

## LIMITED OFFERING MEMORANDUM

Dated June 25, 2001

### NEW ISSUE - Book-Entry-Only

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

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

**\$2,400,000**  
**LYNN COUNTY, TEXAS**  
**CERTIFICATES OF OBLIGATION, SERIES 2001**

**Dated Date: June 15, 2001**

**Due: February 15, as shown on inside cover**

**PAYMENT TERMS . . .** Interest on the \$2,400,000 Lynn County, Texas, Certificates of Obligation, Series 2001 (the "Certificates") will accrue from the date of delivery and will be payable February 15 and August 15 of each year commencing February 15, 2002, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Trust Company, Texas N.A., Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of Lynn County, Texas (the "County"), payable from a continuing ad valorem tax levied on all taxable property within the County, within the limits prescribed by law, as provided in the order authorizing the Certificates (the "Order") (see "The Certificates - Authority for Issuance").

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for acquisition, renovation, improvement and equipping of a building for use as a County Jail and for professional services associated thereto and for issuance of the Certificates.

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**SEE MATURITY SCHEDULE AND REDEMPTION PROVISIONS ON THE REVERSE OF THIS PAGE**

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**LEGALITY . . .** The Certificates are offered for delivery when, as and if issued and received by the initial purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of Bickerstaff, Heath, Smiley, Pollan, Kever & McDaniel, L.L.P., Bond Counsel, Austin, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

**DELIVERY . . .** It is expected that the Certificates will be available for delivery through The Depository Trust Company on or about July 25, 2001.

**FIRST SOUTHWEST COMPANY**

# MATURITY SCHEDULE

| Amount    | Maturity<br>(February 15) | Rate  | Price or<br>Yield | Amount     | Maturity<br>(February 15) | Rate  | Price or<br>Yield |
|-----------|---------------------------|-------|-------------------|------------|---------------------------|-------|-------------------|
| \$ 65,000 | 2003                      | 3.70% | 3.70%             | \$ 110,000 | 2012                      | 5.00% | 5.00%             |
| 70,000    | 2004                      | 3.90% | 3.90%             | 115,000    | 2013                      | 5.10% | 5.10%             |
| 70,000    | 2005                      | 4.10% | 4.10%             | 125,000    | 2014                      | 5.20% | 5.20%             |
| 75,000    | 2006                      | 4.25% | 4.25%             | 130,000    | 2015                      | 5.30% | 5.30%             |
| 80,000    | 2007                      | 4.40% | 4.40%             | 140,000    | 2016                      | 5.40% | 5.40%             |
| 85,000    | 2008                      | 4.50% | 4.50%             | 150,000    | 2017                      | 5.50% | 5.50%             |
| 90,000    | 2009                      | 4.65% | 4.65%             | 155,000    | 2018                      | 5.60% | 5.60%             |
| 100,000   | 2010                      | 4.80% | 4.80%             | 165,000    | 2019                      | 5.65% | 5.65%             |
| 105,000   | 2011                      | 4.90% | 4.90%             | 180,000    | 2020                      | 5.70% | 5.70%             |

**\$390,000 at 5.75% Term Certificate Due February 15, 2022 Priced to Yield 5.75%**

**(Accrued Interest from date of delivery)**

**OPTIONAL REDEMPTION** . . . The County reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption").

**MANDATORY SINKING FUND REDEMPTION** . . . The Certificate maturing February 15, 2022 (the "Term Certificate") shall be subject to mandatory redemption prior to maturity at the price of par plus accrued interest to the mandatory redemption date in the principal amounts as follows:

| Term Certificate due February 15, 2022 |                  |
|--|------------------|
| Redemption Date                        | Principal Amount |
| February 15, 2021                      | \$ 190,000       |
| February 15, 2022                      | 200,000 *        |

\* Maturity.

*This Limited Offering Memorandum, 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 Limited Offering Memorandum, 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 County and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Underwriter. This Limited Offering Memorandum contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or other matters described.*

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

## LIMITED OFFERING MEMORANDUM SUMMARY

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

|   |  |
|---|--|
| <b>THE COUNTY</b> .....                       | The County is a legal subdivision of the State, located in northwest Texas. The County covers approximately 891.9 square miles. The City of Tahoka is the County Seat.   |
| <b>THE CERTIFICATES</b> .....                 | The Certificates are issued as \$2,400,000 Certificates of Obligation, Series 2001. The Certificates are issued as serial certificates maturing February 15, 2003 through February 15, 2020 and as a Term Certificate maturing February 15, 2022 (see "The Certificates - Description of the Certificates").   |
| <b>PAYMENT OF INTEREST</b> .....              | Interest on the Certificates accrues from the date of delivery, and is payable February 15, 2002, and each August 1 <sup>st</sup> and February 15 thereafter until maturity or prior redemption (see "The Certificates - Description of the Certificates" and "The Certificates - Optional Redemption").   |
| <b>AUTHORITY FOR ISSUANCE</b> .....           | The Certificates are issued pursuant to the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Order passed by the Commissioners Court of the County (see "The Certificates - Authority for Issuance").  |
| <b>SECURITY FOR THE CERTIFICATES</b> .....    | The Certificates constitute direct obligations of the County, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the County (see "The Certificates - Security and Source of Payment").  |
| <b>QUALIFIED TAX-EXEMPT OBLIGATIONS</b> ..... | The County will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").   |
| <b>REDEMPTION</b> .....                       | The County reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Additionally, the Term Certificate is subject to mandatory redemption in part prior to maturity (see "The Certificates - Optional Redemption" and "The Certificates - Mandatory Redemption").  |
| <b>TAX EXEMPTION</b> .....                    | In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein, including the alternative minimum tax on corporations.  |
| <b>USE OF PROCEEDS</b> .....                  | Proceeds from the sale of the Certificates will be used for acquisition, renovation, improvement and equipping of a building for use as a County Jail and for professional services associated thereto and for issuance of the Certificates.   |
| <b>RATINGS</b> .....                          | A rating on the Certificates <b>has not</b> been requested.  |
| <b>BOOK-ENTRY-ONLY SYSTEM</b> .....           | The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "The Certificates - Book-Entry-Only System"). |

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

#### SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 12/31 | Estimated County Population <sup>(1)</sup> | Taxable Assessed Valuation | Per Capita Taxable Assessed Valuation | General Obligation (G.O.) Tax Deb | Per Capita G.O. Tax Debt | Ratio G.O. Tax Debt to Taxable Assessed Valuation | % of Total Tax Collections |
|-------------------------|--|----------------------------|---------------------------------------|-----------------------------------|--------------------------|---|----------------------------|
| 1997                    | 6,758                                      | \$ 213,656,150             | \$ 31,615                             | \$ -                              | \$ -                     | 0.00%   | 98.55%                     |
| 1998                    | 6,758                                      | 215,219,810                | 31,847                                | -                                 | -                        | 0.00%   | 95.55%                     |
| 1999                    | 6,758                                      | 234,851,973                | 34,752                                | -                                 | -                        | 0.00%   | 96.28%                     |
| 2000                    | 6,550                                      | 224,073,621                | 34,210                                | -                                 | -                        | 0.00%   | 89.66%                     |
| 2001                    | 6,550                                      | 222,295,801                | 33,938                                | 2,400,000 <sup>(2)</sup>          | 366 <sup>(2)</sup>       | 1.08% <sup>(2)</sup>                              | 65.73% <sup>(3)</sup>      |

(1) Source: County Officials.

(2) Projected; includes the Certificates.

(3) Partial collections January 1 through April 30, 2001.

#### GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

|                                      | Fiscal Year Ended December 31, |                   |                   |                   |                   |
|--------------------------------------|--------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                      | 2000                           | 1999              | 1998              | 1997              | 1996              |
| Fund Balance, Beginning of Year      | \$ 344,758                     | \$ 333,833        | \$ 282,921        | \$ 247,799        | \$ 265,949        |
| Total Revenues                       | 1,523,636                      | 1,365,807         | 1,269,111         | 1,169,778         | 1,179,421         |
| Total Expenditures                   | 1,393,012                      | 1,354,882         | 1,240,949         | 1,159,656         | 1,222,146         |
| Total Other Financing Sources (Uses) | -                              | -                 | 22,750            | 25,000            | 24,575            |
| Prior Period Adjustments             | (53,945)                       | -                 | -                 | -                 | -                 |
| Ending Balance                       | <u>\$ 421,437</u>              | <u>\$ 344,758</u> | <u>\$ 333,833</u> | <u>\$ 282,921</u> | <u>\$ 247,799</u> |

For additional information regarding the County, please contact:

Honorable J.F. Brandon  
County Judge  
Lynn County  
P.O. Box 1256  
Tahoka, Texas 79373  
Phone: (806) 998-4222  
Fax: (806) 998-4277

or

Mr. Vince Viaille  
Vice President  
First Southwest Company  
1001 Main Street, Suite 802  
Lubbock, Texas 79401  
Phone: (806) 749-3792  
Fax: (806) 749-3793

## COUNTY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

| <u>Commissioners Court</u>                | <u>Length of<br/>Service</u> | <u>Term<br/>Expires</u> |
|---|------------------------------|-------------------------|
| J.F. Brandon<br>County Judge              | 18 Years                     | December, 2002          |
| Don Morton<br>Commissioner, Precinct 1    | 4 Years                      | December, 2004          |
| Mike Braddock<br>Commissioner, Precinct 2 | 4 Years                      | December, 2002          |
| Don Blair<br>Commissioner, Precinct 3     | Took office 1-1-01           | December, 2004          |
| J.T. Miller<br>Commissioner, Precinct 4   | 16 Years                     | December, 2002          |

### OTHER ELECTED OFFICIALS

| <u>Name</u>       | <u>Position</u>  | <u>Length of<br/>Service to<br/>County</u> | <u>Term<br/>Expires</u> |
|-------------------|------------------|--|-------------------------|
| Susan Tipton      | County Clerk     | 4 Years                                    | December, 2002          |
| Janet Porterfield | County Treasurer | 10 Years                                   | December, 2002          |
| James Napper      | County Attorney  | 1 Year                                     | December, 2004          |

### CONSULTANTS AND ADVISORS

Auditors ..... Jim Kingery, CPA  
Certified Public Accountant  
Lubbock, Texas

Bond Counsel ..... Bickerstaff, Heath, Smiley, Pollan, Kever & McDaniel, L.L.P.  
Austin, Texas

**LIMITED OFFERING MEMORANDUM**  
**RELATING TO**  
**\$2,400,000**  
**LYNN COUNTY, TEXAS**  
**CERTIFICATES OF OBLIGATION, SERIES 2001**

**INTRODUCTION**

This Limited Offering Memorandum, which includes the Appendices hereto, provides certain information regarding the issuance of \$2,400,000 Lynn County, Texas, Certificates of Obligation, Series 2001. Capitalized terms used in this Limited Offering Memorandum have the same meanings assigned to such terms in the Order to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates, except as otherwise indicated herein.

