

**CITY OF LANCASTER, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2007**

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L.L.P.

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## INDEPENDENT AUDITOR'S REPORT

To Members of the City Council  
and City Manager  
City of Lancaster, Texas

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lancaster, Texas (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

The Lancaster Housing Agency (a blended component unit of the City) had material noncompliance with federal program requirements and an investigation regarding potential fraudulent disbursements has been performed and provided to the Office of the Inspector General for the Federal Department of Housing and Urban Development and they are continuing the investigation. The resolution of this matter and resulting financial impact to the Lancaster Housing Agency has not been determined.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about noncompliance with federal guidelines over disbursements in the Federal Housing program, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas at September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Three Forest Plaza  
12221 Merit Drive  
Suite 1400  
Dallas, Texas 75251-2280  
972.490.1970  
F 972.702.8321

WWW.WEAVERANDTIDWELL.COM

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules on pages 3 through 10 and 43, 44, and 45, respectively, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, individual non-major fund financial statements, and discretely presented component units listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual non-major and discretely presented component unit fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
February 13, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the end of the fiscal year 2007, resulting in \$111,334,443 of net assets. Net assets associated with governmental activities are approximately \$62 million, or 56% of the total net assets of the City. Net assets associated with business-type activities are approximately \$49 million, or 44% of the total net assets of the City. The largest portion of net assets consists of investment in capital assets, net of related debt, which is \$84 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$21 million, or 19% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$7 million, or 12% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$14 million, or 30% of total net assets for business-type activities.
- As of the close of fiscal year 2007, the City of Lancaster's governmental funds reported a combined ending fund balance of \$18,215,085, an increase of \$18,606,698 from the prior year.
- At the end of the current fiscal year, total fund balance for the general fund was \$3,449,986. This represents approximately 16% of general fund expenditures which exceeds the 15% required by the City's adopted fund balance policy. Of this amount, 94% is available for spending at the government's discretion (unreserved fund balance).
- The City's total capital assets net of accumulated depreciation increased by approximately \$10 million which is primarily attributed to additions to the City's Governmental Funds and Water/Sewer Fund infrastructure.
- The City's long-term liabilities increased by approximately \$29 million due to the issuance of bond debt.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**Government-wide Financial Statements** The government-wide financial statements are designed to provide readers with a broad overview of the City of Lancaster finances, in a manner similar to private-sector business.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; for example uncollected taxes and earned, but not used, vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administration, public safety, library, non-departmental, human resources and finance. The business-type activities of the City include water and sewer, drainage systems, and airport operations.

The government-wide financial statements include the Economic Development Corporation and the Recreational Development Corporation as part of its reporting entity as discretely presented component units. Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government. The Lancaster Economic Development Corporation and the Lancaster Recreational Development Corporation are legally separate entities.

The government-wide financial statements can be found on pages 11 through 13 of this report.

**Fund Financial Statements** The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities when using certain taxes, grants, or other money. The City's two kinds of funds – Governmental and Proprietary – utilize different accounting approaches.

**Governmental Funds** The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**CITY OF LANCASTER, TEXAS**  
**SEPTEMBER 30, 2007**

By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General fund, HUD fund, Debt Service fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary Funds** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the governmental-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Lancaster maintains an Enterprise Fund to account for (1) water and sewer services provided to the City's retail and wholesale customers, (2) trash collection and disposal services, (3) operation of the City's airport, and (4) operation of the City's golf course. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private business enterprise.

The proprietary fund financial statements can be found on pages 18 through 20 of this report.

**Notes to the Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 42 of this report.

**Other Information** In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations. Required supplementary information immediately follows the notes to the financial statement. Combining statements for non-major governmental funds and component unit fund financial statements follow the section of required supplementary information.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2007, the City of Lancaster assets exceeded its liabilities by \$111,334,443.

The largest portion of the City's net assets, 67%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 5%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$21,781,482 or 19%, may be used to meet the City's ongoing obligations to citizens and creditors.

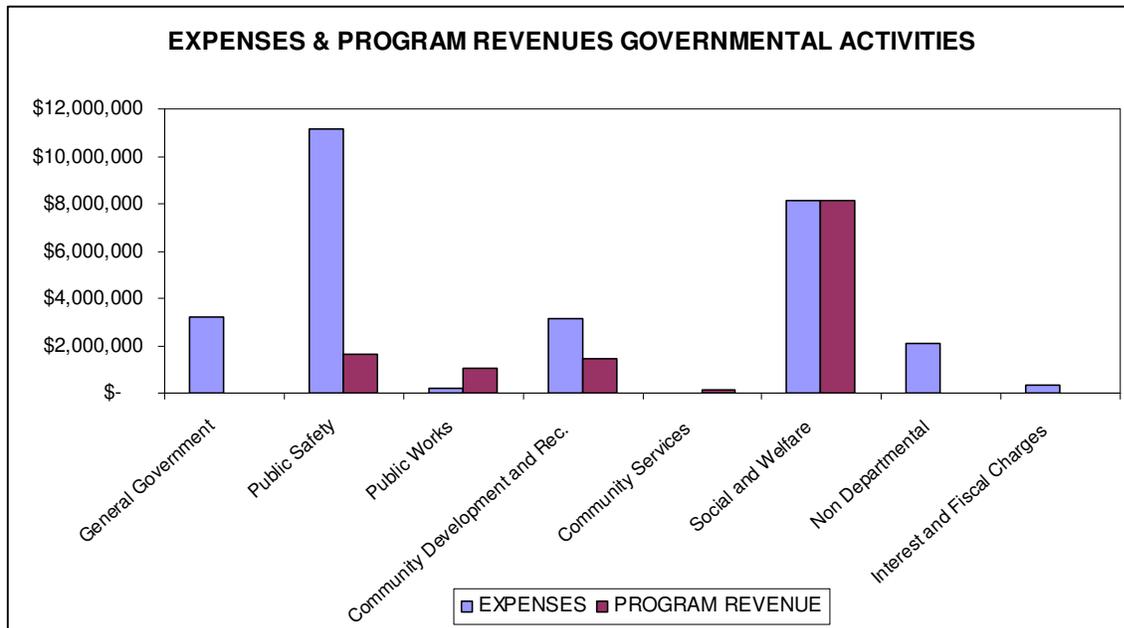
City of Lancaster Net Assets

	Governmental Activities 2007	Business-type Activities 2007	Total 2007	Governmental Activities 2006	Business-type Activities 2006	Total 2006
Current and Other Assets	\$ 37,698,818	\$ 20,335,187	\$ 58,034,005	\$ 16,199,179	\$ 17,325,529	\$ 33,524,708
Capital Assets	75,600,285	42,841,369	118,441,654	66,169,585	41,733,806	107,903,391
Total Assets	<u>\$ 113,299,103</u>	<u>\$ 63,176,556</u>	<u>\$ 176,475,659</u>	<u>\$ 82,368,764</u>	<u>\$ 59,059,335</u>	<u>\$ 141,428,099</u>
Long-Term Liabilities	\$ 44,880,525	12,802,762	\$ 57,683,287	\$ 20,484,079	\$ 9,445,513	\$ 29,929,592
Other Liabilities	5,958,675	1,499,254	7,457,929	3,027,493	941,674	3,969,167
Total Liabilities	<u>\$ 50,839,200</u>	<u>\$ 14,302,016</u>	<u>\$ 65,141,216</u>	<u>\$ 23,511,572</u>	<u>\$ 10,387,187</u>	<u>\$ 33,898,759</u>
Net Assets:						
Invested in Capital assets, net of Related Debt	\$ 54,560,297	\$ 29,528,199	\$ 84,088,496	\$ 59,998,301	\$ 32,552,943	\$ 92,551,244
Restricted	602,144	4,862,321	5,464,465	684,097	469,000	1,153,097
Unrestricted	7,297,462	14,484,020	21,781,482	(1,825,206)	15,650,205	13,824,999
Total Net Assets	<u>\$ 62,459,903</u>	<u>\$ 48,874,540</u>	<u>\$ 111,334,443</u>	<u>\$ 58,857,192</u>	<u>\$ 48,672,148</u>	<u>\$ 107,529,340</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**Analysis of City's Operations** The following table provides a summary of the City's operations for the year ended September 30, 2007. Overall, the City had an increase in net assets of \$3,162,076.

	Governmental Activities 2007	Business-type Activities 2007	Total 2007	Governmental Activities 2006	Business-type Activities 2006	Total 2006
<b>REVENUES:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 4,665,593	\$ 12,263,563	\$ 16,929,156	\$ 5,945,436	\$ 11,554,336	\$ 17,499,772
Operating Grant & Contribution	8,922,577	59,177	8,981,754	9,385,998	-	9,385,998
Capital Grants & Contributions	6,557,823	1,475,994	8,033,817	5,066,852	1,246,609	6,313,461
<b>General Revenue</b>						
Taxes & Fees	16,164,303	-	16,164,303	14,610,183	-	14,610,183
Others	1,224,644	529,432	1,754,076	653,172	532,973	1,186,145
<b>Total Revenues</b>	<b>37,534,940</b>	<b>14,328,166</b>	<b>51,863,106</b>	<b>35,661,641</b>	<b>13,333,918</b>	<b>48,995,559</b>
<b>Program Expenses</b>						
General Government	4,274,611	-	4,274,611	4,538,632	-	4,538,632
Public Safety	13,169,737	-	13,169,737	13,718,040	-	13,718,040
Public Works	3,176,963	-	3,176,963	1,129,462	-	1,129,462
Community Development and Recreation	3,635,543	-	3,635,543	3,937,805	-	3,937,805
Community Services	29,037	-	29,037	775	-	775
Social and Welfare	8,071,230	-	8,071,230	7,659,020	-	7,659,020
Non Departmental	1,949,265	-	1,949,265	2,703,926	-	2,703,926
Interest and Fiscal Charges	1,514,305	-	1,514,305	879,335	-	879,335
Water & Sewer	-	9,806,091	9,806,091	-	8,597,834	8,597,834
Refuse	-	1,794,083	1,794,083	-	-	-
Airport	-	1,154,670	1,154,670	-	305,457	305,457
Golf Course	-	125,495	125,495	-	187,650	187,650
<b>Total Expenses</b>	<b>35,820,691</b>	<b>12,880,339</b>	<b>48,701,030</b>	<b>34,566,995</b>	<b>9,090,941</b>	<b>43,657,936</b>
<b>Increase (decrease in net assets before transfers)</b>						
	1,714,249	1,447,827	3,162,076	1,094,646	4,242,977	5,337,623
Transfers	794,510	(794,510)	-	(236,396)	236,396	-
<b>Change in Net Assets</b>	<b>2,508,759</b>	<b>653,317</b>	<b>3,162,076</b>	<b>858,250</b>	<b>4,479,373</b>	<b>5,337,623</b>
Net Assets - Beginning	58,857,192	48,672,148	107,529,340	59,398,617	44,192,775	103,591,392
Prior Period adjustment	1,093,952	(450,925)	643,027	(1,399,675)	-	(1,399,675)
<b>Net Assets - Ending</b>	<b>\$ 62,459,903</b>	<b>\$ 48,874,540</b>	<b>\$ 111,334,443</b>	<b>\$ 58,857,192</b>	<b>\$ 48,672,148</b>	<b>\$ 107,529,340</b>



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**Financial Analysis of the Government's Funds**

**Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,215,085, an increase of \$18,606,698 from the prior year. This amount includes fund balance reserved for debt service of \$923,684, reserved in inventory of \$417, and designated for equipment replacement of \$93,632. The net unreserved fund balance was \$17,197,352.

