	(1,640,785)	-	(10,947)	(1,651,732)	(288,659)	(30,318)	(318,977)
	<u>415,294</u>	<u>-</u>	<u>2,269</u>	<u>417,563</u>	<u>2,379,488</u>	<u>45,648</u>	<u>2,425,136</u>
Accrued interest	94,471	8,321	163,766	266,558	193,716	4,602	198,318
Other receivables	211,088	53,625	430,998	695,711	10,501	-	10,501
Total	<u>\$ 1,504,505</u>	<u>\$ 163,015</u>	<u>\$ 597,033</u>	<u>\$ 2,264,553</u>	<u>\$ 2,589,086</u>	<u>\$ 50,250</u>	<u>\$ 2,639,336</u>

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 313,218	\$ -
Ambulance revenue receivable (General Fund)	315,528	-
Municipal court fines receivable (General Fund)	88,719	-
Membership dues (Recreation/Aquatic Center Fund)	718,606	718,606
Delinquent property taxes receivable (Debt Service Fund)	148,254	-
Delinquent TIF taxes (Town Center TIF I&S Fund)	136,728	-
Assessments receivable not yet due (Roadway Impact Fee Fund)	293,337	-
Assessments receivable not yet due (Street/Sidewalk Improvements Fund)	<u>19,526</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 2,033,916</u>	<u>\$ 718,606</u>

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

C. Restricted assets

Business-type activities:

Restricted for debt service	\$ 452,205
Restricted for water and wastewater system improvements	<u>13,633,528</u>
	<u>\$ 14,085,733</u>

D. Capital assets

Capital asset activity for the year ended September 30, 2007:

Primary Government

	Balance 9/30/2006	Additions	Deletions & Transfers Out	Transfers & Completed Construction	Balance 9/30/2007
GOVERNMENTAL ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$ 18,871,355	\$ 396,825	\$ -	\$ -	\$ 19,268,180
Construction in progress	<u>799,972</u>	<u>989,524</u>	<u>(11,876)</u>	<u>(324,287)</u>	<u>1,453,333</u>
Total capital assets not being depreciated	<u>19,671,327</u>	<u>1,386,349</u>	<u>(11,876)</u>	<u>(324,287)</u>	<u>20,721,513</u>
Capital assets, being depreciated					
Buildings	48,075,475	14,553	-	-	48,090,028
Improvements other than buildings	152,421,878	2,162,532	-	241,871	154,826,281
Machinery and equipment	<u>8,978,122</u>	<u>766,646</u>	<u>(143,980)</u>	<u>82,416</u>	<u>9,683,204</u>
Total capital assets being depreciated	<u>209,475,475</u>	<u>2,943,731</u>	<u>(143,980)</u>	<u>324,287</u>	<u>212,599,513</u>
Less accumulated depreciation for:					
Buildings	(6,876,880)	(1,606,129)	-	-	(8,483,009)
Improvements other than buildings	(63,091,882)	(6,082,530)	-	-	(69,174,412)
Machinery and equipment	<u>(5,127,517)</u>	<u>(1,010,917)</u>	<u>-</u>	<u>-</u>	<u>(6,138,434)</u>
Total accumulated depreciation	<u>(75,096,279)</u>	<u>(8,699,576)</u>	<u>-</u>	<u>-</u>	<u>(83,795,855)</u>
Total capital assets being depreciated, net	<u>134,379,196</u>	<u>(5,755,845)</u>	<u>(143,980)</u>	<u>324,287</u>	<u>128,803,658</u>
Governmental activities capital assets, net	<u>\$154,050,523</u>	<u>\$ (4,369,496)</u>	<u>\$ (155,856)</u>	<u>\$ -</u>	<u>\$149,525,171</u>

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

General government	\$ 783,472
Planning & community development	23,141
Public safety	814,856
Public works	5,185,159
Recreation and leisure	<u>1,892,948</u>
	<u>\$ 8,699,576</u>

CITY OF KELLER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended September 30, 2007