There follows in this Limited Offering Memorandum descriptions of the Certificates and certain information regarding the County 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 Underwriter.

**DESCRIPTION OF THE COUNTY . . .** The County was organized in 1903 and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical Commissioners Precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk and County Treasurer. The County Auditor is appointed for a term of two years by and serves at the will of the District Judges whose courts are located in Lynn County. The 2000 Census population for the County was 6,550. The County covers approximately 891.9 square miles. The City of Tahoka is the County Seat.

**THE CERTIFICATES**

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated June 15, 2001, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2002. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

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

**SECURITY AND SOURCE OF PAYMENT . . .** All taxable property within the County is subject to a continuing direct annual ad valorem tax levied by the County 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.

**TAX RATE LIMITATION . . .** Texas Constitution (Article VIII, Section 9) imposes a limit of \$0.80 per \$100 assessed valuation for all purposes of General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, including debt service of bonds, warrants or certificates of obligation issued against such funds. The Attorney General of Texas will not approve limited tax bonds in an amount which produces debt service requirements exceeding that which can be paid from \$0.40 of the foregoing \$0.80 maximum tax rate calculated at 90% collection. The Certificates are limited tax obligations payable from the constitutional tax rate.

**OPTIONAL REDEMPTION . . .** The County reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2010, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2009, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the County may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY REDEMPTION** . . . The Certificate maturing February 15, 2022 (the "Term Certificate") shall be subject to mandatory redemption prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the respective dates and in principal amounts as follows:

| Term Certificate due February 15, 2022 |                  |
|--|------------------|
| Redemption Date                        | Principal Amount |
| February 15, 2021                      | \$ 190,000       |
| February 15, 2022                      | 200,000 *        |

\* Maturity.

**NOTICE OF REDEMPTION** . . . Not less than 30 days prior to a redemption date for the Certificates, the County shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

**DEFEASANCE** . . . The Order provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The Order provides that "Defeasance 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 County has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the County moneys in excess of the amount required for such defeasance.

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

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

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



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

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct or 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 transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Certificates 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 Certificates, except in the event that use of the book-entry system described herein is discontinued.**

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The 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 Cede & Co. If less than all of the Certificates 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 Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County, 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 Certificates at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

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

**Use of Certain Terms in Other Sections of this Limited Offering Memorandum.** In reading this Limited Offering Memorandum it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections

of this Limited Offering Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the 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 County or the Purchasers.

**Effect of Termination of Book-Entry-Only System.** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the County, the following provisions will be applicable to the Certificates. The Certificates may be exchanged for an equal aggregate principal amount of the Certificates in authorized denominations and of the same maturity upon surrender thereof at the principal office for payment of the Paying Agent/Registrar. The transfer of any Certificate may be registered on the books maintained by the Paying Agent/Registrar for such purpose only upon the surrender of such Certificate to the Paying Agent/Registrar with a duly executed assignment in form satisfactory to the Paying Agent/Registrar. For every exchange or transfer of registration of Certificates, the Paying Agent/Registrar and the County may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The County shall pay the fee, if any, charged by the Paying Agent/Registrar for the transfer or exchange. The Paying Agent/Registrar will not be required to transfer or exchange any Certificate after its selection for redemption. The County and the Paying Agent/Registrar may treat the person in whose name a Certificate is registered as the absolute owner thereof for all purposes, whether such Certificate is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, premium, if any, and interest on, such Certificate.

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

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

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

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

**CERTIFICATEHOLDERS' REMEDIES . . .** The Order does not establish specific events of default with respect to the Certificates. Under State law there is no right to the acceleration of maturity of the Certificates upon the failure of the County to observe any covenant under the Order. Although a registered owner of Certificates could presumably obtain a judgment against the County if a default occurred in the payment of principal of or interest on any such Certificates, such judgment could not be satisfied by execution against any property of the County. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the County to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Order does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the County to perform in accordance with the terms of the Order, or upon any other condition. Furthermore, the County is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of 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 or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the County 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

**USE OF CERTIFICATE PROCEEDS . . .** Proceeds from the sale of the Certificates are expected to be expended as follows:

|   | <u>Certificates</u>                |
|---|------------------------------------|
| Acquisition, Renovation, Improvement and Equipping<br>a building for use as a County Jail | 2,400,000                          |
| Total   | <u>\$ 2,400,000 <sup>(1)</sup></u> |

<sup>(1)</sup> Includes costs of issuance.

## TAX INFORMATION

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

Reference is made to the V.T.C.A., 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; and (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000.

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

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

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

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

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

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

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** By each September 1 or as soon thereafter as practicable, the Commissioners Court adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the County must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The Commissioners Court may not adopt a tax rate that exceeds the prior year's levy until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the County 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 County is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the County'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.

**COUNTY APPLICATION OF TAX CODE . . .** The County grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$3,000; the disabled are also granted an exemption of \$3,000.

The County has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The County does not tax nonbusiness personal property; and the Lynn County Appraisal District collects taxes for the County.

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

The County does not tax freeport property.

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

The County has not adopted a tax abatement policy.

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

|  |                  |                    |
|--|------------------|--------------------|
| 2000 Market Valuation Established by Lynn County Appraisal District<br>(excluding totally exempt property) |                  | \$ 326,451,101     |
| Less Exemptions/Reductions at 100% Market Value:   |                  |                    |
| Residence Homestead Exemptions (Over 65 or Disabled)   | \$ 1,496,970     |                    |
| Disabled Veteran Exemptions  | 274,500          |                    |
| Agriculture/Open Space Land Use Reductions   | 102,326,330      |                    |
| 10% Residential Homestead Cap  | <u>57,400</u>    | <u>104,155,200</u> |
| 2000 Taxable Assessed Valuation  |                  | \$ 222,295,901     |
| General Obligation Debt Payable from Ad Valorem Taxes  |                  |                    |
| General Obligation Debt (as of 4/30/01)  | \$ -             |                    |
| The Certificates   | <u>2,400,000</u> |                    |
| General Obligation Debt Payable from Ad Valorem Taxes  |                  | \$ 2,400,000       |
| General Obligation Interest and Sinking Fund as of 4/30/01   |                  | \$ -               |
| Ratio General Obligation Tax Debt to Taxable Assessed Valuation .....                                      |                  | 1.08%              |

2001 Estimated Population - 6,550  
Per Capita Taxable Assessed Valuation - 33,938  
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$366

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

| Category                                     | Taxable Appraised Value for Fiscal Year Ended December 31, |            |                       |            |                       |            |
|--|--|------------|-----------------------|------------|-----------------------|------------|
|  | 2001   |            | 2000                  |            | 1999                  |            |
|  | Amount   | % of Total | Amount                | % of Total | Amount                | % of Total |
| Real, Residential Single Family              | \$ 75,269,000  | 21.56%     | \$ 74,331,930         | 21.45%     | \$ 72,293,516         | 20.75%     |
| Real, Residential Multi-Family               | 99,780   | 0.03%      | 99,780                | 0.03%      | 594,470               | 0.17%      |
| Real, Vacant Lots/Tracts                     | 944,000  | 0.27%      | 998,100               | 0.29%      | 1,146,400             | 0.33%      |
| Real, Acreage (Land Only)                    | 195,291,050  | 55.94%     | 200,509,260           | 57.86%     | 200,386,000           | 57.52%     |
| Real, Farm and Ranch Improvements            | 15,119,810   | 4.33%      | 8,363,570             | 2.41%      | 7,788,930             | 2.24%      |
| Real, Commercial and Industrial              | 17,818,170   | 5.10%      | 17,509,200            | 5.05%      | 17,636,400            | 5.06%      |
| Real, Oil, Gas and Other Minerals            | 4,094,180  | 1.17%      | 2,356,170             | 0.68%      | 4,002,640             | 1.15%      |
| Real and Tangible Personal, Utilities        | 31,343,241   | 8.98%      | 33,017,681            | 9.53%      | 34,975,657            | 10.04%     |
| Tangible Personal, Commercial and Industrial | 7,801,510  | 2.23%      | 8,153,730             | 2.35%      | 8,130,770             | 2.33%      |
| Tangible Personal, Mobile Homes              | 1,331,320  | 0.38%      | 1,214,600             | 0.35%      | 1,410,800             | 0.40%      |
| Total Appraised Value Before Exemptions      | \$ 349,112,061   | 100.00%    | \$ 346,554,021        | 100.00%    | \$ 348,365,583        | 100.00%    |
| Less: Total Exemptions/Reductions            | (126,816,260)  |            | (122,480,400)         |            | (113,513,610)         |            |
| Taxable Assessed Value                       | <u>\$ 222,295,801</u>                                      |            | <u>\$ 224,073,621</u> |            | <u>\$ 234,851,973</u> |            |

| Category                                     | Taxable Appraised Value for Fiscal Year Ended December 31, |            |                       |            |
|--|--|------------|-----------------------|------------|
|  | 1998   |            | 1997                  |            |
|  | Amount   | % of Total | Amount                | % of Total |
| Real, Residential Single Family              | \$ 66,972,580  | 19.69%     | \$ 65,908,130         | 19.47%     |
| Real, Residential Multi-Family               | 547,270  | 0.16%      | 547,270               | 0.16%      |
| Real, Vacant Lots/Tracts                     | 1,114,380  | 0.33%      | 1,096,880             | 0.32%      |
| Real, Acreage (Land Only)                    | 142,408,530  | 41.86%     | 144,120,580           | 42.57%     |
| Real, Farm and Ranch Improvements            | 64,731,570   | 19.03%     | 62,987,500            | 18.60%     |
| Real, Commercial and Industrial              | 17,423,380   | 5.12%      | 17,445,620            | 5.15%      |
| Real, Oil, Gas and Other Minerals            | 5,611,300  | 1.65%      | 5,234,330             | 1.55%      |
| Real and Tangible Personal, Utilities        | 32,366,400   | 9.51%      | 31,916,820            | 9.43%      |
| Tangible Personal, Commercial and Industrial | 8,123,100  | 2.39%      | 8,476,720             | 2.50%      |
| Tangible Personal, Mobile Homes              | 879,440  | 0.26%      | 841,670               | 0.25%      |
| Total Appraised Value Before Exemptions      | \$ 340,177,950   | 100.00%    | \$ 338,575,520        | 100.00%    |
| Less: Total Exemptions/Reductions            | (124,958,140)  |            | (124,919,370)         |            |
| Taxable Assessed Value                       | <u>\$ 215,219,810</u>                                      |            | <u>\$ 213,656,150</u> |            |