In the General Fund, the original budget projected a \$4,680,789 decrease in fund balance this fiscal year. There were no differences between the original and final amended budget. Key factors in this decline are as follows:

- A long range plan approved by City Council to reduce high fund balances to target amounts and to transfer amounts above the target to the Capital Project Fund in future years.
- A long range plan approved by City Council to gradually increase required services as revenues continued to increase.
- An increase in capital expenditures prior to implementing the annual capital improvement program.
- Also, this budget came together in an environment of declining local and national economic conditions while providing increased City services without a property tax increase.

The HUD Fund has a total fund balance of \$770,244, a increase of \$208,581 from the prior year. The budget included a planned increase in housing assistance based on an increase in revenues from HUD and utilizing past excess revenues received from HUD that increased prior year fund balance.

**Proprietary Funds** The City's proprietary fund statements provide detail on the City's individual business-like activities and additionally report the financial results of the internal service funds which have been consolidated in the government-wide statements.

Unrestricted net assets of the proprietary funds at the end of the year were \$14,484,020. The total increase was \$1.2 million from the prior year. This increase is mostly related to an increase in Capital Assets and a decrease in long-term liabilities, due to scheduled repayments of existing debt. Please note, there has been no rate increases by the City for water since 1998 and for sewer since 1993.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**Capital Assets** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amount to \$118,441,654 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-Type Activities		Totals	
	2006	2007	2006	2007	2006	2007
Land	\$ 11,821,072	\$ 11,821,072	\$ 3,596,261	\$ 3,596,261	\$ 15,417,333	\$ 15,417,333
Buildings	5,117,245	5,147,165	1,474,525	1,774,525	6,591,770	6,921,690
Equipment	12,546,475	12,644,533	2,409,108	2,507,114	14,955,583	15,151,647
Construction in Progress	6,518,782	5,837,827	1,219,374	802,275	7,738,156	6,640,102
Other Structures	-	-	51,540,952	53,554,334	51,540,952	53,554,334
Park Improvements	1,650,894	1,660,169	3,093,109	3,093,109	4,744,003	4,753,278
Streets and Bridges	59,636,688	70,957,344	-	-	59,636,688	70,957,344
Drainage	5,572,206	7,319,619	-	-	5,572,206	7,319,619
Runways & taxiways	-	-	2,264,101	2,796,087	2,264,101	2,796,087
Accumulated Depreciation	(36,693,777)	(39,787,444)	(23,863,624)	(25,282,336)	(60,557,401)	(65,069,780)
Total	\$ 66,169,585	\$ 75,600,285	\$ 41,733,806	\$ 42,841,369	\$ 107,903,391	\$ 118,441,654

**Long-term Debt** At the end of the current fiscal year, the City had total bonds outstanding of \$56,550,002. Of this amount \$55,815,002 is tax supported debt. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

	Governmental Activities		Business-Type Activities		Totals	
	2006	2007	2006	2007	2006	2007
General Obligation Bonds	\$ 15,249,865	\$ 31,391,531	\$ 7,755,136	\$ 7,068,471	\$ 23,005,001	\$ 38,460,002
Certificates of Obligation	2,910,000	14,245,000	-	3,110,000	2,910,000	17,355,000
Notes payable	890,760	890,760	-	928,941	890,760	1,819,701
Revenue Bonds	-	-	735,000	735,000	735,000	735,000
Capital Leases	103,374	51,485	1,000,000	820,000	1,103,374	871,485
Total	\$ 19,153,999	\$ 46,578,776	\$ 9,490,136	\$ 12,662,412	\$ 28,644,135	\$ 59,241,188

The City's total debt increased by \$30,597,053, during the current fiscal year. The key factor in this increase was the due to the issuance of new bond debt.

- The City has an A2 rating from Moody's Investors Service and an A rating from Standard and Poor's.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2007**

**Economic Factor and Next Year's Budgets and Rates**

In the fiscal year 2007-08 budget, general fund revenues are budgeted to increase by 9.48% from the 2006-07 budget year. This increase is mostly attributed to property taxes, which benefited from increases in assessed valuations.

Property taxes make up about 50% of budgeted revenues and sales tax make up about 18% of budgeted revenues. Management is very concerned about the future. It is not known how much of an impact the recession will have on the City of Lancaster, Texas.

**Request for Information**

For additional information please contact Director of Finance, Carl Wessels at 972-218-1333 Finance Department, City of Lancaster, Texas, P.O. BOX 940 Lancaster, TX 75146 Email [cwessels@lancaster-tx.com](mailto:cwessels@lancaster-tx.com).

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*Lancaster*

## **BASIC FINANCIAL STATEMENTS**

**CITY OF LANCASTER  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Corporation	Lancaster Recreational Corporation
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 19,372,231	\$ 17,994,647	\$ 37,366,878	\$ 3,532,879	\$ 3,230,641
Receivables (net of allowance)					
Note Receivable	14,110,000	-	14,110,000		
Delinquent Taxes	1,019,917	-	1,019,917	-	-
Accounts	624,643	1,420,510	2,045,153	11,933	-
Sales Tax	620,775	-	620,775	124,155	248,310
Fines	642,084	-	642,084	-	-
Due from Other Governments	1,667	-	1,667	-	-
Due from Component Unit	672,590	-	672,590	-	-
Prepaid Items	-	400	400	-	-
Inventory	417	80,000	80,417	-	-
Debt Issue Costs	634,494	341,990	976,484	-	-
Restricted Assets:					
Cash and Cash Equivalents	-	497,640	497,640	-	-
Capital Assets:					
Land and Construction in Progress	17,658,899	4,398,536	22,057,435	100,378	989,118
Other Capital Assets, Net of Accumulated Depreciation	57,941,386	38,442,833	96,384,219	-	15,222,334
<b>Total Assets and Other Debits</b>	<b>113,299,103</b>	<b>63,176,556</b>	<b>176,475,659</b>	<b>3,769,345</b>	<b>19,690,403</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts and Contracts Payable	2,350,224	723,565	3,073,789	23,114	-
Accrued Liabilities	653,917	69,281	723,198	3,960	-
Accrued Interest	538,618	208,768	747,386	-	98,979
Due to Primary Government	-	-	-	217,590	455,000
Deposits	113,071	497,640	610,711	-	-
Noncurrent liabilities:					
Due Within One Year	2,302,845	857,629	3,160,474	60,000	455,000
Due In More Than One Year	44,880,525	11,945,133	56,825,658	2,975,000	10,620,000
<b>Total Liabilities</b>	<b>50,839,200</b>	<b>14,302,016</b>	<b>65,141,216</b>	<b>3,279,664</b>	<b>11,628,979</b>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	54,560,297	29,528,199	84,088,496	100,378	5,136,452
Restricted for Debt Service	602,144	-	602,144	-	-
Restricted for impact fees	-	4,862,321	4,862,321	-	-
Unrestricted	7,297,462	14,484,020	21,781,482	389,303	2,924,972
<b>Total Net Assets</b>	<b>\$ 62,459,903</b>	<b>\$ 48,874,540</b>	<b>\$ 111,334,443</b>	<b>\$ 489,681</b>	<b>\$ 8,061,424</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2007**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental Activities:				
General Government	\$ 4,274,611	\$ -	\$ -	\$ -
Public Safety	13,169,737	2,041,552	118,606	8,536
Public Works	3,176,963	876,625	-	6,549,287
Community Development and Recreation	3,635,543	1,654,124	7,499	-
Community Services	29,037	93,292	-	-
Social and Welfare	8,071,230	-	8,337,758	-
Non-departmental	1,949,265	-	-	-
Interest and fiscal charges	1,514,305	-	458,714	-
Total governmental activities	<u>35,820,691</u>	<u>4,665,593</u>	<u>8,922,577</u>	<u>6,557,823</u>
Business-type activities:				
Water & Sewer	9,806,091	10,076,290	-	1,475,994
Refuse	1,794,083	1,701,763	-	-
Airport	1,154,670	429,206	61,998	-
Golf Course	125,495	56,304	-	-
Total business-type activities	<u>12,880,339</u>	<u>12,263,563</u>	<u>61,998</u>	<u>1,475,994</u>
Total primary government	<u>\$ 48,701,030</u>	<u>\$ 16,929,156</u>	<u>\$ 8,984,575</u>	<u>\$ 8,033,817</u>
<b>Component units:</b>				
Lancaster Economic Corporation	\$ 1,557,552	\$ -	\$ -	\$ -
Lancaster Recreational Corporation	1,902,763	-	-	-
	<u>\$ 3,460,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GENERAL REVENUES:**

Taxes:  
Property Taxes  
Sales Taxes  
Franchise Taxes  
Other Local Taxes  
Interest on Investments  
Miscellaneous  
Transfers

Total general revenues and transfers

Change in Net Assets

**NET ASSETS, beginning of year**

**PRIOR PERIOD ADJUSTMENT**

**NET ASSETS, end of year**

The Notes to Financial Statements are an integral part of these statements.