	Balance 9/30/2006	Additions	Deletions & Transfers Out	Transfers and Completed Construction	Balance 9/30/2007
BUSINESS-TYPE ACTIVITIES:					
Capital assets, not being depreciated:					
Land	\$ 1,122,730	\$ 30,910	\$ -	\$ -	\$ 1,153,640
Construction in progress	124,561	1,334,048	-	-	1,458,609
Total capital assets not being depreciated	<u>1,247,291</u>	<u>1,364,958</u>	<u>-</u>	<u>-</u>	<u>2,612,249</u>
Capital assets, being depreciated					
Improvements other than buildings	93,251,181	2,954,257	(27,000)	-	96,178,438
Machinery and equipment	2,079,958	141,625	-	-	2,221,583
Capacity rights	6,281,781	-	-	-	6,281,781
Total capital assets being depreciated	<u>101,612,920</u>	<u>3,095,882</u>	<u>(27,000)</u>	<u>-</u>	<u>104,681,802</u>
Less accumulated depreciation for:					
Improvements other than buildings	(23,529,662)	(3,369,974)	-	-	(26,899,636)
Machinery and equipment	(1,270,061)	(285,845)	-	-	(1,555,906)
Capacity rights	<u>(2,427,432)</u>	<u>(157,045)</u>	<u>-</u>	<u>-</u>	<u>(2,584,477)</u>
Total accumulated depreciation	<u>(27,227,155)</u>	<u>(3,812,864)</u>	<u>-</u>	<u>-</u>	<u>(31,040,019)</u>
Total capital assets being depreciated, net	<u>74,385,765</u>	<u>(716,982)</u>	<u>(27,000)</u>	<u>-</u>	<u>73,641,783</u>
Business-type activities capital assets, net	<u>\$75,633,056</u>	<u>\$ 647,976</u>	<u>\$ (27,000)</u>	<u>\$ -</u>	<u>\$ 76,254,032</u>

Construction commitments

The City has active construction projects as of September 30, 2007. 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 commitment for water system improvements and sewer system improvements are being financed by self supporting bonds, combination tax and revenue certificates of obligation, and water and sewer impact fees.

	Spent to Date	Remaining Commitment
Fire Department facilities expansion (Station No. 4)	\$ 37,038	\$ 919,609
Keller/Southlake/Fort Worth water system improvements	2,333,971	79,529
Pearson/Southlake/Fort Worth water improvements	116,527	7,574
Lower pressure plane water improvements	901,852	939,038
Miscellaneous drainage system improvements	39,496	138,654
Highland Oaks channel improvements (design)	-	258,950
Daryll and Garden Lane drainage improvements (design)	-	232,940
Miscellaneous water system improvements	185,050	212,629
Big Bear East Branch sewer system improvements	47,612	370,486
Miscellaneous sewer system improvements	104,752	2,648
Miscellaneous street improvements - general purpose	506,463	363,821
Traffic signalization improvements	9,914	140,303
Miscellaneous park improvements	57,502	90,484
North Tarrant Parkway road improvements	132,800	229,700
Total	<u>\$ 4,472,977</u>	<u>\$ 3,986,365</u>

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2007, is as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 32,178	\$ -
Debt Service Fund	-	57,729
Nonmajor governmental funds	49,501	120,415
Water & Wastewater Operations	165,897	-
Drainage Utility	2,653	72,085
	<u>\$ 250,229</u>	<u>\$ 250,229</u>

The interfund balances above represent unsettled overdrafts of pooled cash which will be removed by rebalancing the funds share of pooled cash and investments.

	Advances Receivable	Advances Payable
Debt Service Fund	\$ -	\$ 56,229
Nonmajor governmental funds	14,432	14,432
Water and Wastewater Operations	56,229	-
	<u>\$ 70,661</u>	<u>\$ 70,661</u>

\$56,229 is due on an original loan for \$162,348 payable over two years, to the Water and Wastewater fund from the Debt Service fund for a loan passed through to the Equipment Replacement fund and used for acquisition of City vehicles and equipment. \$14,432 is due on an original loan for \$28,513 payable over three years, to the KDC fund from the Recreation/Aquatic Center fund for start-up costs.

Interfund transfers:

	Transfers From Other Funds	Transfers To Other Funds
General Fund	\$ 1,203,053	\$ 2,110,308
Debt Service Fund	648,970	-
Nonmajor governmental funds	2,921,073	770,382
Water & Wastewater Operations	51,459	2,134,805
Drainage Utility	224,000	33,060
	<u>\$ 5,048,555</u>	<u>\$ 5,048,555</u>

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

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

F. Long-term debt

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

General Debt Currently Outstanding:

Purpose	Original Amount	Year of Issue	Final Maturity	Average Annual Payment	Interest Rate	Balance 9/30/2007
GOVERNMENTAL ACTIVITIES DEBT						
General Obligation Bonds:						
City						
Improvements	\$ 1,150,000	1981	2020	\$ 72,365	5.00%	\$ 690,000
Refunding	2,297,976	1999	2020	143,075	3.75% - 5.00%	1,517,410
Refunding	700,000	2002	2014	76,493	3.00% - 4.00%	410,000
Refunding	11,125,000	2004	2017	807,019	3.00% - 4.00%	7,120,000
Refunding	9,980,000	2005	2014	985,237	3.00% - 4.20%	9,840,000
						<u>19,577,410</u>
Certificates of Obligation:						
City						
Improvements	2,150,000	1998	2018	170,585	4.60% - 5.85%	100,000
Improvements	3,000,000	1998	2019	239,847	4.00% - 6.00%	945,000
Improvements	8,100,000	2000	2220	360,865	5.20% - 6.00%	680,000
Improvements	8,615,000	2002	2022	670,494	4.00% - 5.00%	7,250,000
Improvements	1,690,000	2003	2023	106,986	2.50% - 4.25%	1,200,000
Improvements	6,540,000	2004	2024	532,459	4.00% - 5.00%	6,290,000
Improvements	270,000	2006	2026	60,141	4.25% - 5.37%	220,000
Keller TIRZ (TIF)						
Improvements	6,825,000	1999	2018	447,642	5.10% - 6.10%	1,205,000
Improvements	17,095,000	2000	2018	1,228,794	5.00% - 5.75%	4,295,000
Improvements	8,735,000	2001	2018	957,863	4.25% - 5.25%	7,955,000
Refunding	17,400,000	2005	2018	2,252,929	3.50% - 5.00%	17,400,000
Keller Development Corp.						
Improvements	18,120,000	2003	2023	1,386,964	2.50% - 4.25%	16,545,000
Improvements	755,000	2004	2024	111,650	4.00% - 5.00%	505,000
						<u>64,590,000</u>
						<u>84,167,410</u>
Revenue Bonds:						
Keller Development Corp.						
Refunding	890,000	2006	2013	146,599	4.20%	775,000
						<u>84,942,410</u>
Less: bond issue discount/(premium)						490,370
Less: deferred loss on refunding						<u>(1,211,771)</u>
Total Governmental Activities Debt						<u>84,221,009</u>

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

Purpose	Original Amount	Year of Issue	Final Maturity	Average Annual Payment	Interest Rate	Balance 9/30/2007
BUSINESS-TYPE ACTIVITIES DEBT						
General Obligation Bonds:						
City						
Refunding	\$ 3,222,024	1999	2020	\$ 200,608	3.75% - 5.00%	\$ 2,127,587
Refunding	5,360,000	2002	2013	493,326	3.00% - 4.00%	3,080,000
Refunding	440,000	2004	2017	36,095	3.00% - 4.00%	235,000
Refunding	3,390,000	2004	2020	338,888	3.00% - 4.20%	3,340,000
						<u>8,782,587</u>
Less: bond issue discount/(premium)						(15,892)
Less: deferred loss on refunding						<u>(373,348)</u>
						<u>8,393,347</u>
Certificates of Obligation:						
City						
Improvements	4,575,000	2000	2020	375,843	5.00% - 6.50%	385,000
Improvements	11,310,000	2004	2024	891,217	4.00% - 5.00%	10,325,000
Improvements	4,255,000	2006	2026	320,935	4.25% - 5.37%	4,140,000
						<u>14,850,000</u>
Contractual Obligations:						
City						
Improvements	3,679,920	1996	2011	345,495	3.60% - 5.20%	1,277,077
Refunding	697,116	2005	2013	103,297	2.50% - 3.50%	493,308
						<u>1,770,385</u>
Less: deferred loss on refunding						(86,192)
Less: TRA accrued interest and cash reserves						<u>(480,877)</u>
						<u>1,203,316</u>
Total Business Type Activities Debt						<u>24,446,663</u>
Total Long-Term Debt						<u>\$ 108,667,672</u>

Annual debt service requirements to maturity for general debt:

Due Fiscal Year Ending September 30,	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2008	\$ 5,484,395	\$ 3,661,875	\$ 1,740,605	\$ 1,178,611	\$ 12,065,486
2009	6,189,416	3,351,829	1,540,584	1,107,318	12,189,147
2010	6,312,743	3,087,813	1,577,257	871,367	11,849,180
2011	6,116,068	2,827,725	1,623,932	807,365	11,375,090
2012	6,379,395	2,576,690	1,695,606	740,797	11,392,488
2013 - 2017	32,940,573	8,784,038	6,364,427	2,834,555	50,923,593
2018 - 2022	18,239,824	2,274,523	6,170,176	1,388,549	28,073,072
2023 - 2024	2,505,000	84,187	2,920,000	195,266	5,704,453
	<u>\$ 84,167,414</u>	<u>\$ 26,648,680</u>	<u>\$ 23,632,587</u>	<u>\$ 9,123,827</u>	<u>\$ 143,572,508</u>

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

Revenue bond debt service requirements to maturity are as follows:

Due Fiscal Year Ending September 30,	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2008	\$ 115,000	\$ 30,207	\$ 457,139	\$ 86,672	\$ 689,018
2009	125,000	25,155	483,963	62,291	696,409
2010	130,000	19,787	510,787	36,292	696,866
2011	130,000	14,314	140,165	18,770	303,249
2012	135,000	8,736	90,324	11,912	245,972
2013 - 2017	140,000	2,947	88,007	6,177	237,131
	<u>\$ 775,000</u>	<u>\$ 101,146</u>	<u>\$ 1,770,385</u>	<u>\$ 222,114</u>	<u>\$ 2,868,645</u>

Capital Lease Obligation

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

Due Fiscal Year Ending September 30,	Scheduled Annual Payment
2008	\$ 105,048
2009	105,048
2010	105,048
2011	105,048
2012	105,048
2013	169,422
	<u>694,662</u>
Less Interest	<u>(108,680)</u>
	<u>\$ 585,982</u>

Changes In Long-Term Liabilities

During the year ended September 30, 2007, the following changes occurred in general government long-term debt:

Description	September 30, 2006	Additions	Retirements	September 30, 2007	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 21,226,400	\$ -	\$ (1,648,990)	\$ 19,577,410	\$ 1,694,395
Certificates of obligation	69,425,000	-	(4,835,000)	64,590,000	3,765,000
Revenue bonds	890,000	-	(115,000)	775,000	115,000
Deferred loss on refunding	(1,341,518)	-	129,747	(1,211,771)	(129,747)
Bond premiums/discounts	614,283	-	(123,913)	490,370	38,930
Total bonds payable	90,814,165	-	(6,593,156)	84,221,009	5,483,578
Capital lease obligation	668,814	-	(82,832)	585,982	77,783
Compensated absences	906,075	1,039,389	(1,017,556)	927,908	484,400
	<u>\$ 92,389,054</u>	<u>\$ 1,039,389</u>	<u>\$ (7,693,544)</u>	<u>\$ 85,734,899</u>	<u>\$ 6,045,761</u>

CITY OF KELLER, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

Year Ended September 30, 2007

Description	September 30, 2006	Additions	Retirements	September 30, 2007	Due Within One Year
Business-type activities					
General obligation bonds	\$ 9,768,600	\$ -	\$ (986,013)	\$ 8,782,587	\$ 1,020,606
Certificates of obligation	15,515,000	-	(665,000)	14,850,000	720,000
Deferred loss on refunding	(414,023)	-	40,675	(373,348)	(40,675)
Bond premiums/discounts	(15,551)	-	(341)	(15,892)	341
Total bonds payable	24,854,026	-	(1,610,679)	23,243,347	1,700,272
Contractual Obligations	1,621,410	-	(418,094)	1,203,316	440,585
Compensated absences	73,853	159,282	(141,267)	91,868	35,709
	<u>\$ 26,549,289</u>	<u>\$ 159,282</u>	<u>\$ (2,170,040)</u>	<u>\$ 24,538,531</u>	<u>\$ 2,176,566</u>

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

Advance and Current Refunding of Debt

In previous years, the City has issued refunding bonds to provide resources to purchase U.S. Government, State and Local Government Series securities that were placed in irrevocable trusts for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City's financial statements. At year end, the City had \$28,280,000 of defeased debt outstanding.

Conduit Debt Obligations

Certain revenue bonds have been issued in the past to provide financial assistance to nonprofit and public entities for the acquisition and construction of educational and student housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bonds. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2007, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$32,850,000.

III. OTHER INFORMATION

A. Risk management

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

B. Contingent Liabilities and Commitments

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

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.

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

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

C. Employee retirement systems and pension plans

The City participates in the Texas Municipal Retirement System

Plan Description - The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 821 currently administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report which can be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153, or by accessing the CAFR online at www.tmrs.org.

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

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

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

Contributions - Under the state law governing TMRS, the actuary annually determines the City contribution rate. The rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect, i.e. December 31, 2006 valuation is effective for rates beginning January 2008.