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

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

| Fiscal Year Ended 12/31 | Estimated Population <sup>(1)</sup> | Taxable Assessed Valuation <sup>(2)</sup> | Taxable Assessed Valuation Per Capita | G.O. Tax Debt Outstanding at End of Year | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | G.O. Tax Debt Per Capita |
|-------------------------|-------------------------------------|---|---------------------------------------|--|--|--------------------------|
| 1997                    | 6,758                               | \$ 213,656,150                            | \$ 31,615                             | \$ -                                     | 0.00%  | \$ -                     |
| 1998                    | 6,758                               | 215,219,810                               | 31,847                                | -  | 0.00%  | -                        |
| 1999                    | 6,758                               | 234,851,973                               | 34,752                                | -  | 0.00%  | -                        |
| 2000                    | 6,550                               | 224,073,621                               | 34,210                                | -  | 0.00%  | -                        |
| 2001                    | 6,550                               | 222,295,801                               | 33,938                                | 2,400,000 <sup>(3)</sup>                 | 1.08% <sup>(3)</sup>                                 | 366 <sup>(3)</sup>       |

(1) Source: County Officials.

(2) As reported by the Lynn County Appraisal District on County's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Projected; includes the Certificates.

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

| Fiscal Year Ended 12/31 | Tax Rate   | Distribution |                           | Tax Levy     | % Current Collections <sup>(1)</sup> | % Total Collections <sup>(1)</sup> |
|-------------------------|------------|--------------|---------------------------|--------------|--------------------------------------|------------------------------------|
|                         |            | General Fund | Interest and Sinking Fund |              |                                      |                                    |
| 1997                    | \$ 0.57349 | \$ 0.57349   | \$ -                      | \$ 1,225,296 | 69.59%                               | 98.55%                             |
| 1998                    | 0.59471    | 0.59471      | -                         | 1,223,791    | 67.67%                               | 95.55%                             |
| 1999                    | 0.59471    | 0.59471      | -                         | 1,277,267    | 66.95%                               | 96.28%                             |
| 2000                    | 0.64500    | 0.64500      | -                         | 1,353,345    | 57.44%                               | 89.66%                             |
| 2001                    | 0.64500    | 0.64500      | -                         | 1,447,295    | 64.99% <sup>(2)</sup>                | 65.73% <sup>(2)</sup>              |

(1) Collections as of Fiscal Year End, December 31.

(2) Collections for part year only, January 1 through April 30, 2001.

**TABLE 5 - TAX RATE DISTRIBUTION ANALYSIS**

| Constitutional Tax Rate       | Tax Year   |            |            |            |            |
|-------------------------------|------------|------------|------------|------------|------------|
|                               | 2000       | 1999       | 1998       | 1997       | 1996       |
| General Fund                  | \$ 0.47362 | \$ 0.42871 | \$ 0.42871 | \$ 0.41643 | \$ 0.40603 |
| Interest and Sinking Fund     | -          | -          | -          | -          | -          |
| Total Constitutional Tax Rate | \$ 0.47362 | \$ 0.42871 | \$ 0.42871 | \$ 0.41643 | \$ 0.40603 |
| Road and Bridge Tax Rate      | \$ 0.15713 | \$ 0.15200 | \$ 0.15200 | \$ 0.14356 | \$ 0.14300 |
| Jury Tax Rate                 | \$ 0.01425 | \$ 0.01400 | \$ 0.01400 | \$ 0.01350 | \$ 0.01002 |
| Total Tax Rate                | \$ 0.64500 | \$ 0.59471 | \$ 0.59471 | \$ 0.57349 | \$ 0.55905 |



**TABLE 6 - TEN LARGEST TAXPAYERS**

| Name of Taxpayer                    | Nature of Property  | 2000<br>Taxable<br>Assessed<br>Valuation | % of Total<br>2000 Taxable<br>Assessed<br>Valuation |
|-------------------------------------|---------------------|--|---|
| Southwestern Public Service Company | Electric Utility    | \$ 9,601,520                             | 4.32%   |
| Edwards, Willie Mae                 | Ranch               | 8,135,730                                | 3.66%   |
| Lyntegar Electric Co-op             | Electric Utility    | 5,473,760                                | 2.46%   |
| Poka Lambro Rural Telephone         | Telephone Utility   | 4,258,530                                | 1.91%   |
| Mobil Este Pipeline                 | Production Pipeline | 2,530,820                                | 1.14%   |
| Poka Lambro PSC inc.                | Telephone Utility   | 2,525,000                                | 1.14%   |
| Mathers, Leila Y.                   | Ranch/Farm          | 2,226,250                                | 1.00%   |
| Westar Transmission Company         | Gas Utility         | 1,908,150                                | 0.86%   |
| O'Donnell Farmers Co-op             | Cotton Gin          | 1,867,190                                | 0.84%   |
| Saleh, John                         | Real Estate         | 1,753,160                                | 0.79%   |
|                                     |                     | <u>\$ 40,280,110</u>                     | <u>18.11%</u>                                       |

**GENERAL OBLIGATION DEBT LIMITATION** . . . Article 722, VATCS, limits the amount of bonds that may be issued for certain purposes as follows:

|                           |   |                              |
|---------------------------|---|------------------------------|
| Courthouse Bonds          | - | 2% of Assessed Valuation     |
| Jail Bonds                | - | 1 1/2% of Assessed Valuation |
| Courthouse and Jail Bonds | - | 3 1/2% of Assessed Valuation |
| Road and Bridge Bonds     | - | 1 1/2% of Assessed Valuation |

However, courthouse, jail and certain other types of bonds may be issued under the authority of Article 2370b, VATCS, which removes the above limitations.

Article VIII, Section 9, of the Texas Constitution, imposes a limit of \$0.80 per \$100 Assessed Valuation for all constitutional purposes, including the General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, and debt service of bonds, certificates, warrants and certificates of obligation issued against such funds. Administratively, the Attorney General of the State of Texas will permit allocation of \$0.40 of the \$0.80 constitutional tax rate for Limited Tax Bond debt service.

The Certificates are limited tax obligations payable from within the County's \$0.80 constitutional tax rate.

**TABLE 7 - TAX ADEQUACY**

|  |            |
|--|------------|
| Average Annual Principal and Interest Requirements, 2003 – 2022..... | \$ 197,906 |
| \$0.0938 Tax Rate at 95% Collection Produces .....                   | \$ 198,088 |
| Maximum Principal and Interest Requirements, 2020.....               | \$ 207,555 |
| \$0.0983 Tax Rate at 95% Collection Produces .....                   | \$ 207,591 |

**TABLE 8 - ESTIMATED CONSOLIDATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the County are paid out of ad valorem taxes levied by such entities on properties within the County. Such entities are independent of the County 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 and the Lynn County Appraisal District. Except for the amounts relating to the County, the County has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the County.

| <b>Governmental Subdivision</b>  | 2000<br>Taxable<br>Assessed<br>Value | 2000<br>Tax<br>Rate | Total<br>G.O. Tax<br>Debt   | Estimated<br>%<br>Applicable | County's<br>Overlapping<br>G.O. Tax Debt<br>As of 4/30/01 | Authorized<br>But Unissued<br>Debt As of<br>4/30/01 |
|--|--------------------------------------|---------------------|-----------------------------|------------------------------|---|---|
| Lynn County  | \$ 222,295,801                       | \$ 0.64500          | \$ 2,400,000 <sup>(1)</sup> | 100.00%                      | \$ 2,400,000  | \$ -  |
| City of New Home   | 4,892,960                            | 0.46727             | -                           | 100.00%                      | -   | -   |
| City of O'Donnell  | 13,203,330                           | 0.89000             | -                           | 100.00%                      | -   | -   |
| City of Tahoka   | 44,901,120                           | 0.68500             | 1,650,000                   | 100.00%                      | 1,650,000   | -   |
| City of Wilson   | 8,064,850                            | 0.98799             | 56,000                      | 100.00%                      | 56,000  | -   |
| New Home ISD   | 34,854,930                           | 1.43500             | -                           | 100.00%                      | -   | -   |
| O'Donnell ISD  | 56,441,984                           | 1.46000             | -                           | 100.00%                      | -   | -   |
| Tahoka ISD   | 83,040,170                           | 1.47500             | -                           | 100.00%                      | -   | -   |
| Wilson ISD   | 31,128,230                           | 1.58000             | 440,000                     | 100.00%                      | 440,000   | -   |
| Lynn County Hospital District  | 223,741,974                          | 0.25413             | 1,393,200                   | 100.00%                      | 1,393,200   | -   |
| Total Direct and Consolidated Overlapping G.O. Tax Debt                                  |                                      |                     |                             |                              | \$ 5,939,200  |   |
| Ratio of Direct and Consolidated Overlapping G.O. Tax Debt to Taxable Assessed Valuation |                                      |                     |                             |                              | 2.67%   |   |
| Per Capita Consolidated Overlapping G.O. Tax Debt  |                                      |                     |                             |                              | \$ 907  |   |

(1) Includes the Certificates.