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Total</b>	<b>Lancaster Economic Corporation</b>	<b>Lancaster Recreational Corporation</b>
\$ (4,274,611)	\$ -	\$ (4,274,611)	\$ -	\$ -
(11,001,043)	-	(11,001,043)	-	-
4,248,949	-	4,248,949	-	-
(1,973,920)	-	(1,973,920)	-	-
64,255	-	64,255	-	-
266,528	-	266,528	-	-
(1,949,265)	-	(1,949,265)	-	-
(1,055,591)	-	(1,055,591)	-	-
<u>(15,674,698)</u>	<u>-</u>	<u>(15,674,698)</u>	<u>-</u>	<u>-</u>
-	1,746,193	1,746,193	-	-
-	(92,320)	(92,320)	-	-
-	(663,466)	(663,466)	-	-
-	(69,191)	(69,191)	-	-
<u>-</u>	<u>921,216</u>	<u>921,216</u>	<u>-</u>	<u>-</u>
<u>\$ (15,674,698)</u>	<u>\$ 921,216</u>	<u>\$ (14,753,482)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (1,557,552)	\$ -
-	-	-	-	(1,902,763)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,557,552)</u>	<u>\$ (1,902,763)</u>
10,627,693	-	10,627,693	-	-
3,667,558	-	3,667,558	733,512	1,467,023
1,820,777	-	1,820,777	-	-
48,275	-	48,275	-	-
914,385	523,640	1,438,025	43,936	154,333
310,259	2,971	313,230	-	-
794,510	(794,510)	-	-	-
<u>18,183,457</u>	<u>(267,899)</u>	<u>17,915,558</u>	<u>777,448</u>	<u>1,621,356</u>
2,508,759	653,317	3,162,076	(780,104)	(281,407)
58,857,192	48,672,148	107,529,340	1,269,785	8,342,831
1,093,952	(450,925)	643,027	-	-
<u>\$ 62,459,903</u>	<u>\$ 48,874,540</u>	<u>\$ 111,334,443</u>	<u>\$ 489,681</u>	<u>\$ 8,061,424</u>

**CITY OF LANCASTER  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2007**

<b>ASSETS</b>	<b>General Fund</b>	<b>HUD Fund</b>	<b>Capital Projects Fund</b>	<b>Obligation Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash and cash equivalents	\$ 3,973,505	\$ 881,107	\$ 11,873,964	\$ 463,989	\$ 2,179,666	\$ 19,372,231
Receivables (net of allowance for uncollectibles):						
Note receivable	-	-	-	14,110,000	-	14,110,000
Delinquent taxes	796,873	-	-	222,505	539	1,019,917
Accounts	476,172	-	-	-	148,471	624,643
Sales tax	620,775	-	-	-	-	620,775
Fines	642,084	-	-	-	-	642,084
Due from:						
Other funds	732	-	-	-	-	732
Other governments	-	1,667	-	-	-	1,667
Component unit	217,590	-	-	455,000	-	672,590
Inventory, at cost	417	-	-	-	-	417
<b>Total assets and other debits</b>	<b>\$ 6,728,148</b>	<b>\$ 882,774</b>	<b>\$ 11,873,964</b>	<b>\$ 15,251,494</b>	<b>\$ 2,328,676</b>	<b>\$ 37,065,056</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts and contracts payable	\$ 1,139,661	\$ 112,530	\$ 1,047,220	\$ -	\$ 50,813	\$ 2,350,224
Accrued liabilities	621,020	-	-	-	32,897	653,917
Deposits	113,071	-	-	-	-	113,071
Due to:						
Other funds	-	-	-	732	-	732
Deferred revenue	1,404,410	-	-	14,327,078	539	15,732,027
<b>Total liabilities</b>	<b>3,278,162</b>	<b>112,530</b>	<b>1,047,220</b>	<b>14,327,810</b>	<b>84,249</b>	<b>18,849,971</b>
Fund Balances:						
Reserved for:						
Debt service	-	-	-	923,684	-	923,684
Inventory and prepaid items	417	-	-	-	-	417
Unreserved:						
Designated for equipment replacement	93,632	-	-	-	-	93,632
Unreserved and undesignated	3,355,937	770,244	10,826,744	-	2,244,427	17,197,352
Total fund balances	3,449,986	770,244	10,826,744	923,684	2,244,427	18,215,085
<b>Total liabilities and fund balances</b>	<b>\$ 6,728,148</b>	<b>\$ 882,774</b>	<b>\$ 11,873,964</b>	<b>\$ 15,251,494</b>	<b>\$ 2,328,676</b>	<b>\$ 37,065,056</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2007**

Total fund balance-governmental funds.		\$ 18,215,085
Amounts reported for governmental activities in the statement of net assets are different because:		
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and are capitalized and amortized over the life of the debt in the government-wide statements.		634,494
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		75,600,285
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(538,618)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		1,622,027
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.		14,110,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General obligation bonds		(31,391,531)
Notes payable to other government		(890,760)
Certificates of obligation bonds		(14,245,000)
Premium payable		(332,761)
Capital lease		(51,485)
Compensated absences		(1,206,638)
Deferred loss on refunding		<u>934,805</u>
Total net assets - governmental activities		<u>\$ 62,459,903</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes and fees	\$ 15,135,141	\$ -	\$ -	\$ 1,065,869	\$ 816,734	\$ 17,017,744
Licenses and permits	749,750	-	-	-	280,986	1,030,736
Intergovernmental	134,641	7,617,490	-	-	-	7,752,131
Charges for services	996,431	-	-	-	-	996,431
Fines and forfeits	1,634,682	-	189,730	-	-	1,824,412
Interest	100,245	3,505	768,741	11,749	61,893	946,133
Miscellaneous	372,095	61,397	19,159	881,966	380	1,334,997
<b>Total revenues</b>	<b>19,122,985</b>	<b>7,682,392</b>	<b>977,630</b>	<b>1,959,584</b>	<b>1,159,993</b>	<b>30,902,584</b>
<b>EXPENDITURES:</b>						
Current:						
General government	2,791,941	-	-	-	826,636	3,618,577
Public safety	12,502,555	-	-	-	43,354	12,545,909
Public works	1,104,224	-	-	-	-	1,104,224
Community development and recreation	3,719,050	-	-	-	-	3,719,050
Community services	19,073	-	-	-	-	19,073
Non departmental	1,606,171	-	-	-	-	1,606,171
Social and welfare	-	7,412,359	-	-	-	7,412,359
Capital outlay	-	-	6,568,290	-	-	6,568,290
Debt service:						
Principal retirement	-	-	-	703,770	-	703,770
Interest and fiscal charges	-	-	-	1,166,070	-	1,166,070
<b>Total expenditures</b>	<b>21,743,014</b>	<b>7,412,359</b>	<b>6,568,290</b>	<b>1,869,840</b>	<b>869,990</b>	<b>38,463,493</b>
Excess (deficiency) of revenues over expenditures	(2,620,029)	270,033	(5,590,660)	89,744	290,003	(7,560,909)
Other financing sources (uses):						
Operating transfers in	884,626	-	-	-	505,079	1,389,705
Operating transfers out	(505,079)	(61,452)	-	-	(28,664)	(595,195)
Premium on issuance of bonds	-	-	-	340,132	-	340,132
Payment to refunding escrow agent	-	-	-	(1,439,882)	-	(1,439,882)
Notes issued	-	-	-	(3,035,000)	-	(3,035,000)
Proceeds from sale of bonds	-	-	24,490,000	4,410,000	650,000	29,550,000
<b>Total other financing sources (uses)</b>	<b>379,547</b>	<b>(61,452)</b>	<b>24,490,000</b>	<b>275,250</b>	<b>1,126,415</b>	<b>26,209,760</b>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(2,240,482)	208,581	18,899,340	364,994	1,416,418	18,648,851
Fund balances, beginning of year	5,567,938	726,346	(8,072,596)	558,690	828,009	(391,613)
Prior period adjustment	122,530	(164,683)	-	-	-	(42,153)
<b>Fund balances, end of year</b>	<b>\$ 3,449,986</b>	<b>\$ 770,244</b>	<b>\$ 10,826,744</b>	<b>\$ 923,684</b>	<b>\$ 2,244,427</b>	<b>\$ 18,215,085</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2007**

Net change in fund balances- total governmental funds		\$ 18,648,851
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		5,975,080
<p>Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.</p>		6,549,287
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>		(3,093,667)
<p>Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:</p>		
General and certificate of obligation bonds	\$ 651,881	
Capital leases	51,889	703,770
<p>Bond issuances and refundings and related costs are shown as "Other Sources" and "Other Uses" in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:</p>		
Bond Proceeds	\$ (29,550,000)	
Discount/Premium on Bonds Issued	(340,131)	
Bond Issue Costs	275,857	
Refunded Bonds	1,421,453	
Deferred Loss on Refunding	21,038	
Amortization of Issue Costs	(27,566)	
Amortization of Refunding Loss	(152,745)	
Amortization of Bond Premium/Discount	7,370	(28,344,724)
<p>Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>		53,849
<p>Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>		(443,265)
<p>The issuance of a long-term note receivable is recognized as an other financing source in the governmental funds, but is recognized as an asset at the government-wide level.</p>		3,035,000
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.</p>		(575,422)
Change in net assets of governmental activities		\$ 2,508,759

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2007**

<b>ASSETS</b>	<b>Water and Sewer</b>	<b>Non-major Enterprise Funds</b>	<b>Total Proprietary Funds</b>
Current assets:			
Cash and cash equivalents	\$ 17,815,660	\$ 178,987	\$ 17,994,647
Receivables (net of allowance for uncollectibles):			
Accounts	792,812	161,004	953,816
Unbilled	466,694	-	466,694
Due from other funds	152,673	-	152,673
Inventory	-	80,000	80,000
Prepaid items	400	-	400
Total current assets	<u>19,228,239</u>	<u>419,991</u>	<u>19,648,230</u>
Restricted assets:			
Cash	497,640	-	497,640
Deferred bond issuance costs	338,316	3,674	341,990
Capital assets:			
Non-depreciable	887,836	3,510,700	4,398,536
Depreciable (net)	<u>35,270,720</u>	<u>3,172,113</u>	<u>38,442,833</u>
Total assets	<u>56,222,751</u>	<u>7,106,478</u>	<u>63,329,229</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts and contracts payable	672,505	51,060	723,565
Accrued Liabilities	66,633	2,648	69,281
Accrued Interest	207,097	1,671	208,768
Due to other funds	-	152,673	152,673
Deposits	<u>497,640</u>	<u>-</u>	<u>497,640</u>
Total current liabilities	<u>1,443,875</u>	<u>208,052</u>	<u>1,651,927</u>
Non-current liabilities:			
Due within one year	852,629	5,000	857,629
Due in more than one year	<u>10,849,653</u>	<u>1,095,480</u>	<u>11,945,133</u>
Total non-current liabilities	<u>11,702,282</u>	<u>1,100,480</u>	<u>12,802,762</u>
Total liabilities	<u>13,146,157</u>	<u>1,308,532</u>	<u>14,454,689</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,758,366	4,769,833	29,528,199
Restricted for impact fees	4,862,321	-	4,862,321
Unrestricted	<u>13,455,907</u>	<u>1,028,113</u>	<u>14,484,020</u>
<b>Total net assets</b>	<u>\$ 43,076,594</u>	<u>\$ 5,797,946</u>	<u>\$ 48,874,540</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS – PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