CITY OF KELLER, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 Year Ended September 30, 2007

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2006	12/31/2005	12/31/2004
Actuarial Value of Assets (A)	\$ 21,488,831	\$ 18,778,912	\$ 16,105,331
Actuarial Accrued Liability (B)	\$ 28,054,723	\$ 23,965,739	\$ 20,883,936
Percentage Funded (C) = (A)/(B)	76.6%	78.4%	77.1%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D)=(B)-(A)	\$ 6,565,892	\$ 5,186,827	\$ 4,778,605
Annual Covered Payroll (E)	\$ 13,401,562	\$ 12,094,482	\$ 11,556,285
UAAL as a Percentage of Covered Payroll (D)/(E)	49.0%	42.9%	41.4%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required Contribution (ARC) (F)	\$ 1,751,919	\$ 1,553,639	\$ 1,495,114
Contributions Made (F)	\$ 1,751,919	\$ 1,553,639	\$ 1,495,114
NPO at the End of the Period	\$ -	\$ -	\$ -

Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost
	(to Accurately reflect the requirements of GASB statement No. 25 paragraphs 36e and 138)
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost-of-Living Adjustments	None

D. Subsequent Event

On November 6, 2007, Keller voters authorized the sale of \$4,000,000 in general obligation bonds for the renovation and expansion of the Keller Public Library located at 640 Johnson Road.

REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULES

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CITY OF KELLER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes				
<i>Ad valorem tax, penalty & interest</i>	\$ 9,686,280	\$ 9,794,200	\$ 9,807,896	\$ 13,696
<i>Sales tax</i>	3,923,000	3,904,500	4,148,974	244,474
<i>Mixed beverage tax</i>	59,180	60,660	53,482	(7,178)
<i>Franchise tax</i>	3,303,490	3,372,090	3,182,681	(189,409)
<i>Total taxes</i>	<u>16,971,950</u>	<u>17,131,450</u>	<u>17,193,033</u>	<u>61,583</u>
<i>Permits, licenses and fees</i>	2,431,200	2,022,325	1,914,637	(107,688)
<i>Intergovernmental</i>	962,500	1,437,520	1,452,871	15,351
<i>Charges for services</i>	581,000	702,700	738,684	35,984
<i>Fines</i>	930,500	1,086,000	1,076,532	(9,468)
<i>Donations</i>	--	11,350	11,353	3
<i>Interest income</i>	250,000	460,000	557,136	97,136
<i>Miscellaneous</i>	130,500	200,730	219,382	18,652
<i>Total revenues</i>	<u>22,257,650</u>	<u>23,052,075</u>	<u>23,163,628</u>	<u>111,553</u>
Expenditures:				
Current:				
General Government				
Administration				
<i>Personnel services</i>	671,270	776,510	741,492	35,018
<i>Operations and maintenance</i>	19,360	17,960	9,612	8,348
<i>Services and other</i>	345,600	339,450	419,018	(79,568)
<i>Total Administration</i>	<u>1,036,230</u>	<u>1,133,920</u>	<u>1,170,122</u>	<u>(36,202)</u>
Old Town Keller				
<i>Operations and maintenance</i>	12,750	10,750	3,800	6,950
<i>Services and other</i>	75,550	8,515	8,186	329
<i>Total Old Town Keller</i>	<u>88,300</u>	<u>19,265</u>	<u>11,986</u>	<u>7,279</u>
Town Hall Operations and Maintenance				
<i>Personnel services</i>	58,900	57,060	58,725	(1,665)
<i>Operations and maintenance</i>	41,170	43,670	36,643	7,027
<i>Services and other</i>	419,405	430,330	390,623	39,707
<i>Total Town Hall Operations and Maintenance</i>	<u>519,475</u>	<u>531,060</u>	<u>485,991</u>	<u>45,069</u>
Mayor/Council				
<i>Operations and maintenance</i>	5,300	4,000	3,806	194
<i>Services and other</i>	17,715	31,100	24,244	6,856
<i>Total Mayor/Council</i>	<u>23,015</u>	<u>35,100</u>	<u>28,050</u>	<u>7,050</u>
Finance and Accounting				
Administration				
<i>Personnel services</i>	598,750	593,910	590,411	3,499
<i>Operations and maintenance</i>	6,300	5,495	4,362	1,133
<i>Services and other</i>	109,675	110,975	75,780	35,195
<i>Total Administration</i>	<u>714,725</u>	<u>710,380</u>	<u>670,553</u>	<u>39,827</u>
Tax				
<i>Operations and maintenance</i>	240	240	239	1
<i>Services and other</i>	98,380	98,380	82,841	15,539
<i>Total Tax</i>	<u>98,620</u>	<u>98,620</u>	<u>83,080</u>	<u>15,540</u>
<i>Total Finance and Accounting</i>	<u>813,345</u>	<u>809,000</u>	<u>753,633</u>	<u>55,367</u>