## DEBT INFORMATION

**TABLE 9 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

| Fiscal<br>Year<br>Ended<br>12/31 | The Certificates <sup>(1)</sup> |                     |                     | % of<br>Principal<br>Retired |
|----------------------------------|---------------------------------|---------------------|---------------------|------------------------------|
|                                  | Principal                       | Interest            | Total               |                              |
| 2002                             | \$ -                            | \$ 130,804          | \$ 130,804          |                              |
| 2003                             | 65,000                          | 122,718             | 187,718             |                              |
| 2004                             | 70,000                          | 120,150             | 190,150             |                              |
| 2005                             | 70,000                          | 117,350             | 187,350             |                              |
| 2006                             | 75,000                          | 114,321             | 189,321             | 11.67%                       |
| 2007                             | 80,000                          | 110,968             | 190,968             |                              |
| 2008                             | 85,000                          | 107,295             | 192,295             |                              |
| 2009                             | 90,000                          | 103,290             | 193,290             |                              |
| 2010                             | 100,000                         | 98,798              | 198,798             |                              |
| 2011                             | 105,000                         | 93,825              | 198,825             | 30.83%                       |
| 2012                             | 110,000                         | 88,503              | 198,503             |                              |
| 2013                             | 115,000                         | 82,820              | 197,820             |                              |
| 2014                             | 125,000                         | 76,638              | 201,638             |                              |
| 2015                             | 130,000                         | 69,943              | 199,943             |                              |
| 2016                             | 140,000                         | 62,718              | 202,718             | 56.67%                       |
| 2017                             | 150,000                         | 54,813              | 204,813             |                              |
| 2018                             | 155,000                         | 46,348              | 201,348             |                              |
| 2019                             | 165,000                         | 37,346              | 202,346             |                              |
| 2020                             | 180,000                         | 27,555              | 207,555             |                              |
| 2021                             | 190,000                         | 16,963              | 206,963             | 91.67%                       |
| 2022                             | 200,000                         | 5,750               | 205,750             | 100.00%                      |
|                                  | <u>\$ 2,400,000</u>             | <u>\$ 1,688,916</u> | <u>\$ 4,088,916</u> |                              |

(1) Average life of the issue - 13.014 years. Interest on the Certificates has been calculated at the rates shown on the inside cover hereof.

**TABLE 10 INTEREST AND SINKING FUND BUDGET PROJECTION**

|   |               |            |
|---|---------------|------------|
| Tax Supported Debt Service Requirements, Fiscal Year Ending 12-31-01  |               | \$ -0-     |
| Interest and Sinking Fund, 12-31-01                                   | \$ -0-        |            |
| Interest and Sinking Fund Tax Levy @ 95.00% Collection <sup>(1)</sup> | 130,932       |            |
| Estimated Investment Income   | <u>75,000</u> | <u>\$</u>  |
| Estimated Balance, 12-31-02   |               | \$ 205,932 |

(1) Based on 2000 Taxable Assessed Valuation and a Interest and Sinking Fund tax rate of \$0.0620.

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

The County has no authorized but unissued general obligation bonds.

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . .** The County does not *anticipate* the issuance of additional general obligation debt within the next twelve months.

**TABLE 12 - OTHER OBLIGATIONS**

The County has the following Notes and Capital Lease outstanding as of April 30, 2001:

| <u>Purpose</u>     | <u>Type of Obligation</u> | <u>Original Balance</u> | <u>Final Payment</u> |
|--------------------|---------------------------|-------------------------|----------------------|
| Equipment Purchase | Secured                   | \$ 12,000               | 06/15/02             |
| Equipment Purchase | Secured                   | 79,043                  | 02/01/04             |
| Equipment Purchase | Secured                   | 30,000                  | 07/01/04             |
| Equipment Purchase | Secured                   | 100,574                 | 02/01/03             |
| Equipment Purchase | Secured                   | 81,399                  | 02/01/03             |
| Equipment Purchase | Secured                   | 17,000                  | 04/25/03             |
| Equipment Purchase | Secured                   | 52,627                  | 02/01/04             |
| Equipment Purchase | Secured                   | 110,259                 | 02/01/04             |
| Equipment Purchase | Secured                   | 26,000                  | 01/01/02             |
| Equipment Purchase | Lease Purchase            | 197,000                 | 04/01/05             |

**PENSION FUND** . . . The County provides pension, disability and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS). Under the state law governing TCDRS, the contribution rate of the County is a fixed percent equal to the contribution rate payable by the employee member, which is 5% as adopted by the governing body of the County. This rate is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception and when benefit increases are adopted is limited by statute to what the actuary determines can be adequately financed by the commitment of the employer to contribute the same amount as the employee. The statute specifies that the actuary's determination is based on a maximum period for amortizing the unfunded pension benefit obligation of 30 years. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the County's Annual Financial Report" - Note # 3.)

## FINANCIAL INFORMATION

**TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

|  | Fiscal Year Ended December 31, |                     |                     |                     |                     |
|--|--------------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2000                           | 1999                | 1998                | 1997                | 1996                |
| <u>Revenues:</u>   |                                |                     |                     |                     |                     |
| Property Tax   | \$ 1,080,069                   | \$ 970,839          | \$ 938,853          | \$ 887,965          | \$ 870,467          |
| Local Sales Tax  | 13,512                         | 17,928              | 8,814               | 16,201              | 9,815               |
| Licenses, Permits & Other Taxes  | 11,743                         | 13,360              | 14,033              | 12,866              | 12,585              |
| Intergovernmental Revenues   | 25,000                         | 25,000              | 20,500              | 20,500              | 20,500              |
| Fee Collections  | 304,629                        | 280,276             | 223,031             | 180,613             | 178,934             |
| Other Fees   | 3,850                          | 17,682              | 222                 | 6,768               | -                   |
| Interest Earned  | 42,629                         | 29,962              | 24,490              | 24,950              | 13,991              |
| Other Revenues   | 42,204                         | 10,760              | 39,168              | 19,915              | 73,129              |
| Total Revenues   | <u>\$ 1,523,636</u>            | <u>\$ 1,365,807</u> | <u>\$ 1,269,111</u> | <u>\$ 1,169,778</u> | <u>\$ 1,179,421</u> |
| <u>Expenditures:</u>   |                                |                     |                     |                     |                     |
| Financial Administration   | \$ 148,515                     | \$ 124,532          | \$ 122,738          | \$ 120,117          | \$ 113,789          |
| Judicial & Legal   | 217,536                        | 209,403             | 190,472             | 177,480             | 166,111             |
| General County Buildings   | 131,066                        | 106,230             | 105,340             | 81,558              | 115,139             |
| Central Administration   | 123,803                        | 121,347             | 119,673             | 109,102             | 138,786             |
| Libraries  | 6,868                          | 6,796               | 5,003               | 5,721               | 5,230               |
| Social Services - Public Welfare   | 29,171                         | 28,142              | 24,589              | 18,308              | 22,729              |
| Social Services - Health   | 5,625                          | 5,725               | 12,875              | 11,875              | 14,061              |
| Public Safety - Police   | 353,028                        | 361,572             | 349,499             | 324,850             | 342,117             |
| Public Safety - Correction   | 194,609                        | 197,507             | 133,849             | 114,716             | 116,963             |
| Public Safety - Fire   | 8,625                          | 8,625               | 8,625               | 8,625               | 8,761               |
| Environment - Sanitation   | 45,360                         | 48,839              | 43,210              | 39,805              | 39,628              |
| Environment - Natural Resources  | 52,967                         | 55,481              | 55,415              | 48,404              | 50,343              |
| Miscellaneous  | 25,107                         | 22,975              | 17,966              | 31,369              | 24,951              |
| Capital Outlay   | 50,732                         | 57,708              | 51,695              | 67,726              | 63,538              |
| Total Expenditures   | <u>\$ 1,393,012</u>            | <u>\$ 1,354,882</u> | <u>\$ 1,240,949</u> | <u>\$ 1,159,656</u> | <u>\$ 1,222,146</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures                          | <u>\$ 130,624</u>              | <u>\$ 10,925</u>    | <u>\$ 28,162</u>    | <u>\$ 10,122</u>    | <u>\$ (42,725)</u>  |
| Other Financing Sources (Uses)   |                                |                     |                     |                     |                     |
| Transfers from Other Funds   | \$ -                           | \$ -                | \$ 14,000           | \$ 25,000           | \$ 24,575           |
| Sale of Assets   | -                              | -                   | 8,750               | -                   | -                   |
| Total Other Financing sources (Uses)   | <u>\$ -</u>                    | <u>\$ -</u>         | <u>\$ 22,750</u>    | <u>\$ 25,000</u>    | <u>\$ 24,575</u>    |
| Excess (Deficiency) of Revenues Over Expenditures & Other Financing Sources (Uses) | <u>\$ 130,624</u>              | <u>\$ 10,925</u>    | <u>\$ 50,912</u>    | <u>\$ 35,122</u>    | <u>\$ (18,150)</u>  |
| Fund Balance, Beginning of Year  | \$ 344,758                     | \$ 333,833          | \$ 282,921          | \$ 247,799          | \$ 265,949          |
| Prior Period Adjustments   | <u>\$ (53,945)</u>             | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         |
| Fund Balance, End of Year  | <u>\$ 421,437</u>              | <u>\$ 344,758</u>   | <u>\$ 333,833</u>   | <u>\$ 282,921</u>   | <u>\$ 247,799</u>   |

### FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available, and expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due.

General Fund . . . The General Fund that accounts for all financial resources except those required to be accounted for in another group.

Special Revenue Funds . . . The Special Revenue Funds that account for revenues derived from specific taxes or other earmarked revenue sources.

Budgetary Procedures . . . The official budget is prepared for adoption for all Governmental Fund Types. The budget is formally adopted by the County Commissioners at a duly advertised public meeting prior to the expenditure of funds.

## INVESTMENTS

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

**LEGAL INVESTMENTS . . .** Under Texas law, the County is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies 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 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, (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) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for County deposits, (7) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (5) or in any other manner and amount provided by law for County deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (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 regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio 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; invests 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, (13) bonds issued, assumed, or guaranteed by the State of Israel, and (14) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The County 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 AAA-m or an equivalent by at least one nationally recognized rating service.