	<b>Water and Sewer Fund</b>	<b>Non-major Enterprise Funds</b>	<b>Total</b>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 9,020,436	\$ 2,187,273	\$ 11,207,709
Intergovernmental	-	61,998	61,998
Miscellaneous	88,973	-	88,973
Total operating revenues	<u>9,109,409</u>	<u>2,249,271</u>	<u>11,358,680</u>
<b>OPERATING EXPENSES:</b>			
Personnel services	1,416,957	115,268	1,532,225
Maintenance	284,014	44,431	328,445
Purchase of water	1,813,654	-	1,813,654
Materials and supplies	129,334	195,357	324,691
Heat, light and power	183,634	67,773	251,407
Depreciation	1,231,332	187,380	1,418,712
Bad debts	309,490	-	309,490
Benefit payments	406,268	-	406,268
Sewage treatment	3,278,691	-	3,278,691
Special services	259,320	1,931,631	2,190,951
Miscellaneous	574	6,895	7,469
Equipment rental	7,073	-	7,073
Total operating expenses	<u>9,320,341</u>	<u>2,548,735</u>	<u>11,869,076</u>
<b>OPERATING LOSS</b>	<u>(210,932)</u>	<u>(299,464)</u>	<u>(510,396)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest revenue	508,869	14,771	523,640
Interest and fiscal charges	(485,750)	(10,926)	(496,676)
Contributions	1,475,994	-	1,475,994
Settlement of litigation	-	(514,587)	(514,587)
Other nonoperating revenues	966,881	2,971	969,852
Total nonoperating revenues (expenses)	<u>2,465,994</u>	<u>(507,771)</u>	<u>1,958,223</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>2,255,062</u>	<u>(807,235)</u>	<u>1,447,827</u>
<b>TRANSFERS:</b>			
Operating transfers out	(794,510)	-	(794,510)
Total transfers	<u>(794,510)</u>	<u>-</u>	<u>(794,510)</u>
<b>CHANGE IN NET ASSETS</b>	1,460,552	(807,235)	653,317
<b>NET ASSETS, BEGINNING OF YEAR</b>	42,066,967	6,605,181	48,672,148
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>(450,925)</u>	<u>-</u>	<u>(450,925)</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 43,076,594</u>	<u>\$ 5,797,946</u>	<u>\$ 48,874,540</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2007**

	Water and Sewer Fund	Non-major Enterprise Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 8,900,805	\$ 2,233,125	\$ 11,133,930
Payments to other funds	3,092,291	-	3,092,291
Payments to employees	(1,813,964)	-	(1,813,964)
Payments to suppliers	(6,401,532)	(2,427,632)	(8,829,164)
Net cash provided by (used for) operating activities	<u>3,777,600</u>	<u>(194,507)</u>	<u>3,583,093</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(750,281)	-	(750,281)
Proceeds from acquisition of long-term debt	9,530,771	96,089	9,626,860
Payment to refunding escrow agent	(6,485,840)	(98,910)	(6,584,750)
Principal payments on debt	(468,112)	-	(468,112)
Interest payments on debt	(337,217)	(9,908)	(347,125)
Principal payments on capital leases	(180,000)	-	(180,000)
Interest payments on capital leases	(92,047)	-	(92,047)
Impact fees collected	966,881	-	966,881
Net cash provided by (used for) capital and related financing activities	<u>2,184,155</u>	<u>(12,729)</u>	<u>2,171,426</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating transfers in from other funds	-	-	-
Operating transfers out to other funds	(794,510)	-	(794,510)
Proceeds from intergovernmental agreement	-	-	-
Proceeds from other nonoperating revenue	-	2,971	2,971
Net cash provided by (used for) noncapital financing activities	<u>(794,510)</u>	<u>2,971</u>	<u>(791,539)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	508,869	14,771	523,640
Net increase (decrease) in cash and cash equivalents	5,676,114	(189,494)	5,486,620
Cash and cash equivalents, beginning of year	12,637,186	368,481	13,005,667
Cash and cash equivalents, end of year	<u>\$ 18,313,300</u>	<u>\$ 178,987</u>	<u>\$ 18,492,287</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Unrestricted cash and cash equivalents	\$ 17,815,660	\$ 178,987	\$ 17,994,647
Restricted cash and cash equivalents	497,640	-	497,640
Total Cash and cash equivalents	<u>\$ 18,313,300</u>	<u>\$ 178,987</u>	<u>\$ 18,492,287</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (210,932)	\$ (299,464)	\$ (510,396)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,231,332	187,380	1,418,712
Provision for bad debts	161,875	-	161,875
Change in assets and liabilities:			
Increase in accounts receivable	(420,523)	(16,146)	(436,669)
(Increase) decrease in due to/ from other funds	3,092,291	(28,783)	3,063,508
(Increase) decrease in inventory	-	(80,000)	(80,000)
Increase (decrease) in accounts and contracts payable	(104,338)	40,004	(64,334)
Increase (decrease) in accrued liabilities	(31,410)	2,502	(28,908)
Increase in deposits	50,044	-	50,044
Increase in compensated absences	9,261	-	9,261
Net cash provided by (used for) operating activities	<u>\$ 3,777,600</u>	<u>\$ (194,507)</u>	<u>\$ 3,583,093</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:</b>			
Contribution of capital assets	<u>\$ 1,475,994</u>	<u>\$ -</u>	<u>\$ 1,475,994</u>

The Notes to Combined Financial Statements are an integral part of these statements.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of Lancaster are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The City of Lancaster (“City”) was incorporated in 1853. The City operates as a home-rule city, under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, water and sewer utilities, sanitation, health and social services, parks and recreation, public improvements, airport, golf course, planning and zoning, and general administrative services.

The City of Lancaster's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, “The Financial Reporting Entity” as amended by GASB 39, “Determining Whether Certain Organizations Are Component Units”. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (A) the primary government must be able to impose its will, or (B) the primary government may potentially benefit financially or be financially responsible for the component unit.

The Lancaster Economic Development Corporation (“Economic”) and the Lancaster Recreational Development Corporation (“Recreational”) are nonprofit industrial development corporations formed in July and October, 1995; respectively, under the Development Corporation Act of 1979. Both Economic and Recreational are organized exclusively for the purposes of benefiting and accomplishing public purposes, and to act on behalf of the City. This includes the construction and renovation of municipal buildings, the acquisition, improvement and operation of parks as well as other economic development purposes. The affairs of these corporations are managed by two separate boards of directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. The Lancaster Economic Development Corporation and the Lancaster Recreational Development Corporation have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Basis of Presentation**

Government-wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental funds and proprietary funds. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Basis of Presentation – continued**

Capital Projects Fund - The Capital Projects Fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities.

HUD Fund - The HUD Fund is used to account for funds from grants received from the U.S. Department of Housing and Urban Development and transactions relating to the Lancaster Housing Agency.

General Obligation Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and for the payment of general long-term debt principal, interest, and related costs, as well as the payment of lease/purchase items. The revenue source is principally ad valorem taxes levied by the City and transfers in for the payment of lease/purchases.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the acquisition, operation and maintenance of a municipal water and sewer utility, supported primarily by user charges to the public.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Measurement Focus**

Measurement focus is the accounting convention, which determines which assets, and liabilities are included on the balance sheet of a fund type and whether a fund type's operating statement presents "financial flow" or capital maintenance information per fund.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus, which means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets.

Governmental fund financial statements are reported using the current financial resources measurement focus, which means only current assets and current liabilities are generally included on their balance sheets.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Measurement Focus - continued**

Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Proprietary funds are accounted for on a "net income and capital maintenance" measurement focus. This means that all assets, liabilities, equity, revenues, expenses and transfers relating to the activity of a proprietary fund are accounted for through the proprietary fund. The measurement focus is upon the determination of net income, financial position and cash flows.

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the modified accrual basis for accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough, thereafter, to be used to pay liabilities of the current period.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are considered to be susceptible-to-accrual. Licenses and permits, charges for services (except for sanitation services), fines and forfeits and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings and intergovernmental revenue are recorded as earned since they are measurable and available.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**E. Cash Flows Statement**

For purposes of the statement of cash flows, the City considers cash and cash equivalents to be all unrestricted cash and certificates of deposit with an original maturity date of three months or less.

**F. Investments**

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash and investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Investments in U.S. Treasury and agency obligations with maturities of one year or less when purchased are reported at amortized cost. Nonparticipating contracts are reported at cost. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds and certificates of deposits within established criterion.

**G. Allowance for Uncollectible Accounts**

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2007 and 2006 were \$164,016 and \$164,016 for uncollectible taxes, \$309,490 and \$147,615 for water and sewer billings, and \$4,962,088 and \$3,939,978 for court fees and fines.

**H. Inventory**

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out) for governmental funds. Inventories in the General Fund consist of expendable supplies.

**I. Prepaid Items**

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent year.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**J. Interfund Receivables and Payables**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

**K. Transactions Between Funds**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are recorded as transfers.

**L. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized on Proprietary Fund Type assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expenses incurred from the date of the borrowing unit until completion of the project with interest earned on invested proceeds over the same period.

Assets capitalized have a useful life of over one year. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. Estimated useful lives of major categories of property are

Plants and buildings	25 years
Other structures	10-50 years
Machinery and equipment	6-10 years

**M. Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts**

Sick leave is recorded when paid because employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one year to the next is limited to 260 hours.

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**M. Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts  
– continued**

The liability for unused vested vacation leave as of September 30, 2007, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the proprietary funds. The amount to be paid from current available financial resources is not considered significant.

**NOTE 2. CASH AND INVESTMENTS**

At year-end, the carrying amount of the City's bank deposits was \$1,913,931 (composed of \$393,427 related to the primary government and \$1,520,504 related to discretely presented component units) and the bank balances were \$2,186,983. The bank balances on September 30, 2007 were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements and municipal pools. During the year ended September 30, 2007, the City did not own any types of securities other than those permitted by the statute.

Governmental investments are categorized as either (1) insured or registered for which securities are held by the City or its agent in the City's name, (2) uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the City's name, or (3) uninsured and unregistered for which the securities are held by the counterparty or its trust department or agent, but not in the City's name.

During the year ended September 30, 2007 the City invested in the Texpool fund, which is an investment fund authorized by the Texas Legislature and administered by the Texas State Treasury. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly the fair value of the position in TexPool is the same as the value of TexPool shares. Texpool is rated as a AAA money market fund by Standard and Poor's and Moody's.

Interest Rate Risk: The strategy of the City is to maintain sufficient liquidity in its portfolio and structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

Credit Risk: In compliance with the City’s Investment Policy as of September 30, 2007, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, broker/dealers, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities are minimized.