CITY OF KELLER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Municipal Court</i>				
<i>Personnel services</i>	\$ 282,820	\$ 292,310	\$ 282,869	\$ 9,441
<i>Operations and maintenance</i>	16,870	20,695	15,829	4,866
<i>Services and other</i>	111,745	104,485	104,387	98
<i>Total Municipal Court</i>	<u>411,435</u>	<u>417,490</u>	<u>403,085</u>	<u>14,405</u>
<i>Human Resources</i>				
<i>Administration</i>				
<i>Personnel services</i>	475,330	445,720	446,277	(557)
<i>Operations and maintenance</i>	6,815	3,975	3,759	216
<i>Services and other</i>	8,965	8,750	6,643	2,107
<i>Total Administration</i>	<u>491,110</u>	<u>458,445</u>	<u>456,679</u>	<u>1,766</u>
<i>City-wide Employee Activities</i>				
<i>Personnel services</i>	13,000	20,110	17,007	3,103
<i>Operations and maintenance</i>	3,000	6,700	6,026	674
<i>Services and other</i>	149,385	158,660	148,458	10,202
<i>Total City-wide Employee Activities</i>	<u>165,385</u>	<u>185,470</u>	<u>171,491</u>	<u>13,979</u>
<i>Total Human Resources</i>	<u>656,495</u>	<u>643,915</u>	<u>628,170</u>	<u>15,745</u>
Total General Government	<u>3,548,295</u>	<u>3,589,750</u>	<u>3,481,037</u>	<u>108,713</u>
<i>Community Development</i>				
<i>Administration</i>				
<i>Personnel services</i>	546,210	530,650	521,635	9,015
<i>Operations and maintenance</i>	5,500	4,100	2,921	1,179
<i>Services and other</i>	68,555	67,270	15,502	51,768
<i>Total Administration</i>	<u>620,265</u>	<u>602,020</u>	<u>540,058</u>	<u>61,962</u>
<i>Building and Construction Services</i>				
<i>Personnel services</i>	469,520	460,080	459,737	343
<i>Operations and maintenance</i>	15,945	14,440	10,360	4,080
<i>Services and other</i>	262,500	260,870	198,710	62,160
<i>Total Building and Construction Services</i>	<u>747,965</u>	<u>735,390</u>	<u>668,807</u>	<u>66,583</u>
<i>Total Community Development</i>	<u>1,368,230</u>	<u>1,337,410</u>	<u>1,208,865</u>	<u>128,545</u>
<i>Public Safety</i>				
<i>Police Department</i>				
<i>Administration</i>				
<i>Personnel services</i>	456,240	470,320	472,135	(1,815)
<i>Operations and maintenance</i>	55,695	55,750	49,691	6,059
<i>Services and other</i>	210,230	185,715	158,644	27,071
<i>Total Administration</i>	<u>722,165</u>	<u>711,785</u>	<u>680,470</u>	<u>31,315</u>
<i>Operations</i>				
<i>Personnel services</i>	4,217,860	4,173,270	4,089,467	83,803
<i>Operations and maintenance</i>	257,875	229,170	223,906	5,264
<i>Services and other</i>	91,845	90,995	63,948	27,047
<i>Total Operations</i>	<u>4,567,580</u>	<u>4,493,435</u>	<u>4,377,321</u>	<u>116,114</u>