The County 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 County 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 County funds, *maximum* allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All County funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, County 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 County shall submit an investment report detailing: (1) the investment position of the County, (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 County funds without express written authority from the Commissioners Court.

**ADDITIONAL PROVISIONS . . .** Under Texas law the County is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Commissioners Court; (3)

require the registered principal of firms seeking to sell securities to the County to: (a) receive and review the County'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 County'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 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 14 - CURRENT INVESTMENTS**

As of 4-30-01, the County's investable funds were invested in the following categories:

| <u>Investments</u>      | <u>Purchase<br/>Price</u>  | <u>Maturity</u> |
|-------------------------|----------------------------|-----------------|
| Certificates of Deposit | \$ 1,192,884               | 06/01 to 09/01  |
| Total                   | <u><u>\$ 1,192,884</u></u> |                 |

As of such date, 100.00% of the County's investments will mature within five months.

## TAX MATTERS

**TAX EXEMPTION** . . . The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the County made in a certificate dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the County with the provisions of the Order subsequent to the issuance of the Certificates. The Order contains covenants by the County with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Certificates to be includable in the gross income of the owners thereof from date of the issuance of the Certificates.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the County described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the Service is likely to treat the County as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the County may have different or conflicting interests from the Owners. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS** . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the County, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The County has designated the Certificates as "qualified tax-exempt obligations" and certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Certificates under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Certificates will not be deductible pursuant to section 291 of the Code.



**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . .** The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Certificates (the "Premium Certificates") may be greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

## **OTHER INFORMATION**

### **RATINGS**

A rating on the Certificates has not been requested from Moody's, S&P, or Fitch.

### **LITIGATION**

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

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

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

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the County has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

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

### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from County 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 Limited Offering Memorandum 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

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the County's continuing disclosure obligations because the County has not issued more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Certificates. Pursuant to the exemption, the County in the Order has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The County is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the County 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 County will provide certain financial information and operating data which is customarily prepared by the County and is publicly available to any person upon request made to the County in writing; provided that the County reserves the right at any time to commence making filings of such information with the Texas State Information Depository (the "SID") in lieu of providing such information to persons upon request. The information to be updated includes all quantitative financial information and operating data with respect to the County of the general type included in this Limited Offering Memorandum under Tables numbered 1 through 7 and 9 through 14 and in Appendix B. The County will update and provide this information within six months after the end of each fiscal year ending in or after 2001.

The County 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 County commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the County will provide unaudited financial statements by the required time and audited financial statements when and if 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 County may be required to employ from time to time pursuant to state law or regulation.

The County's current fiscal year end is December 31. Accordingly, it must provide updated information by June 31 in each year, unless the County changes its fiscal year. If the County changes its fiscal year, it will notify each nationally recognized municipal securities information repository ("NRMSIR") and the SID of the change.

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

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

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

Information agreed to be provided by the County on request may be obtained by contacting the County Judge at P.O. Box 1256, Tahoka, Texas 79373 or (806) 998-4222.

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

pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the County to comply with its agreement.

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS** . . . The County has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12.

#### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the County, at an underwriting discount of \$55,200.00. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with and as a part of their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

#### **CERTIFICATION OF THE LIMITED OFFERING MEMORANDUM**

At the time of payment for and delivery of the Certificates, the County 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 County contained in its Limited Offering Memorandum, and any addenda, supplement or amendment thereto, on the date of such Limited Offering Memorandum, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the County and its affairs, including its financial affairs, are concerned, such Limited Offering Memorandum 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 County, and their activities contained in such Limited Offering Memorandum are concerned, such statements and data have been obtained from sources which the County believes to be reliable and the County 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 County since the date of the last audited financial statements of the County.

The Order authorizing the issuance of the Certificates will also approve the form and content of this Limited Offering Memorandum, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriter.

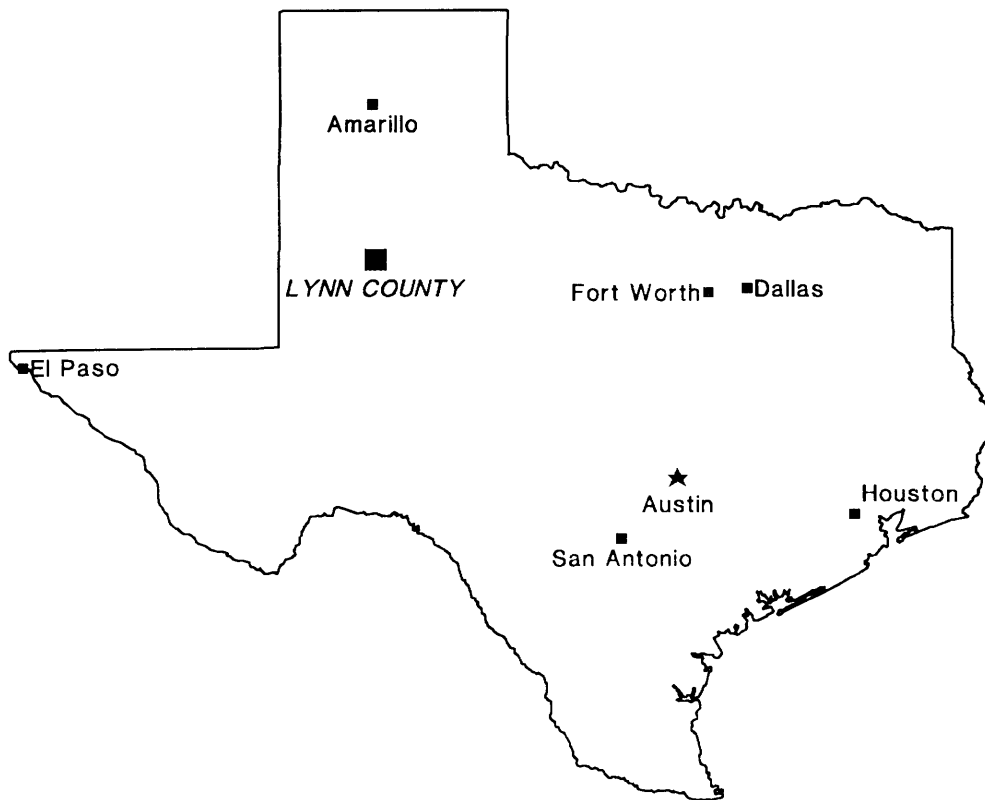
J. F. BRANDON  
County Judge  
Lynn County, Texas

ATTEST:

SUSAN TIPTON  
County Clerk  
Lynn County, Texas

**APPENDIX A**

GENERAL INFORMATION REGARDING THE COUNTY



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## THE COUNTY

### LOCATION

Lynn County, organized in 1903, is located in northwest Texas and has an area of approximately 891.9 square miles. The City of Tahoka, located approximately 29 miles south of the City of Lubbock (1990 U.S. Census Population 2,868), is the County Seat. Other towns located in the County include: New Home, Wilson and a portion of O'Donnell.

### ECONOMY

Lynn County's economy is based primarily on agribusiness.

The principal sources of agricultural income include cotton, sorghum and wheat with additional income from cattle, sheep and hogs. Lynn County is one of the leading producers of cotton in Texas with approximately 60,000 acres of irrigated production.

Minerals produced in the County include: Oil, natural gas and stone.

*Sales and Marketing Management* reports that the total retail sales for the County for 2000 were approximately \$31.3 million. The total effective buying income ("EBI") was approximately \$71 million and the median household EBI was approximately \$17,599. (1)

(1) Source: *Sales and Marketing Management*, "2000 Survey of Buying Power".

### LYNN COUNTY LABOR FORCE ESTIMATES (1)

|                      | April<br>2001 <sup>(2)</sup> | Annual Averages |       |       |       |       |
|----------------------|------------------------------|-----------------|-------|-------|-------|-------|
|                      |                              | 2000            | 1999  | 1998  | 1997  | 1996  |
| Civilian Labor Force | 2,737                        | 2,818           | 2,874 | 2,957 | 3,051 | 3,053 |
| Total Employment     | 2,588                        | 2,710           | 2,745 | 2,819 | 2,924 | 2,933 |
| Total Unemployment   | 149                          | 108             | 129   | 138   | 127   | 120   |
| Percent Unemployment | 5.40%                        | 3.80%           | 4.50% | 4.70% | 4.20% | 3.90% |

(1) Source: Texas Workforce Commission.

(2) Subject to revision.

### TRANSPORTATION

Lynn County is traversed by U.S. Highway 87, 380 and a well developed system of farm-to-market roads.

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**APPENDIX B**

EXCERPTS FROM THE

LYNN COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2000

The information contained in this Appendix consists of excerpts from the Lynn County, Texas Annual Financial Report for the Year Ended December 31, 2000, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Report for further information.

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**Jim Kingery, CPA**  
*Certified Public Accountant*

**INDEPENDENT AUDITOR'S REPORT**

April 16, 2001

Honorable J.F. Brandon, Judge  
And County Commissioners  
Lynn County  
Tahoka, Texas 79373

I have audited the accompanying general-purpose financial statements of Lynn County as of and for the year ended December 31, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the County's administrators. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 the administration, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Lynn County as of December 31, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles. In accordance with *Government Auditing Standards*, I have also issued my report dated April 16, 2001 on my consideration of the County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Lynn County taken as a whole. The combining statements and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the County. These combining statements and schedules have been subjected to the auditing procedures applied in the audit of the general-purpose financial statements taken as a whole.