Investments at year end are shown below:

	Carrying Amount	Fair Value	Weighted Average Maturity (Years)
Primary Government	37,471,091	\$ 37,471,091	0.003
Texpool	37,471,091	37,471,091	
Total Primary Government			
Component Units			
Texpool	5,243,016	5,243,016	0.003
Total Component Units	5,243,016	5,243,016	
Total	\$ 42,714,107	\$ 42,714,107	

**NOTE 3. PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Tax collections for the year ended September 30, 2007, were 96.7% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30 which are not expected to be collected within 60 days are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the State of Texas do not prescribe a legal debt limit, nor does the City’s charter provide for a debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000, population limits ad valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city, which operates under a Home Rule Charter, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2007, the City had a tax rate of \$.671696 per \$100 assessed valuation, of which \$.60554 was allocated for general government and \$.066156 was allocated for the payment of principal and interest on general obligation debt.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3. PROPERTY TAXES – CONTINUED**

reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property.

However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the tax rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year. This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district.

**NOTE 4. INTERFUND TRANSACTIONS**

At September 30, 2007, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund	\$ -	\$ 732	\$ 884,626	\$ 505,079
HUD Special Revenue Fund	-	-	-	61,452
Other Governmental Funds	732	-	505,079	28,664
Water and Sewer Fund	152,673	-	-	794,510
Other Enterprise Funds	-	152,673	-	-
	<u>\$ 153,405</u>	<u>\$ 153,405</u>	<u>\$ 1,389,705</u>	<u>\$ 1,389,705</u>

The General Fund, HUD Special Revenue Fund, Water and Sewer Fund, and Other Enterprise Funds interfund receivables are for a temporary cash overdraft for the Capital Projects, Other Governmental, Water and Sewer, and Other Enterprise Funds. The interfund transfer to the General Fund from the HUD Special Revenue, Other Governmental, and Water and Sewer Funds is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer from the HUD Special Revenue to the General Fund is for indirect services provided by central services departments accounted for in the General Fund. The interfund transfer to Other Enterprise Funds from Other Governmental Funds supports debt service expenditures for the Municipal Golf Course.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS**

Governmental Funds

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2006	Increases	Decreases	Balance September 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,821,072	\$ -	\$ -	\$ 11,821,072
Construction in progress	6,518,782	5,837,827	(6,518,782)	5,837,827
Total capital assets not being depreciated	<u>\$ 18,339,854</u>	<u>\$ 5,837,827</u>	<u>\$ (6,518,782)</u>	<u>\$ 17,658,899</u>
Capital assets being depreciated:				
Buildings	\$ 5,117,245	\$ 29,920	\$ -	\$ 5,147,165
Streets	59,636,688	11,320,656	-	70,957,344
Park structures	1,650,894	9,275	-	1,660,169
Equipment and furniture	12,546,475	98,058	-	12,644,533
Drainage	5,572,206	1,747,413	-	7,319,619
Total capital assets being depreciated	84,523,508	13,205,322	-	97,728,830
Less accumulated depreciation	<u>36,693,777</u>	<u>3,093,667</u>	<u>-</u>	<u>39,787,444</u>
Total capital assets being depreciated, net	<u>\$ 47,829,731</u>	<u>\$ 10,111,655</u>	<u>\$ -</u>	<u>\$ 57,941,386</u>

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

General and administrative	81,381
Public safety	1,423,588
Public works	1,523,468
Community development and recreation	<u>65,230</u>
Total depreciation expense - governmental activities	<u>\$ 3,093,667</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS – CONTINUED**

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2006	Increases	Decreases	Balance September 30, 2007
Business-type activities:				
Water and Sewer System:				
Capital assets not being depreciated:				
Land	\$ 85,561	\$ -	\$ -	\$ 85,561
Construction in progress	687,388	802,275	(687,388)	802,275
Total capital assets not being depreciated	<u>\$ 772,949</u>	<u>\$ 802,275</u>	<u>\$ (687,388)</u>	<u>\$ 887,836</u>
Capital assets being depreciated:				
Plants and buildings	\$ 193,993	\$ -	\$ -	\$ 193,993
Other structures	50,635,877	2,013,382	-	52,649,259
Machinery and equipment	1,689,204	98,006	-	1,787,210
Total capital assets being depreciated	52,519,074	2,111,388	-	54,630,462
Less accumulated depreciation	18,128,410	1,231,332	-	19,359,742
Total capital assets being depreciated, net	<u>\$ 34,390,664</u>	<u>\$ 880,056</u>	<u>\$ -</u>	<u>\$ 35,270,720</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS – CONTINUED**

Enterprise Funds - continued

	Balance September 30, 2006	Increases	Decreases	Balance September 30, 2007
Business-type activities:				
Regional Airport:				
Capital assets not being depreciated:				
Land	\$ 3,161,146	\$ -	\$ -	\$ 3,161,146
Construction in progress	531,986	-	(531,986)	-
Total capital assets not being depreciated	<u>\$ 3,693,132</u>	<u>\$ -</u>	<u>\$ (531,986)</u>	<u>\$ 3,161,146</u>
Capital assets being depreciated:				
Runways and taxiways	\$ 2,264,101	\$ 531,986	\$ -	\$ 2,796,087
Buildings	1,280,532	300,000	-	1,580,532
Other equipment	143,425	-	-	143,425
Total capital assets being depreciated	3,688,058	831,986	-	4,520,044
Less accumulated depreciation	3,548,120	104,046	-	3,652,166
Total capital assets being depreciated, net	<u>\$ 139,938</u>	<u>\$ 727,940</u>	<u>\$ -</u>	<u>\$ 867,878</u>
Municipal Golf Course:				
Capital assets not being depreciated:				
Land	\$ 349,554	\$ -	\$ -	\$ 349,554
Total capital assets not being depreciated	<u>\$ 349,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 349,554</u>
Capital assets being depreciated:				
Plants and buildings	\$ 3,093,109	\$ -	\$ -	\$ 3,093,109
Other structures	905,075	-	-	905,075
Machinery and equipment	576,479	-	-	576,479
Total capital assets being depreciated	4,574,663	-	-	4,574,663
Less accumulated depreciation	2,187,094	83,334	-	2,270,428
Total capital assets being depreciated, net	<u>\$ 2,387,569</u>	<u>\$ (83,334)</u>	<u>\$ -</u>	<u>\$ 2,304,235</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS – CONTINUED**

Discretely Presented Component Units

Capital assets of the Lancaster Economic Development Corporation are as follows:

	Balance September 30, 2006	Increases	Decreases	Balance September 30, 2007
Component unit activities:				
Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

Capital assets of the Lancaster Recreational Development Corporation are as follows:

	Balance September 30, 2006	Increases	Decreases	Balance September 30, 2007
Component unit activities:				
Capital assets not being depreciated:				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>\$ 989,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 989,118</u>
Capital assets being depreciated:				
Buildings	\$ 15,797,360	\$ -	\$ -	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	<u>379,259</u>	<u>-</u>	<u>-</u>	<u>379,259</u>
Total capital assets being depreciated	20,142,428	-	-	20,142,428
Less accumulated depreciation	<u>4,131,575</u>	<u>788,519</u>	<u>-</u>	<u>4,920,094</u>
Total capital assets being depreciated, net	<u>\$ 16,010,853</u>	<u>\$ (788,519)</u>	<u>\$ -</u>	<u>\$ 15,222,334</u>

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities:

	Balance September 30, 2006 (as restated)	Additions	Retirements	Balance September 30, 2007	Due Within One Year
<b>Governmental activities</b>					
Note payable to other government	\$ 890,760	\$ -	\$ -	\$ 890,760	\$ 890,760
General obligation bonds	15,249,865	18,095,000	(1,953,334)	31,391,531	580,000
Certificates of obligation	2,910,000	11,455,000	(120,000)	14,245,000	185,000
Premiums on bond debt	-	340,131	(7,370)	332,761	-
Deferred loss on refunding	(1,066,512)	(21,038)	152,745	(934,805)	-
Compensated absences	1,260,487	531,334	(585,183)	1,206,638	595,600
Capital leases	103,374	-	(51,889)	51,485	51,485
<b>Total governmental activities</b>	<b>\$ 19,347,974</b>	<b>\$ 30,400,427</b>	<b>\$ (2,565,031)</b>	<b>\$ 47,183,370</b>	<b>\$ 2,302,845</b>
<b>Business-type activities</b>					
General obligation bonds	\$ 7,755,136	\$ 6,205,000	\$ (6,891,665)	\$ 7,068,471	\$ 420,000
Notes payable	-	928,941	-	928,941	-
Certificates of obligation	-	3,110,000	-	3,110,000	140,000
Premiums on bond debt	-	310,771	(15,370)	295,401	-
Deferred loss on refunding	(84,681)	(96,200)	41,511	(139,370)	-
Revenue bonds	735,000	-	(65,000)	670,000	70,000
Compensated absences	40,058	52,010	(42,749)	49,319	42,629
Capital leases	1,000,000	-	(180,000)	820,000	185,000
<b>Total business-type activities</b>	<b>\$ 9,445,513</b>	<b>\$ 10,510,522</b>	<b>\$ (7,153,273)</b>	<b>\$ 12,802,762</b>	<b>\$ 857,629</b>
<b>Discretely presented component units</b>					
Note payable to primary government	\$ 11,530,000	\$ 3,035,000	\$ (455,000)	\$ 14,110,000	\$ 515,000
<b>Total discretely presented component units</b>	<b>\$ 11,530,000</b>	<b>\$ 3,035,000</b>	<b>\$ (455,000)</b>	<b>\$ 14,110,000</b>	<b>\$ 515,000</b>

General long-term debt consists of capital leases, liabilities for accrued vacation leave, and general obligation bonds and certificates of obligation, which are direct obligations, issued on the full faith and credit of the City. Principal and interest payments on the general obligation bonds and certificates of obligation are secured by ad valorem taxes levied on all taxable property within the City and surplus revenues of the Water and Sewer Fund and Airport Fund. A portion of the general obligation bonds has been issued on behalf of the Water and Sewer Fund. Although these bonds are secured by the full faith and credit of the City and have no specific claim against Water and Sewer Fund assets, debt service requirements are provided by the Water and Sewer Fund. Accordingly, this debt is reflected as an obligation of the Water and Sewer Fund.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

General obligation bonds, revenue bonds, certificates of obligation and capital leases outstanding at September 30, 2007, consist of the following individual issues:

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>
<u>General Obligation Bonds</u>				
\$8,070,000 1998 General Obligation bonds, due in annual installments through February 15, 2018, 4.60% - 6.50%	\$ -	\$ 415,000	\$ -	\$ 415,000
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2005, 3.00% - 4.50%	13,296,531	371,191	77,280	13,745,002
\$24,300,000 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	<u>18,095,000</u>	<u>6,110,000</u>	<u>95,000</u>	<u>24,300,000</u>
	<u>\$ 31,391,531</u>	<u>\$ 6,896,191</u>	<u>\$ 172,280</u>	<u>\$ 38,460,002</u>
<u>Revenue Bonds</u>				
\$2,905,000 1995 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, due in annual installments through September 1, 2015, 3.90% - 5.60%	<u>\$ -</u>	<u>\$ 670,000</u>	<u>\$ -</u>	<u>\$ 670,000</u>
<u>Certificates of Obligation</u>				
\$3,210,000 2003 Certificate of Obligation Bonds, due in annual installments through February 15, 2023, 3.25% - 4.50%	\$ 2,790,000	\$ -	\$ -	\$ 2,790,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	<u>11,455,000</u>	<u>3,110,000</u>	<u>-</u>	<u>14,565,000</u>
	<u>\$ 14,245,000</u>	<u>\$ 3,110,000</u>	<u>\$ -</u>	<u>\$ 17,355,000</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
<u>Note payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% - 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 11,075,000
\$3,035,000 note payable, due in annual installments through February 15, 2032 4.00% - 4.375%	-	-	-	-	3,035,000
\$812,500 note payable, due in quarterly installments through November 15, 2010 - 6.5%	-	-	812,500	812,500	-
\$116,441 note payable, due in monthly installments through July 1, 2015 - 7.5%	-	-	116,441	116,441	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,941</u>	<u>\$ 928,941</u>	<u>\$ 14,110,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011, 4.35% - 5.00%	\$ -	\$ 820,000	\$ -	\$ 820,000	\$ -
\$717,492 Lease Purchase Agreement, due in monthly installments through March 1, 2009, 4.20% - 5.95%	51,485	-	-	51,485	-
	<u>\$ 51,485</u>	<u>\$ 820,000</u>	<u>\$ -</u>	<u>\$ 871,485</u>	<u>\$ -</u>

The City issued \$14,565,000 in Series 2007 Certificate of Obligation bonds in March 2007 to be used for new construction and economic development. Also in March 2007 the City issued \$24,300,000 in Series 2007 General Obligation and Refunding Improvement Bonds used to refund \$7,910,000 of outstanding bonds of the 1995 and 1996 Series General Obligation Refunding Improvement bonds and the 1998 Series General Obligation Refunding Improvement bonds. An amount of \$8,024,560 was placed in an irrevocable trust to provide for future debt service payments related to the defeased bonds. Accordingly, the trust assets and liabilities for the defeased bonds are not included in the District's financial statements. The refunding was undertaken to reduce total debt service payments by \$519,482, and resulted in an economic gain of \$411,284. On September 30, 2007, \$13,790,000 of bonds outstanding are considered defeased.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

The annual requirements to amortize the long-term debt as of September 30, 2007 are as follows:

Fiscal Year	General Obligation Bonds				Revenue Bonds
	Governmental Activities	Water and Sewer Fund	Airport Fund	Total	Water and Sewer Fund
2008	\$ 2,295,162	\$ 1,127,222	\$ 14,268	\$ 3,436,652	\$ 106,225
2009	1,978,911	771,017	17,218	2,767,146	102,655
2010	2,060,504	761,417	16,818	2,838,739	109,015
2011	2,122,453	771,017	16,418	2,909,888	104,775
2012	2,126,494	769,617	16,018	2,912,129	105,455
2013-2017	11,358,927	4,033,032	80,766	15,472,725	317,295
2018-2022	12,784,043	1,068,159	57,015	13,909,217	-
2023-2027	9,419,118	111,655	23,271	9,554,044	-
2028-2032	6,956,175	-	-	6,956,175	-
	51,101,787	9,413,136	241,792	60,756,715	845,420
Less Interest	19,710,256	2,516,945	69,512	22,296,713	175,420
Total principal	\$ 31,391,531	\$ 6,896,191	\$ 172,280	\$ 38,460,002	\$ 670,000

Fiscal Year	Certificates of Obligation		Note Payable		
	Governmental Activities	Water and Sewer Fund	Governmental Activities	Business-type Activities	Component Unit
2008	\$ 987,084	\$ 317,834	\$ 890,760	\$ -	\$ 1,133,377
2009	939,229	317,906	-	529,562	1,133,507
2010	940,592	309,906	-	289,416	1,133,600
2011	940,854	311,706	-	89,040	1,137,049
2012	988,992	313,106	-	22,248	1,134,190
2013-2017	5,264,519	1,135,031	-	64,892	5,725,966
2018-2022	5,394,490	827,759	-	-	5,765,962
2023-2027	4,391,586	839,844	-	-	2,996,659
2028-2032	2,809,460	-	-	-	-
	22,656,806	4,373,092	890,760	995,158	20,160,310
Less Interest	8,411,806	1,263,092	-	66,217	6,050,310
Total principal	\$ 14,245,000	\$ 3,110,000	\$ 890,760	\$ 928,941	\$ 14,110,000

Fiscal Year	Capital Leases		
	Governmental Activities	Business-type Activities	Total
2008	\$ 62,002	\$ 220,736	\$ 282,738
2009	62,002	226,493	288,494
2010	-	231,321	231,321
2011	-	225,500	225,500
	124,004	904,050	1,028,053
Less Interest	72,519	84,050	156,569
Total principal	\$ 51,485	\$ 820,000	\$ 871,485

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN**

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount; which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

TMRS issues a publicly available annual financial report that includes financial statements and required supplementary information. The report may be obtained by writing to TMRS, P.O. Box 149133, Austin, Texas 78714-9153.

Contributions

The contribution rate for the employees is 7%, and the City's matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN – CONTINUED**

Contributions - continued

The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2004 valuation is effective for rates beginning January 2006.)

The annual pension cost for 2007 was \$1,522,611. The City's annual pension cost was equal to the required and actual contributions for the years ended December 31, 2006, 2005 and 2004.

Schedule of Actuarial Liabilities and Funding Progress:

	FY 2006-05	FY 2005-04	FY 2004-03
Actuarial Valuation Date	12/31/2005	12/31/2004	12/31/2003
Actuarial Valuation of Assets	\$ 23,216,765	\$ 21,655,578	\$ 19,287,766
Actuarial Accrued Liability	30,675,710	28,263,527	25,747,040
Percentage Funded	75.70%	76.60%	74.90%
Unfunded (Over-funded)			
Actuarial Accrued Liability U(UAAL)	7,458,945	6,607,949	6,459,274
Annual Covered Payroll	10,642,679	10,219,681	8,406,699
UAAL as a Percentage of Covered Payroll	70.10%	64.70%	76.80%
Net Pension Obligation (NPO) at Beginning of Period			
Annual Pension cost:			
Annual Required Contribution (ARC)	1,401,085	1,315,139	1,103,135
Interest on NPO Adjusted to the ARC			
Contributions Made	1,401,085	1,315,139	1,103,135
Increase in NPA			
NPO at End of Period	\$ -	\$ -	\$ -

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN – CONTINUED**

Actuarial Assumptions

The City of Lancaster is one of 811 municipalities having their benefit plan administered by TMRS. Each of the 811 municipalities have an annual individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

*Actuarial Assumptions:* (a) Actuarial Cost method-United Credit (b) Amortization method-Level Percent of payroll (c) remaining Amortization Period-25 years-open period (d) Asset Valuation Method-Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)(e) Investment Rate of Return-8% (f) Projected Salary Increases-None (g) Includes Inflation at-None and (h) Costs-of-Living Adjustments-None.

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is part of the Texas Municipal League Intergovernmental Risk Pool. Premiums are paid to the Pool, which retain a limit of loss. Reinsurance companies insure the risks beyond those limits. The City retains, as a risk, only the deductible amount of each policy. There were no significant reduction in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in each of the past three fiscal years.

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (“TRA”), a conservation and reclamation district, whereby the Authority finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City’s share of costs for the fiscal year ended September 30, 2007 was \$3,278,691. This estimate is calculated by TRA who makes adjustments for over/under charges in the City’s next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2007.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. COMMITMENTS AND CONTINGENCIES – CONTINUED**

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2007 may be impaired.

Subsequent to the fiscal year ended September 30, 2007, potential improprieties were discovered and an investigation was performed. The information related to this investigation has been provided to the Office of the Inspector General for the Federal Department of Housing and Urban Development and they are continuing the investigation. The resolution of this matter and financial impact to the Lancaster Housing Agency has not been determined.

Other Contingencies

There are other claims and pending actions incidental to normal operations of the City. In the opinion of the City administration, the City's potential liability in these matters will not have a material impact on the financial statements.

**NOTE 9. RESERVATIONS AND DESIGNATIONS OF FUND BALANCE/RETAINED EARNINGS**

Designations of fund balance reflect City management's intended use of resources. As of September 30, 2007, the City designated unreserved fund balance was for equipment replacement \$93,632. The equipment replacement designation is for the replacement of the City's vehicle and large equipment fleet.

Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific use. Reserves of retained earnings consist of resources accumulated for the retirement of debt (reserve for debt service) and the unexpended portion of impact fees which are restricted for water and sewer improvements (reserve for capital improvements).

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following funds and expenditure categories had excesses of expenditures over appropriations at the legal level of control (fund level):

Fund	Department	Excess Expenditures over Appropriations
General Fund	General government	\$ 570,234
General Fund	Community development and recreation	39,818
General Fund	Community services	19,073

**NOTE 11. PRIOR PERIOD ADJUSTMENTS**

In the fiscal year ended September 30, 2006 an amount totaling \$160,941 was recorded twice as an expenditure in the Water and Sewer fund, thereby understating net assets.

Over several years culminating in the year ending September 30, 2006, amounts collected as fines had been recognized as a liability in the general fund totaling \$122,530. These amounts should have been recognized as revenue, thereby understating fund balance.

In the fiscal year ended September 30, 2006 amounts totaling \$611,866 were not properly recognized as expenditures for purchases of water and sewage treatment services, thereby overstating net assets in the Water and Sewer fund.

In the fiscal year ended September 30, 2006 amounts totaling \$164,683 were not properly recognized as expenditures in the HUD fund, thereby overstating fund balance.

In the fiscal year ended September 30, 2006 the long term liability for compensated absences recognized amounts held for sick leave, which are not appropriate for accrual under City policy as these amounts are not paid to employees on termination of employment. An adjustment to governmental activities in the government-wide statements of \$1,136,105 was made to recognize the understatement of net assets.