CITY OF KELLER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Public Safety Dispatch</i>				
<i>Personnel services</i>	\$ 668,460	\$ 896,140	\$ 906,503	\$ (10,363)
<i>Operations and maintenance</i>	32,490	40,410	32,443	7,967
<i>Services and other</i>	22,975	79,820	40,797	39,023
<i>Total Public Safety Dispatch</i>	<u>723,925</u>	<u>1,016,370</u>	<u>979,743</u>	<u>36,627</u>
<i>Animal Control</i>				
<i>Personnel services</i>	113,530	114,270	112,661	1,609
<i>Operations and maintenance</i>	11,420	11,300	8,609	2,691
<i>Services and other</i>	8,540	8,400	4,585	3,815
<i>Total Animal Control</i>	<u>133,490</u>	<u>133,970</u>	<u>125,855</u>	<u>8,115</u>
<i>Total Police Department</i>	<u>6,147,160</u>	<u>6,355,560</u>	<u>6,163,389</u>	<u>192,171</u>
<i>Fire Department</i>				
<i>Administration</i>				
<i>Personnel services</i>	755,710	736,380	732,226	4,154
<i>Operations and maintenance</i>	41,755	43,120	40,231	2,889
<i>Services and other</i>	65,605	66,105	51,499	14,606
<i>Total Administration</i>	<u>863,070</u>	<u>845,605</u>	<u>823,956</u>	<u>21,649</u>
<i>Operations</i>				
<i>Personnel services</i>	3,629,680	3,409,300	3,372,759	36,541
<i>Operations and maintenance</i>	363,600	345,875	309,296	36,579
<i>Services and other</i>	136,890	134,175	101,999	32,176
<i>Total Operations</i>	<u>4,130,170</u>	<u>3,889,350</u>	<u>3,784,054</u>	<u>105,296</u>
<i>Emergency Medical Services</i>				
<i>Operations and maintenance</i>	91,580	91,880	103,211	(11,331)
<i>Services and other</i>	81,075	81,305	61,978	19,327
<i>Total Emergency Medical Services</i>	<u>172,655</u>	<u>173,185</u>	<u>165,189</u>	<u>7,996</u>
<i>Emergency Management</i>				
<i>Operations and maintenance</i>	15,600	15,635	4,030	11,605
<i>Services and other</i>	50,315	50,025	37,278	12,747
<i>Total Emergency Management</i>	<u>65,915</u>	<u>65,660</u>	<u>41,308</u>	<u>24,352</u>
<i>Total Fire Department</i>	<u>5,231,810</u>	<u>4,973,800</u>	<u>4,814,507</u>	<u>159,293</u>
<i>Total Public Safety</i>	<u>11,378,970</u>	<u>11,329,360</u>	<u>10,977,896</u>	<u>351,464</u>
<i>Public Works</i>				
<i>Administration</i>				
<i>Personnel services</i>	212,860	208,310	206,406	1,904
<i>Operations and maintenance</i>	4,850	4,300	1,683	2,617
<i>Services and other</i>	4,070	4,270	3,944	326
<i>Total Administration</i>	<u>221,780</u>	<u>216,880</u>	<u>212,033</u>	<u>4,847</u>
<i>Engineering and Inspections</i>				
<i>Personnel services</i>	274,950	283,250	274,987	8,263
<i>Operations and maintenance</i>	7,770	7,340	6,346	994
<i>Services and other</i>	110,870	125,900	105,082	20,818
<i>Total Engineering and Inspections</i>	<u>393,590</u>	<u>416,490</u>	<u>386,415</u>	<u>30,075</u>

CITY OF KELLER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Street Maintenance</i>				
<i>Personnel services</i>	\$ 669,160	\$ 631,040	\$ 621,422	\$ 9,618
<i>Operations and maintenance</i>	213,400	256,915	206,453	50,462
<i>Services and other</i>	85,335	103,305	75,373	27,932
<i>Total Street Maintenance</i>	<u>967,895</u>	<u>991,260</u>	<u>903,248</u>	<u>88,012</u>
<i>Street Lighting</i>				
<i>Services and other</i>	345,000	360,000	386,679	(26,679)
<i>Total Street Lighting</i>	<u>345,000</u>	<u>360,000</u>	<u>386,679</u>	<u>(26,679)</u>
<i>Total Public Works</i>	<u>1,928,265</u>	<u>1,984,630</u>	<u>1,888,375</u>	<u>96,255</u>
<i>Recreation and Leisure</i>				
<i>Library</i>				
<i>Personnel services</i>	890,930	869,130	862,939	6,191
<i>Operations and maintenance</i>	161,395	160,000	137,960	22,040
<i>Services and other</i>	173,225	175,005	155,878	19,127
<i>Total Library</i>	<u>1,225,550</u>	<u>1,204,135</u>	<u>1,156,777</u>	<u>47,358</u>
<i>Parks and Recreation</i>				
<i>Parks and Recreation Administration</i>				
<i>Personnel services</i>	328,720	292,630	313,186	(20,556)
<i>Operations and maintenance</i>	3,695	4,865	3,088	1,777
<i>Services and other</i>	14,605	12,625	12,305	320
<i>Total Parks and Recreation Administration</i>	<u>347,020</u>	<u>310,120</u>	<u>328,579</u>	<u>(18,459)</u>
<i>Park Maintenance</i>				
<i>Personnel services</i>	744,140	688,670	692,217	(3,547)
<i>Operations and maintenance</i>	138,925	151,055	154,161	(3,106)
<i>Services and other</i>	237,840	230,065	210,935	19,130
<i>Total Park Maintenance</i>	<u>1,120,905</u>	<u>1,069,790</u>	<u>1,057,313</u>	<u>12,477</u>
<i>Recreation Programs</i>				
<i>Personnel services</i>	154,060	153,160	149,836	3,324
<i>Operations and maintenance</i>	7,820	10,530	5,652	4,878
<i>Services and other</i>	14,055	13,020	9,564	3,456
<i>Total Recreation Programs</i>	<u>175,935</u>	<u>176,710</u>	<u>165,052</u>	<u>11,658</u>
<i>Senior Citizen Center</i>				
<i>Personnel services</i>	129,120	116,770	116,930	(160)
<i>Operations and maintenance</i>	28,070	27,875	26,653	1,222
<i>Services and other</i>	49,170	49,235	42,556	6,679
<i>Total Senior Citizen Center</i>	<u>206,360</u>	<u>193,880</u>	<u>186,139</u>	<u>7,741</u>
<i>Sports Park Maintenance</i>				
<i>Personnel services</i>	173,910	169,800	172,616	(2,816)
<i>Operations and maintenance</i>	94,680	99,410	114,842	(15,432)
<i>Services and other</i>	134,670	119,440	91,476	27,964
<i>Total Sports Park Maintenance</i>	<u>403,260</u>	<u>388,650</u>	<u>378,934</u>	<u>9,716</u>