Jim Kingery, CPA

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*P.O. Box 6857 Lubbock, Texas 79493-6857 806-780-8455 Fax 806-780-8726*

*American Institute of Certified Public Accountants  
AICPA Division for CPA Firms-Private Companies Practice Section  
Texas Society of Certified Public Accountants*

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**GENERAL PURPOSE FINANCIAL STATEMENTS**

**EXHIBITS A-1 THROUGH A-4**

LYNN COUNTY  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2000

|                                    | Governmental Fund Types |                    | Fiduciary<br>Fund Types |
|------------------------------------|-------------------------|--------------------|-------------------------|
|                                    | General                 | Special<br>Revenue | Trust<br>and<br>Agency  |
| <b>ASSETS AND OTHER DEBITS</b>     |                         |                    |                         |
| Cash                               | \$ 137,935              | \$ 37,064          | \$ 195,250              |
| Savings & Time Deposits            | 273,054                 | 324,675            | 30,476                  |
| Receivables                        |                         |                    |                         |
| Accrued Interest                   | 817                     | 2,532              |                         |
| Due from Other Funds               | 25,791                  | 5,005              |                         |
| Property Taxes                     | 533,263                 | 200,930            |                         |
| Less: Allowance for Uncollectibles | (78,943)                | (29,745)           |                         |
| Other Receivables                  |                         |                    | 3,670                   |
| Due from Appraisal District        |                         |                    |                         |
| Reserved Assets                    |                         |                    |                         |
| Cash                               | 477,708                 | 179,997            |                         |
| Time Deposits                      |                         |                    |                         |
| Due from Appraisal District        |                         |                    |                         |
| Accrued Interest                   |                         |                    |                         |
| Land                               |                         |                    |                         |
| Buildings and Improvements         |                         |                    |                         |
| Machinery and Equipment            |                         |                    |                         |
| Furniture and Fixtures             |                         |                    |                         |
| Amounts to be Provided             |                         |                    |                         |
| Total Assets and Other Debits      | \$ 1,369,625            | \$ 720,458         | \$ 229,396              |

The accompanying notes are an integral part of this statement.

| Account Groups             |                              | Totals<br>(Memorandum Only) |                     |
|----------------------------|------------------------------|-----------------------------|---------------------|
| General<br>Fixed<br>Assets | General<br>Long-Term<br>Debt | December 31                 |                     |
|                            |                              | 2000                        | 1999                |
|                            |                              | \$ 370,249                  | \$ 437,763          |
|                            |                              | 628,205                     | 480,833             |
|                            |                              | 3,349                       | 3,348               |
|                            |                              | 30,796                      | 32,132              |
|                            |                              | 734,193                     | 589,135             |
|                            |                              | (108,688)                   | (100,077)           |
|                            |                              | 3,670                       | 24,998              |
|                            |                              | -                           | 31,465              |
|                            |                              | 657,705                     | 311,476             |
|                            |                              | -                           | 634,853             |
|                            |                              | -                           | 20,790              |
|                            |                              | -                           | 4,706               |
| 228,750                    |                              | 228,750                     | 228,750             |
| 1,221,371                  |                              | 1,221,371                   | 1,221,371           |
| 2,712,355                  |                              | 2,712,355                   | 2,359,778           |
| 115,035                    |                              | 115,035                     | 115,035             |
|                            | 351,954                      | 351,954                     | 198,751             |
| <u>\$ 4,277,511</u>        | <u>\$ 351,954</u>            | <u>\$ 6,948,944</u>         | <u>\$ 6,595,107</u> |

LYNN COUNTY  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2000

|  | Governmental Fund Types |                    | Fiduciary<br>Fund Types |
|--|-------------------------|--------------------|-------------------------|
|  | General                 | Special<br>Revenue | Trust<br>and<br>Agency  |
| <b>LIABILITIES, FUND EQUITY AND</b>              |                         |                    |                         |
| <b>OTHER CREDITS</b>                             |                         |                    |                         |
| <b>Liabilities</b>                               |                         |                    |                         |
| Deficit Cash Balance                             |                         |                    |                         |
| Accounts Payable                                 | 10,899                  | 10,350             |                         |
| Due to Other Funds                               |                         | 50                 | 30,747                  |
| Due to Others                                    | 5,261                   |                    | 66,874                  |
| Due to Other Governments                         |                         |                    | 8,518                   |
| Cases Pending                                    |                         |                    | 123,257                 |
| Deferred Revenues                                |                         |                    |                         |
| Collected Taxes                                  | 470,341                 | 177,221            |                         |
| Uncollected Taxes                                | 454,320                 | 171,185            |                         |
| Interest   | 7,367                   | 2,776              |                         |
| Notes Payable                                    |                         |                    |                         |
| Total Liabilities                                | 948,188                 | 361,582            | 229,396                 |
| <b>Fund Equity and Other Credits</b>             |                         |                    |                         |
| Unreserved                                       | 421,437                 |                    |                         |
| Reserved   |                         |                    |                         |
| Future Uses                                      |                         |                    |                         |
| Special Purposes                                 |                         | 358,876            |                         |
| General Fixed Assets                             |                         |                    |                         |
| Total Fund Equity and Other Credits              | 421,437                 | 358,876            | -                       |
| Total Liabilities, Fund Equity and Other Credits | \$ 1,369,625            | \$ 720,458         | \$ 229,396              |

The accompanying notes are an integral part of this statement.



| Account Groups             |                              | Totals<br>(Memorandum Only) |              |
|----------------------------|------------------------------|-----------------------------|--------------|
| General<br>Fixed<br>Assets | General<br>Long-Term<br>Debt | December 31                 |              |
|                            |                              | 2000                        | 1,999        |
|                            |                              | \$ -                        | \$ 12,255    |
|                            |                              | 21,249                      | 27,435       |
|                            |                              | 30,797                      | 32,132       |
|                            |                              | 72,135                      | 64,897       |
|                            |                              | 8,518                       | 44,161       |
|                            |                              | 123,257                     | 117,110      |
|                            |                              | 647,562                     | 960,756      |
|                            |                              | 625,505                     | 489,057      |
|                            |                              | 10,143                      | 11,068       |
|                            | 351,954                      | 351,954                     | 198,751      |
| -                          | 351,954                      | 1,891,120                   | 1,957,622    |
|                            |                              | 421,437                     | 344,758      |
|                            |                              | -                           | -            |
|                            |                              | 358,876                     | 367,793      |
| 4,277,511                  |                              | 4,277,511                   | 3,924,934    |
| 4,277,511                  | -                            | 5,057,824                   | 4,637,485    |
| \$ 4,277,511               | \$ 351,954                   | \$ 6,948,944                | \$ 6,595,107 |

LYNN COUNTY  
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2000

|  | Governmental Fund Types |                    | Totals<br>(Memorandum Only) |              |
|--|-------------------------|--------------------|-----------------------------|--------------|
|  | General                 | Special<br>Revenue | December 31,                |              |
|  |                         |                    | 2000                        | 1999         |
| Revenues   |                         |                    |                             |              |
| Property Tax   | \$ 1,080,069            | \$ 349,438         | \$ 1,429,507                | \$ 1,336,639 |
| Local Sales Tax  | 13,512                  |                    | 13,512                      | 17,928       |
| Licenses, Permits & Other Taxes  | 11,743                  | 310,859            | 322,602                     | 315,281      |
| Intergovernmental Revenues   | 25,000                  | 27,312             | 52,312                      | 52,468       |
| Fee Collections  | 304,629                 |                    | 304,629                     | 280,276      |
| Other Fees   | 3,850                   | 150                | 4,000                       | 17,759       |
| Interest Earned  | 42,629                  | 25,528             | 68,157                      | 52,378       |
| Other Revenues   | 42,204                  |                    | 42,204                      | 10,799       |
| Total Revenues   | \$ 1,523,636            | \$ 713,287         | \$ 2,236,923                | \$ 2,083,528 |
| Expenditures   |                         |                    |                             |              |
| Current  |                         |                    |                             |              |
| Financial Administration   | \$ 148,515              |                    | \$ 148,515                  | \$ 124,532   |
| Judicial & Legal   | 217,536                 | 23,224             | 240,760                     | 234,007      |
| General County Buildings   | 131,066                 |                    | 131,066                     | 106,230      |
| Central Administration   | 123,803                 |                    | 123,803                     | 121,347      |
| Libraries  | 6,868                   |                    | 6,868                       | 6,796        |
| Social Services - Public Welfare   | 29,171                  |                    | 29,171                      | 28,142       |
| Social Services - Health   | 5,625                   |                    | 5,625                       | 5,725        |
| Transportation - Highways  |                         | 564,500            | 564,500                     | 503,093      |
| Public Safety - Police   | 353,028                 |                    | 353,028                     | 361,572      |
| Public Safety - Correction   | 194,609                 |                    | 194,609                     | 197,507      |
| Public Safety - Fire   | 8,625                   |                    | 8,625                       | 8,625        |
| Environment - Sanitation   | 45,360                  |                    | 45,360                      | 48,839       |
| Environment - Natural Resources  | 52,967                  |                    | 52,967                      | 55,481       |
| Miscellaneous  | 25,107                  |                    | 25,107                      | 22,975       |
| Capital Outlay   | 50,732                  | 300,305            | 351,037                     | 296,199      |
| Total Expenditures   | 1,393,012               | 888,029            | 2,281,041                   | 2,121,070    |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures                                     | \$ 130,624              | \$ (174,742)       | \$ (44,118)                 | \$ (37,542)  |
| Other Sources (Uses)   |                         |                    |                             |              |
| Transfers from Other Funds   |                         | 309,796            | 309,796                     | 286,000      |
| Transfers to Other Funds   |                         | (309,796)          | (309,796)                   | (286,000)    |
| Sale of Assets   |                         |                    | -                           | -            |
| Proceeds from Loans/Leases   |                         | 289,805            | 289,805                     | 137,900      |
| Debt Service Principal Paid  |                         | (123,980)          | (123,980)                   | (100,328)    |
| Total Other Sources (Uses)   | -                       | 165,825            | 165,825                     | 37,572       |
| Excess (Deficiency) of Revenues and<br>Other Sources Over (Under)<br>Expenditures and Other Uses | \$ 130,624              | \$ (8,917)         | \$ 121,707                  | \$ 30        |
| Fund Balance, Beginning of Year  | 344,758                 | 367,793            | 712,551                     | 712,551      |
| Prior Period Adjustments   | (53,945)                |                    |                             |              |
| Fund Balance, End of Year  | \$ 421,437              | \$ 358,876         | \$ 834,358                  | \$ 712,581   |