**NOTE 12. SUBSEQUENT EVENTS**

In January 2007 the City terminated its relationship with an individual who was contracted to manage the City's Airport. This individual also owned a building situated on the City Airport property. The land on which the building stood was under a ground lease to this individual by the City. A lawsuit alleging breach of contract was filed against the City and was settled in November of 2008. As a result, the City recorded in the airport fund: the addition of \$300,000 in capital assets shown as buildings, \$114,354 in accounts receivable representing insurance proceeds, \$812,500 in notes payable for amounts to be paid to the plaintiff as a result of the settlement, \$116,441 in notes payable for amounts owed on the building, and \$514,587 in non-operating expenses representing the sum of the settlement less capitalized assets.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LANCASTER, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION  
IN TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2007**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Percentage Funded</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Annual Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
12/31/2000	\$ 15,081,238	\$ 19,739,569	76.4%	\$ 4,658,331	\$ 7,368,692	63.2%
12/31/2001	16,672,228	21,734,002	76.7%	5,061,774	7,078,232	71.5%
12/31/2002	17,961,871	23,228,811	77.3%	5,266,940	7,826,294	67.3%
12/31/2003	19,287,766	25,747,040	74.9%	6,459,274	8,406,699	76.8%
12/31/2004	21,655,578	28,263,527	76.6%	6,607,949	10,219,681	64.7%
12/31/2005	23,216,765	30,675,710	75.7%	7,458,945	10,642,679	70.1%

**CITY OF LANCASTER, TEXAS  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and fees	\$ 15,032,534	\$ 15,032,534	\$ 15,135,141	\$ 102,607
Licenses and permits	862,150	862,150	749,750	(112,400)
Intergovernmental	-	-	134,641	134,641
Charges for services	820,500	820,500	996,431	175,931
Fines and forfeits	1,613,925	1,613,925	1,634,682	20,757
Interest	78,900	78,900	100,245	21,345
Miscellaneous	67,000	67,000	372,095	305,095
Total revenues	<u>18,475,009</u>	<u>18,475,009</u>	<u>19,122,985</u>	<u>647,976</u>
Expenditures				
General government	2,221,707	2,221,707	2,791,941	(570,234)
Public safety	12,704,080	12,704,080	12,502,555	201,525
Public works	1,116,858	1,116,858	1,104,224	12,634
Community development and recreation	3,679,232	3,679,232	3,719,050	(39,818)
Community services	-	-	19,073	(19,073)
Non-departmental	1,824,607	1,824,607	1,606,171	218,436
Total expenditures	<u>21,546,484</u>	<u>21,546,484</u>	<u>21,743,014</u>	<u>(196,530)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,071,475)</u>	<u>(3,071,475)</u>	<u>(2,620,029)</u>	<u>451,446</u>
Other financing sources (uses)				
Operating transfers in	714,314	714,314	884,626	170,312
Operating transfers out	(895,000)	(895,000)	(505,079)	389,921
Total other financing sources (uses)	<u>(180,686)</u>	<u>(180,686)</u>	<u>379,547</u>	<u>560,233</u>
Net change in fund balance	(3,252,161)	(3,252,161)	(2,240,482)	1,011,679
Fund balances - beginning of year	5,567,938	5,567,938	5,567,938	-
Prior period adjustment	-	-	122,530	122,530
Fund balances - end of year	<u>\$ 2,315,777</u>	<u>\$ 2,315,777</u>	<u>\$ 3,449,986</u>	<u>\$ 1,134,209</u>

**CITY OF LANCASTER, TEXAS  
HUD FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 7,400,000	\$ 7,400,000	\$ 7,617,490	\$ 217,490
Interest	1,000	1,000	3,505	2,505
Miscellaneous	50,000	50,000	61,397	11,397
	<u>7,451,000</u>	<u>7,451,000</u>	<u>7,682,392</u>	<u>231,392</u>
Total revenues				
Expenditures				
Social and welfare	7,611,286	7,611,286	7,412,359	198,927
	<u>7,611,286</u>	<u>7,611,286</u>	<u>7,412,359</u>	<u>198,927</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(160,286)	(160,286)	270,033	430,319
Other financing uses				
Operating transfers out	(61,452)	(61,452)	(61,452)	-
	<u>(61,452)</u>	<u>(61,452)</u>	<u>(61,452)</u>	<u>-</u>
Total other financing uses				
Net change in fund balance	(221,738)	(221,738)	208,581	430,319
Fund balances - beginning of year	726,346	726,346	726,346	-
Prior period adjustment	-	-	(164,683)	(164,683)
	<u>-</u>	<u>-</u>	<u>(164,683)</u>	<u>(164,683)</u>
Fund balances - end of year	<u>\$ 504,608</u>	<u>\$ 504,608</u>	<u>\$ 770,244</u>	<u>\$ 265,636</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Budgets and Budgetary Accounting**

The City Manager submits to the City Council, at least sixty days prior to the beginning of each fiscal year, a proposed budget for all funds of the City. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes to be published a notice of the budget hearing. After the budget hearing, the budget may be adopted by a favorable vote of the majority of the members of the City Council. Upon adoption, the budget is filed with the City Secretary.

The City Manager may transfer budgeted amounts from one expenditure account to another within a fund. Expenditures should not exceed appropriations at the fund level. The City Council must approve increases in a fund's total appropriations. Supplemental appropriations to amend the budget during the year were not material to total appropriations. Unused appropriations lapse at the end of each fiscal year.

The budgets for the General Fund and HUD fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**INDIVIDUAL FUND AND NON-MAJOR COMBINING  
STATEMENTS AND SCHEDULES**

**CITY OF LANCASTER, TEXAS  
NON-MAJOR GOVERNMENTAL FUNDS**

**SPECIAL REVENUE FUND**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Stormwater Drainage – to account for revenues received from a fee charged for the development of the City's storm sewer drainage system.

Public Improvement Districts – to account for the activities of the public improvement districts of the City.

Police Forfeiture – to account for the activities of related to funds awarded to the City by the Courts.

Emergency 911 – to account for revenues received from a fee charged for emergency services.

**CITY OF LANCASTER, TEXAS  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2007**

	<u>Stormwater Drainage Fund</u>	<u>Public Improvement Districts Fund</u>	<u>Police Forfeiture Fund</u>	<u>Emergency 911 Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,394,336	\$ 12,336	\$ 41,521	\$ 731,473	\$ 2,179,666
Receivables (net of allowance for uncollectibles):					
Delinquent taxes	-	539	-	-	539
Accounts receivable	<u>129,195</u>	<u>-</u>	<u>-</u>	<u>19,276</u>	<u>148,471</u>
Total assets and other debits	<u>\$ 1,523,531</u>	<u>\$ 12,875</u>	<u>\$ 41,521</u>	<u>\$ 750,749</u>	<u>\$ 2,328,676</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts and contracts payable	\$ 47,439	\$ -	\$ -	\$ 3,374	\$ 50,813
Accrued liabilities	15,786	-	17,111	-	32,897
Deferred revenue	<u>-</u>	<u>539</u>	<u>-</u>	<u>-</u>	<u>539</u>
Total liabilities	<u>63,225</u>	<u>539</u>	<u>17,111</u>	<u>3,374</u>	<u>84,249</u>
Fund balances:					
Unreserved, undesignated	<u>1,460,306</u>	<u>12,336</u>	<u>24,410</u>	<u>747,375</u>	<u>2,244,427</u>
Total fund balances	<u>1,460,306</u>	<u>12,336</u>	<u>24,410</u>	<u>747,375</u>	<u>2,244,427</u>
Total liabilities and fund balances	<u>\$ 1,523,531</u>	<u>\$ 12,875</u>	<u>\$ 41,521</u>	<u>\$ 750,749</u>	<u>\$ 2,328,676</u>

**CITY OF LANCASTER, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<b>Stormwater Drainage Fund</b>	<b>Public Improvement Districts Fund</b>	<b>Police Forfeiture Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues:</b>					
Taxes and fees	\$ 802,376	\$ 14,358	\$ -	\$ -	\$ 816,734
Licenses and permits	-	-	-	280,986	280,986
Miscellaneous	-	-	380	-	380
Interest	33,199	-	1,912	26,782	61,893
Total revenues	<u>835,575</u>	<u>14,358</u>	<u>2,292</u>	<u>307,768</u>	<u>1,159,993</u>
<b>Expenditures:</b>					
General government	824,614	2,022	-	-	826,636
Public safety	-	-	-	43,354	43,354
Total expenditures	<u>824,614</u>	<u>2,022</u>	<u>-</u>	<u>43,354</u>	<u>869,990</u>
<b>Other financing sources (uses)</b>					
Operating transfers in	-	-	22,118	482,961	505,079
Operating transfers out	(28,664)	-	-	-	(28,664)
Proceeds from sale of bonds	650,000	-	-	-	650,000
Total other financing sources (uses)	<u>621,336</u>	<u>-</u>	<u>22,118</u>	<u>482,961</u>	<u>1,126,415</u>
Excess of revenues and other financing sources over expenditures and other financing uses	632,297	12,336	24,410	747,375	1,416,418
Fund balance, beginning of year	<u>828,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>828,009</u>
Fund balance, end of year	<u>\$ 1,460,306</u>	<u>\$ 12,336</u>	<u>\$ 24,410</u>	<u>\$ 747,375</u>	<u>\$ 2,244,427</u>

**CITY OF LANCASTER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL  
STORMWATER DRAINAGE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes and fees	\$ 810,000	\$ 810,000	\$ 802,376	\$ (7,624)
Interest	20,000	20,000	33,199	13,199
Total revenues	<u>830,000</u>	<u>830,000</u>	<u>835,575</u>	<u>5,575</u>
<b>Expenditures</b>				
General government	776,459	776,459	824,614	(48,155)
Total expenditures	<u>776,459</u>	<u>776,459</u>	<u>824,614</u>	<u>(48,155)</u>
<b>Other financing sources (uses)</b>				
Operating transfers out	(28,664)	(28,664)	(28,664)	-
Operating transfers out	-	-	650,000	650,000
Total other financing sources (uses)	<u>(28,664)</u>	<u>(28,664)</u>	<u>621,336</u>	<u>650,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	24,877	24,877	632,297	607,420
Fund balance (deficit), beginning of year	<u>828,009</u>	<u>828,009</u>	<u>828,009</u>	<u>-</u>
Fund balance, end of year	<u>\$ 852,886</u>	<u>\$ 852,886</u>	<u>\$ 1,460,306</u>	<u>\$ 607,420</u>

**CITY OF LANCASTER, TEXAS  
NON MAJOR PROPRIETARY FUNDS**

**ENTERPRISE FUNDS**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing the goods or services to the general public on a continuing basis will be financed or recovered through user charges. The City has two non-major enterprise funds, which include the following:

Airport Fund – to account for the operation of the City’s regional airport.

Golf Course Fund – to account for the operation of the City’s golf course.

Refuse Fund – to account for the operation of the City’s refuse services.