CITY OF KELLER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<i>Town Center Maintenance</i>				
<i>Operations and maintenance</i>	\$ 15,000	\$ 55,000	\$ 41,122	\$ 13,878
<i>Services and other</i>	147,065	156,575	136,214	20,361
<i>Total Town Center Maintenance</i>	<u>162,065</u>	<u>211,575</u>	<u>177,336</u>	<u>34,239</u>
Total Parks and Recreation	<u>2,415,545</u>	<u>2,350,725</u>	<u>2,293,353</u>	<u>57,372</u>
Total Recreation and Leisure	<u>3,641,095</u>	<u>3,554,860</u>	<u>3,450,130</u>	<u>104,730</u>
<i>Non-departmental</i>	<u>434,840</u>	<u>407,600</u>	<u>378,409</u>	<u>29,191</u>
Capital outlay	<u>936,200</u>	<u>1,087,770</u>	<u>851,337</u>	<u>236,433</u>
Total expenditures	<u>23,235,895</u>	<u>23,291,380</u>	<u>22,236,049</u>	<u>1,055,331</u>
Excess (deficiency) of revenues over (under) expenditures	(978,245)	(239,305)	927,579	1,166,884
Other financing sources (uses):				
<i>Transfers in</i>	1,150,000	1,188,500	1,203,053	14,553
<i>Transfers out</i>	(1,807,205)	(2,110,308)	(2,110,308)	--
Total other financing sources (uses)	<u>(657,205)</u>	<u>(921,808)</u>	<u>(907,255)</u>	<u>14,553</u>
Net change in fund balances	(1,635,450)	(1,161,113)	20,324	1,181,437
Fund balances, October 1	<u>5,516,319</u>	<u>7,076,865</u>	<u>7,076,866</u>	<u>1</u>
Fund balances, September 30	<u>\$ 3,880,869</u>	<u>\$ 5,915,752</u>	<u>\$ 7,097,190</u>	<u>\$ 1,181,438</u>

CITY OF KELLER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended September 30, 2007

(Unaudited)

Budgets are adopted in accordance with GAAP for the General Fund, Special Revenue Funds (excepting the Public Safety fund), the Debt Service funds, and certain Capital Project funds (Park Development, Street/Sidewalk Improvements, and Equipment Replacement funds). The remaining capital projects funds are budgeted on individual project length which may occur over multiple years. Budget schedules for nonmajor special revenue funds, debt service funds, and annually budgeted capital projects funds are included in the "Other Supplementary Information" subsection of the City's CAFR.

Expenditures in excess of appropriations – The following governmental funds had expenditures in excess of appropriations:

Special Revenue Funds:	
Library	\$ 20,501
Capital Projects Funds	
Street/Sidewalks Improvements	4,146
Equipment Replacement	114,441

Fund Deficits – The Library special revenue fund had a deficit of \$1,746. The Recreation/Aquatic Center special revenue fund had a deficit of \$208,936 which will be removed by future net revenues.

APPENDIX C

FORM 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 BONDS
SERIES 2009, DATED MARCH 1, 2009
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,000,000**

AS BOND COUNSEL for the City of Keller, Texas, (the "Issuer") in connection with the issuance of the Bonds 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 that 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 obligations described in section 1503 of The American Recovery and Reinvestment Act of 2009 and that, accordingly, interest on the Bonds will not be included in an owner's alternative minimum taxable income under section 55 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 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, assuming no material changes in facts or law.

**CITY OF KELLER, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION,
SERIES 2009, DATED MARCH 1, 2009
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$8,310,000**

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

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

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

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates 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 are obligations described in section 1503 of The American Recovery and Reinvestment Act of 2009 and that, accordingly, interest on the Certificates will not be included in an owner's alternative minimum taxable income under section 55 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 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 may become includable in gross income retroactively to the date of issuance of the Certificates.

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

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

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

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

Respectfully,

Financial Advisory Services
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