The accompanying notes are an integral part of this statement. - 8 -

**LYNN COUNTY**  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

|  | General Fund |              |  | Special Revenue Funds |            |  |
|--|--------------|--------------|--|-----------------------|------------|--|
|  | Budget       | Actual       | Variance<br>Favorable<br>(Unfavorable) | Budget                | Actual     | Variance<br>Favorable<br>(Unfavorable) |
| <b>Revenues</b>  |              |              |  |                       |            |  |
| Property Tax   | \$ 1,018,727 | \$ 1,080,069 | \$ 61,342                              | \$ 361,391            | \$ 349,438 | \$ (11,953)                            |
| Local Sales Tax  | 9,715        | 13,512       | 3,797                                  |                       |            | -                                      |
| Licenses, Permits & Other Taxes  | 14,100       | 11,743       | (2,357)                                | 339,000               | 310,859    | (28,141)                               |
| Intergovernmental Revenues   | 25,000       | 25,000       | -                                      | 25,824                | 27,312     | 1,488                                  |
| Fee Collections  | 215,000      | 304,629      | 89,629                                 |                       |            | -                                      |
| Other Fees   | 1,200        | 3,850        | 2,650                                  | 100                   | 150        | 50                                     |
| Interest Earned  | 24,500       | 42,629       | 18,129                                 | 23,182                | 25,528     | 2,346                                  |
| Other Revenues   | 19,775       | 42,204       | 22,429                                 |                       |            | -                                      |
| Total Revenues   | \$ 1,328,017 | \$ 1,523,636 | \$ 195,619                             | \$ 749,497            | \$ 713,287 | \$ (36,210)                            |
| <b>Expenditures</b>  |              |              |  |                       |            |  |
| Current  |              |              |  |                       |            |  |
| Financial Administration   | \$ 139,804   | \$ 148,515   | \$ (8,711)                             |                       |            | \$ -                                   |
| Judicial & Legal   | 226,828      | 217,536      | 9,292                                  | 24,279                | 23,224     | 1,055                                  |
| General County Buildings   | 103,608      | 131,066      | (27,458)                               |                       |            | -                                      |
| Central Administration   | 137,748      | 123,803      | 13,945                                 |                       |            | -                                      |
| Libraries  | 8,197        | 6,868        | 1,329                                  |                       |            | -                                      |
| Social Services - Public Welfare   | 29,701       | 29,171       | 530                                    |                       |            | -                                      |
| Social Services - Health   | 5,625        | 5,625        | -                                      |                       |            | -                                      |
| Transportation - Highways  |              |              | -                                      | 593,552               | 564,500    | 29,052                                 |
| Public Safety - Police   | 366,947      | 353,028      | 13,919                                 |                       |            | -                                      |
| Public Safety - Correction   | 147,990      | 194,609      | (46,619)                               |                       |            | -                                      |
| Public Safety - Fire   | 8,625        | 8,625        | -                                      |                       |            | -                                      |
| Environment - Sanitation   | 46,228       | 45,360       | 868                                    |                       |            | -                                      |
| Environment - Natural Resources  | 56,377       | 52,967       | 3,410                                  |                       |            | -                                      |
| Miscellaneous  | 39,000       | 25,107       | 13,893                                 |                       |            | -                                      |
| Capital Outlay   | 26,000       | 50,732       | (24,732)                               | 34,754                | 300,305    | (265,551)                              |
| Total Expenditures   | \$ 1,342,678 | \$ 1,393,012 | \$ (50,334)                            | \$ 652,585            | \$ 888,029 | \$ (235,444)                           |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures                                     | (14,661)     | 130,624      | (145,285)                              | 96,912                | (174,742)  | 271,654                                |
| Other Sources (Uses)   |              |              |  |                       |            |  |
| Transfers from Other Funds   |              |              | -                                      | 309,796               | 309,796    | -                                      |
| Transfers to Other Funds   |              |              | -                                      | (309,796)             | (309,796)  | -                                      |
| Sale of Assets   |              |              | -                                      |                       |            | -                                      |
| Proceeds from Loans/Leases   |              |              | -                                      |                       | 289,805    | 289,805                                |
| Debt Service Principal Paid  |              |              | -                                      | (116,344)             | (123,980)  | (7,636)                                |
| Total Other Sources (Uses)   | -            | -            | -                                      | (116,344)             | 165,825    | 282,169                                |
| Excess (Deficiency) of Revenues and<br>Other Sources Over (Under)<br>Expenditures and Other Uses | \$ (14,661)  | \$ 130,624   | \$ 145,285                             | \$ (19,432)           | \$ (8,917) | \$ 10,515                              |
| Fund Balance, Beginning of Year  | 344,758      | 344,758      | -                                      | 367,793               | 367,793    | -                                      |
| Prior Period Adjustments   |              | (53,945)     | (53,945)                               |                       |            | -                                      |
| Fund Balance, End of Year  | \$ 330,097   | \$ 421,437   | \$ 91,340                              | \$ 348,361            | \$ 358,876 | \$ 10,515                              |

The accompanying notes are an integral part of this statement

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LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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Note 1. Summary of Significant Accounting Policies

*General*

Lynn County operates under a County Judge-Commissioner's Court form of government and provides the following services: judicial and legal, county roads, public safety and protection, social services, public welfare and general administrative services. The accounting policies of Lynn County conform to generally accepted accounting principles applicable to governments.

*Fund Accounting*

Governmental Fund Types include:

The General Fund that accounts for all financial resources except those required to be accounted for in another group.

The Special Revenue Funds that account for revenues derived from specific taxes or other earmarked revenue sources.

Fiduciary Fund Types include:

A Non-expendable Trust Fund that accounts for revenues derived from investments over which the County acts as fiscal agent. Although the County accounts for this fund, the local school districts in the County are the beneficiaries of the revenues of the fund.

The Agency Funds that account for activities of collecting offices and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the County.

Account Groups include:

General Fixed Assets accounts for fixed assets used in governmental fund type operations. Public domain improvements, other than buildings, have not been capitalized. Such assets are normally immovable and of value only to the County, therefore, the purpose of stewardship for these items is satisfied without recording of these assets. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

General Long-Term Debt accounts for long-term liabilities financed from the Governmental Funds.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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**Note 1.     Summary of Significant Accounting Policies, continued.**

*Basis of Accounting*

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available, and expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due.

*Budgets*

The official budget was prepared for adoption for all Governmental Fund Types. The budget was formally adopted by the County Commissioners at a duly advertised public meeting prior to the expenditure of funds.

*Investments*

Investments are stated at cost.

*Reserved Assets*

These assets consist of cash and short-term investments reserved for the Governmental Fund Types 2001 operations.

*Reserves*

The County records reserves to indicate that a fund balance is legally segregated for specific use.

*Property Taxes - Revenue Recognition*

Property taxes are levied on October 1 and are due and payable upon receipt of the tax bill. Taxes not paid by February 1 of the following year become delinquent. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are recognized when they become available.

*Pension Plan*

The County is a member of the Texas County and District Retirement System Plan which covers all eligible full-time employees. The County's policy is to fund pension cost accrued.

*Total Columns on Combined Statements*

Total columns on the Combined Statements are for information purposes only as data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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**Note 2. Delinquent Taxes Receivable**

Delinquent taxes are prorated between the General, Jury, and Road and Bridge funds based upon the rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience in collecting property taxes.

**Note 3. Employees Pension Plans**

*Plan Description*

Lynn County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 506 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at PO Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer. Benefit amounts are determined by the sum of the employee's contributions to the plan with interest, and the employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

*Funding Policy*

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. However, the governing body of the employer elected to pay a rate of 5.00% that exceeded the calculated rate as allowed by the provisions of the TCDRS Act. The contribution rate payable by the employee members is the rate of 5% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

Note 3. Employees Pension Plans, continued

*Annual Pension Cost*

For the employer's accounting year ending December 31, 2000, the annual pension cost for the TCDRS plan for its employees was \$ 19,944, and the actual contributions were \$ 42,075.

|  |                    |
|--|--------------------|
| Annual required contributions (ARC)      | \$ 19,944          |
| Interest on net pension obligation (NPO) | -                  |
| Adjustment to ARC                        | -                  |
| Annual pension cost                      | \$ 19,944          |
| Contributions made                       | 42,075             |
| Increase (decrease) in NPO               | (22,131)           |
| NPO beginning of year                    | -                  |
| NPO end of year                          | <u>\$ (22,131)</u> |

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 1998, the basis for determining the contribution rate of the calendar year 2000. The December 31, 1999 actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

|                                |  |  |  |
|--------------------------------|--|--|--|
| Actuarial valuation date       | 12/31/97                                     | 12/31/98                                     | 12/31/99                                     |
| Actuarial cost method          | entry age                                    | entry age                                    | entry age                                    |
| Amortization method            | level percentage<br>of payroll, open         | level percentage<br>of payroll, open         | level percentage<br>of payroll, open         |
| Amortization period in years   | 30   | 30   | 30   |
| Asset valuation method         | long-term<br>appreciation with<br>adjustment | long-term<br>appreciation with<br>adjustment | long-term<br>appreciation with<br>adjustment |
| Actuarial Assumptions:         |  |  |  |
| Investment return (1)          | 8.00%  | 8.00%  | 8.00%  |
| Projected salary increases (1) | 5.9%   | 5.9%   | 5.9%   |
| Inflation                      | 4.0%   | 4.0%   | 4.0%   |
| Cost-of-living adjustments     | 0.0%   | 0.0%   | 0.0%   |

(1) Includes inflation at the stated rate



**LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000**

**Note 3. Employees Pension Plans, continued**

**Trend Information for the Retirement Plan  
for the Employees of Lynn County, Texas**

| Accounting<br>Year Ending | Annual Pension<br>Cost (APC) | Percentage of<br>APC<br>Contributed | Net Pension<br>Obligation |
|---------------------------|------------------------------|-------------------------------------|---------------------------|
| 12/31/98                  | \$ 22,416                    | 174%                                | \$ (16,500)               |
| 12/31/99                  | \$ 20,461                    | 190%                                | \$ (18,438)               |
| 12/31/00                  | \$ 19,944                    | 211%                                | \$ (22,131)               |

*Transition Disclosure*

It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective January 1, 1998, because all actuarially required contributions for the accounting years for the period January 1, 1987 through December 31, 1997 have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported pension liability is zero.

**Schedule of Funding Progress for the Retirement Plan  
for the Employees of Lynn County, Texas**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Annual<br>Covered<br>Payroll (1)<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---|---|
| 12/31/97 (2)                   | 767,434                                | 757,163   | (10,271)                           | 101.36%                  | 745,041                                 | -1.38%  |
| 12/31/98                       | 849,470                                | 814,217   | (35,253)                           | 104.33%                  | 801,759                                 | -4.40%  |
| 12/31/99                       | 866,339                                | 802,128   | (64,211)                           | 108.01%                  | 826,576                                 | -7.77%  |

(1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

(2) Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

**Note 4. Changes in General Fixed Assets**

A summary of changes in General Fixed Assets is as follows:

|                            | Balance<br>12/31/98 | Additions         | Deletions   | Balance<br>12/31/99 |
|----------------------------|---------------------|-------------------|-------------|---------------------|
| Land                       | \$ 228,750          |                   |             | \$ 228,750          |
| Buildings and Improvements | 1,221,371           |                   |             | 1,221,371           |
| Machinery and Equipment    | 2,359,778           | 352,577           |             | 2,712,355           |
| Furniture and Fixtures     | 115,035             |                   |             | 115,035             |
|                            | <u>\$ 3,924,934</u> | <u>\$ 352,577</u> | <u>\$ -</u> | <u>\$ 4,277,511</u> |

**Note 5. Long - Term Debt**

Long-term debt at December 31, 2000, consists of the following:

|   |           |
|---|-----------|
| 6.000% note payable to Wilson State Bank; annual installments of \$20,115 plus interest to February 1, 2003, secured by a Caterpillar Motor Grader -- Precinct #2 | \$ 60,245 |
| 5.600% note payable to Wilson State Bank; annual installments of \$7,005 including interest to July 1, 2004, secured by a Caterpillar Motor Grader -- Precinct #1 | 24,496    |
| 5.600% note payable to Wilson State Bank; annual installments of \$6,505 including interest to July 15, 2002, secured by a JD 4440 Tractor -- Precinct #1         | 12,010    |
| 5.600% note payable to Wilson State Bank; annual installments of \$11,748 including interest to March 30, 2003, secured by equipment -- Precinct #2               | 31,643    |
| 5.600% note payable to Wilson State Bank; annual installments of \$6,313 including interest to April 30, 2003, secured by equipment - Precinct #2                 | 17,010    |
| 9.750% note payable to Caterpillar Financial Services; annual installments of \$13,609 including interest to January 30, 2002 secured by equipment - Precinct #2  | 23,698    |

**LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000**

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**Note 5.     Long – Term Debt, continued**

|   |                   |
|---|-------------------|
| 5.600% note payable to First National Bank; annual installments of \$25,390 including interest to February 1, 2004, secured by equipment – Precinct #4                | 88,777            |
| 5.600% note payable to First National Bank; annual installments of \$12,027 including interest to February 1, 2004, secured by equipment – Precinct #4                | 42,053            |
| 5.600% note payable to Wilson State Bank; annual installments of \$18,309 including interest to February 1, 2004, secured by a Caterpillar Motor Grader – Precinct #1 | <u>64,032</u>     |
|   | <u>\$ 363,964</u> |

Notes Payable mature as follows:

|                         |                   |
|-------------------------|-------------------|
| Year ended December 31, |                   |
| 2001                    | \$ 104,315        |
| 2002                    | 110,730           |
| 2003                    | 89,535            |
| 2004                    | 59,384            |
| 2005                    | <u>-0-</u>        |
|                         | <u>\$ 363,964</u> |

**Note 6.     Deposits, Deposit Collateral, and Investments**

The County's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Public Funds Investment Act of 1987. The depository bank is required to deposit for safekeeping and trust with the County's agent bank, approved pledged securities in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The County's cash deposits at December 31, 2000 were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank. The deposits were properly secured at all times.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

**Note 6. Deposits, Deposit Collateral, and Investments, continued**

All deposits of the County are held at First National Bank, Tahoka, Texas. At December 31, 2000 the total amount on deposit was \$1,656,159. The bank balance is collateralized as follows:

|  |            |
|--|------------|
| Amount secured by FDIC                 | \$ 100,000 |
| Amount of securities pledged (at FMV)  | 1,698,824  |
| Total insurance and deposit collateral | 1,798,824  |
| Largest combined account balance       | 1,656,159  |
| Amount over (under) collateralized     | \$ 142,665 |

Cash deposits held at financial institutions can be categorized according to three levels of risk. These levels of risk are:

- Category 1 Deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 Deposits that are not collateralized.

Based on the three levels of risk, all of the County's cash deposits are classified as category 2. Investments of the County are valued at the lower of cost or market at the balance sheet date. The County maintains an investment policy that is updated as necessary.

**Note 7. Interfund Receivables and Payables**

Interfund balances at December 31, 2000 consisted of the following individual fund balances:

|                         | Due from<br>Other Funds | Due to<br>Other Funds |
|-------------------------|-------------------------|-----------------------|
| General Fund:           |                         |                       |
| Special Revenue Funds   | \$ 50                   |                       |
| Agency Funds            | 25,741                  |                       |
| Special Revenue Funds:  |                         |                       |
| General Fund            |                         | 50                    |
| Agency Funds            | 5,005                   |                       |
| Trust and Agency Funds: |                         |                       |
| General Fund            |                         | 25,741                |
| Special Revenue Funds   |                         | 5,005                 |
| Agency Funds            |                         |                       |
|                         | \$ 30,796               | \$ 30,796             |

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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Note 8. Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in the following areas:

| <u>Fund</u>     | <u>Description</u>          | <u>Amount</u> |
|-----------------|-----------------------------|---------------|
| General Fund    | Financial Administration    | \$ 8,711      |
| General Fund    | General County Buildings    | 27,458        |
| General Fund    | Public Safety - Corrections | 46,619        |
| General Fund    | Capital Outlay              | 24,732        |
| Special Revenue | Capital Outlay              | 265,551       |

General Fund:

Financial Administration

Expenditures exceeded appropriations due to the County underbudgeting several expenditure categories including both Tax Collector and County Treasurer.

General County Buildings

Expenditures exceeded appropriations due to the County underbudgeting several expenditure categories.

Public Safety - Corrections

Expenditures exceeded appropriations due to the County underbudgeting several expenditure categories.

Capital Outlay -- General Fund

Expenditures exceeded appropriations due to the County underbudgeting capital outlay for County Treasurer, Police, and County Agent.

Capital Outlay -- Special Revenue Funds

Expenditures exceeded appropriations due to the County underbudgeting capital outlay items for all precincts.

LYNN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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Note 9.     Subsequent Events

There were no subsequent events required to be reported.

Note 10.    Commitments and Contingencies

There were no commitments or contingencies to be reported at December 31, 2000.

Note 11.    Litigation

There was no pending or threatened litigation involving the County at December 31, 2000.

Note 12.    Related Organizations

There were no "related organizations" of the County as defined by *Government Accounting Standards Board Statement No. 14*.

## **APPENDIX C**

### **FORM OF BOND COUNSEL'S OPINION**

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**\$2,400,000  
LYNN COUNTY, TEXAS  
CERTIFICATES OF OBLIGATION  
SERIES 2001**

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by Lynn County, Texas (the "County") of its \$2,400,000 aggregate principal amount of Certificates of Obligation, Series 2001 (the "Certificates"). We have examined the applicable and pertinent provisions of the Constitution and laws of the State of Texas; an order of the Commissioners Court of the County (the "Commissioners Court") authorizing the Certificates adopted on June 25, 2001 (the "Order"); a transcript of certified proceedings of the Commissioners Court relating to the authorization, issuance, sale and delivery of the Certificates, including the Order; certificates and opinions of officials of the County, including a No Arbitrage Certificate; and other pertinent instruments authorizing and relating to the issuance of the Certificates. We have examined the Initial Certificate (as defined in the Order) which we found to be in due form and properly executed. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

BASED ON OUR EXAMINATION, we are of the opinion as of the date hereof and under existing law, as follows:

1. The Certificates are valid and legally binding obligations of the County enforceable in accordance with their terms.
2. The Certificates are secured by and payable from the levy of a direct annual ad valorem tax upon all taxable property within the County, within limits prescribed by law, sufficient for said purposes.

IT IS FURTHER OUR OPINION that under the applicable statutes, regulations, published rulings, and court decisions existing on the date of this opinion, the interest on the Certificates is not includable in the "gross income" of the owners thereof as that term is defined in the Internal Revenue Code of 1986, as amended (the "Code").

WE ARE FURTHER OF THE OPINION THAT, assuming compliance by the County with the covenants referred to above, the Certificates are not "private activity bonds" as that term is defined in the Code and that the interest on the Certificates will not be an individual or corporate alternative minimum tax preference as that term is defined under Section 57(a)(5) of the Code.

In expressing the foregoing opinions, we have relied on and assume compliance by the County with certain representations and covenants regarding the use and investment of the proceeds of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates is (a) included as an adjustment for book income or adjusted earning and profits in order to calculate alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code and for purposes of determining the environmental tax imposed on corporations by section 59A of the Code, (b) subject to the branch profits tax imposed on foreign corporations by section 884 of the Code, and (c) included in the passive investment income of an S corporation and subject to the tax imposed by section 1375 of the Code. We express no opinion as to these provisions and no opinion as to any other federal, state or local income tax consequences of acquiring, carrying, owning, disposing or accrual of interest on the Certificates; but we caution the holders of the Certificates that these provisions of the Code may, for certain taxpayers, result in collateral tax consequences about which advice should be sought from a competent tax advisor. Neither do we express any opinion with respect to any legislation affecting the Certificates which is or may be enacted after the date of this opinion. We also do not express any opinion with respect to the sufficiency of the security for or the marketability of the Certificates.

IT IS TO BE UNDERSTOOD that the rights of the owners of the Certificates and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to judicial discretion in appropriate cases.

WE HAVE ACTED AS BOND COUNSEL for the County 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 of the interest on the Certificates from gross income for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not investigated or verified any records, data or other material relating to the financial condition or capability of the County, and have not assumed any responsibility thereto.

Respectfully,





FIRST SOUTHWEST COMPANY

INVESTMENT BANKERS