**CITY OF LANCASTER, TEXAS  
COMBINING STATEMENT OF NET ASSETS  
NON-MAJOR ENTERPRISE FUNDS  
SEPTEMBER 30, 2007**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 88,728	\$ 90,259	\$ -	\$ 178,987
Accounts Receivable (net of allowance for uncollectibles):	161,004	-	-	161,004
Inventory	80,000			80,000
Deferred bond issuance costs	3,674	-	-	3,674
Capital assets:				
Non-depreciable	3,161,146	349,554	-	3,510,700
Depreciable (net)	867,878	2,304,235	-	3,172,113
Total assets	<u>4,362,430</u>	<u>2,744,048</u>	<u>-</u>	<u>7,106,478</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts and contracts payable	50,710	350	-	51,060
Accrued Liabilities	2,318	330	-	2,648
Due to other funds	60,353	-	92,320	152,673
Accrued interest	1,671	-	-	1,671
Noncurrent Liabilities:				
Due in one year	5,000	-	-	5,000
Due in more than one year	1,095,480	-	-	1,095,480
Total liabilities	<u>1,215,532</u>	<u>680</u>	<u>92,320</u>	<u>1,308,532</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,116,044	2,653,789	-	4,769,833
Unrestricted	1,030,854	89,579	(92,320)	1,028,113
Total net assets	<u>\$ 3,146,898</u>	<u>\$ 2,743,368</u>	<u>\$ (92,320)</u>	<u>\$ 5,797,946</u>

**CITY OF LANCASTER, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - NON-MAJOR ENTERPRISE FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2007**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 429,206	\$ 56,304	\$ 1,701,763	\$ 2,187,273
Intergovernmental	61,998	-	-	61,998
Total operating revenues	<u>491,204</u>	<u>56,304</u>	<u>1,701,763</u>	<u>2,249,271</u>
<b>OPERATING EXPENSES:</b>				
Personnel Services	115,268	-	-	115,268
Maintenance	19,260	25,171	-	44,431
Materials and supplies	195,357	-	-	195,357
Heat, light and power	55,246	12,527	-	67,773
Depreciation	104,046	83,334	-	187,380
Special services	133,085	4,463	1,794,083	1,931,631
Miscellaneous	6,895	-	-	6,895
Total operating expenses	<u>629,157</u>	<u>125,495</u>	<u>1,794,083</u>	<u>2,548,735</u>
OPERATING LOSS	<u>(137,953)</u>	<u>(69,191)</u>	<u>(92,320)</u>	<u>(299,464)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest revenue	7,872	6,899	-	14,771
Interest and fiscal charges	(10,926)	-	-	(10,926)
Settlement of litigation	(514,587)	-	-	(514,587)
Other nonoperating revenue	2,971	-	-	2,971
Total nonoperating revenues (expenses)	<u>(514,670)</u>	<u>6,899</u>	<u>-</u>	<u>(507,771)</u>
CHANGE IN NET ASSETS	(652,623)	(62,292)	(92,320)	(807,235)
NET ASSETS, BEGINNING OF YEAR	<u>3,799,521</u>	<u>2,805,660</u>	<u>-</u>	<u>6,605,181</u>
NET ASSETS, END OF YEAR	<u>\$ 3,146,898</u>	<u>\$ 2,743,368</u>	<u>\$ (92,320)</u>	<u>\$ 5,797,946</u>

**CITY OF LANCASTER, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
NON-MAJOR ENTERPRISE FUNDS  
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 466,800	\$ 64,562	\$ 1,701,763	\$ 2,233,125
Payments to suppliers	<u>(550,468)</u>	<u>(175,401)</u>	<u>(1,701,763)</u>	<u>(2,427,632)</u>
Net cash used in operating activities	<u>(83,668)</u>	<u>(110,839)</u>	<u>-</u>	<u>(194,507)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Issuance of refunding debt	96,089	-	-	96,089
Payment to refunding escrow agent	(98,910)	-	-	(98,910)
Interest payments on debt	<u>(9,908)</u>	<u>-</u>	<u>-</u>	<u>(9,908)</u>
Net cash used in capital and related financing activities	<u>(12,729)</u>	<u>-</u>	<u>-</u>	<u>(12,729)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Proceeds from other nonoperating revenue	<u>2,971</u>	<u>-</u>	<u>-</u>	<u>2,971</u>
Net cash provided by noncapital financing activities	<u>2,971</u>	<u>-</u>	<u>-</u>	<u>2,971</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest on investments	<u>7,872</u>	<u>6,899</u>	<u>-</u>	<u>14,771</u>
Net cash provided by investing activities	<u>7,872</u>	<u>6,899</u>	<u>-</u>	<u>14,771</u>
Net decrease in cash and cash equivalents	(85,554)	(103,940)	-	(189,494)
Cash and cash equivalents, beginning of year	<u>174,282</u>	<u>194,199</u>	<u>-</u>	<u>368,481</u>
Cash and cash equivalents, end of year	<u>\$ 88,728</u>	<u>\$ 90,259</u>	<u>\$ -</u>	<u>\$ 178,987</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:</b>				
Operating loss	\$ (137,953)	\$ (69,191)	\$ (92,320)	\$ (299,464)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	104,046	83,334	-	187,380
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(24,404)	8,258	-	(16,146)
(Increase) decrease in due from other funds	10,835	(131,938)	92,320	(28,783)
(Increase) decrease in inventory	(80,000)	-	-	(80,000)
Increase (decrease) in accounts and contracts payable	41,490	(1,486)	-	40,004
Increase (decrease) in accrued liabilities	<u>2,318</u>	<u>184</u>	<u>-</u>	<u>2,502</u>
Net cash used in operating activities	<u>\$ (83,668)</u>	<u>\$ (110,839)</u>	<u>\$ -</u>	<u>\$ (194,507)</u>

**NON-CASH ACTIVITIES:**

The City entered into a settlement agreement in November of 2008 as a result of events that occurred during the fiscal year ended September 30, 2007. As a result of the agreement the City recognized: an increase to accounts receivable for \$114,354, an increase to capital assets for \$300,000, an increase to notes payable for \$928,941, and an increase to non-operating expenses for \$514,587

**CITY OF LANCASTER, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS**

Economic Development Corporation - to account for revenues from an industrial development sales tax to spur increased economic development activity within the City.

Recreational Development Corporation - to account for revenues from a sales and use tax for the development of parks and recreational facilities.

**CITY OF LANCASTER, TEXAS  
BALANCE SHEET  
ECONOMIC DEVELOPMENT CORPORATION  
SEPTEMBER 30, 2007**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,532,879
Accounts receivable - sales tax	124,155
Other receivable	<u>11,933</u>
Total Assets	<u><u>\$ 3,668,967</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 23,114
Due to primary government	217,590
Accrued liabilities	<u>3,960</u>
Total liabilities	<u>244,664</u>
<b>FUND BALANCE</b>	
Unreserved and undesignated	<u>3,424,303</u>
Total fund balance	<u>3,424,303</u>
Total liabilities and fund balance	<u><u>\$ 3,668,967</u></u>

**CITY OF LANCASTER, TEXAS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS –  
ECONOMIC DEVELOPMENT CORPORATION  
SEPTEMBER 30, 2007**

Total fund balance-governmental funds.	3,424,303
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	100,378
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(3,035,000)</u>
Total net assets - governmental activities	<u><u>\$ 489,681</u></u>

**CITY OF LANCASTER, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ECONOMIC DEVELOPMENT CORPORATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

REVENUES:		
Taxes and fees	\$	733,512
Interest		43,936
		777,448
EXPENDITURES:		
Cultural and recreation		1,557,552
		1,557,552
DEFICIENCY OF REVENUES UNDER EXPENDITURES		(780,104)
OTHER FINANCING SOURCES:		
Proceeds from note issuance		3,035,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES		2,254,896
FUND BALANCE, BEGINNING OF YEAR		1,169,407
FUND BALANCE, END OF YEAR		\$ 3,424,303

**CITY OF LANCASTER, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES –  
ECONOMIC DEVELOPMENT CORPORATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Net change in fund balances- total governmental funds	\$ 2,254,896
Amounts reported for governmental activities in the statement of activities are different because:	
Note issuances are shown as "Other Sources" in the governmental funds, but are shown on the statement of net assets as a long term liability over the life of the note.	<u>(3,035,000)</u>
Change in net assets of governmental activities	<u><u>\$ (780,104)</u></u>

**CITY OF LANCASTER, TEXAS  
 COMBINING BALANCE SHEET  
 ALL GOVERNMENTAL FUNDS –  
 RECREATIONAL DEVELOPMENT CORPORATION  
 SEPTEMBER 30, 2007**

	General	Debt Service	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,230,641	\$ -	\$ 3,230,641
Accounts receivable - sales tax	248,310	-	248,310
Due from other funds	653,078	-	653,078
<b>Total Assets</b>	<b>\$ 4,132,029</b>	<b>\$ -</b>	<b>\$ 4,132,029</b>
<b>LIABILITIES</b>			
Due to primary government	\$ -	\$ 455,000	\$ 455,000
Due to other funds	-	653,078	653,078
<b>Total liabilities</b>	<b>-</b>	<b>1,108,078</b>	<b>1,108,078</b>
<b>FUND BALANCE</b>			
Unreserved:			
Unreserved and undesignated	4,132,029	(1,108,078)	3,023,951
<b>Total fund balance</b>	<b>4,132,029</b>	<b>(1,108,078)</b>	<b>3,023,951</b>
<b>Total liabilities and fund balance</b>	<b>\$ 4,132,029</b>	<b>\$ -</b>	<b>\$ 4,132,029</b>

**CITY OF LANCASTER, TEXAS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS –  
RECREATIONAL DEVELOPMENT CORPORATION  
AS OF SEPTEMBER 30, 2007**

Total fund balance-governmental funds.	\$ 3,023,951
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	16,211,452
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(98,979)
Long-term liabilities, including bonds, payable, are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
Note payable	<u>(11,075,000)</u>
Total net assets - governmental activities	<u><u>\$ 8,061,424</u></u>

**CITY OF LANCASTER, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUNDS –  
 RECREATIONAL DEVELOPMENT CORPORATION  
 YEAR ENDED SEPTEMBER 30, 2007**

	General	Debt Service	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
REVENUES:			
Taxes and fees	\$ 1,467,023	\$ -	\$ 1,467,023
Interest	153,742	591	154,333
	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues	1,620,765	591	1,621,356
	<u>          </u>	<u>          </u>	<u>          </u>
EXPENDITURES:			
Cultural and recreation	645,940	-	645,940
Interest and fiscal charges	-	882,075	882,075
	<u>          </u>	<u>          </u>	<u>          </u>
Total expenditures	645,940	882,075	1,528,015
	<u>          </u>	<u>          </u>	<u>          </u>
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	974,825	(881,484)	93,341
FUND BALANCE, BEGINNING OF YEAR	3,157,204	(226,594)	2,930,610
	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCE, END OF YEAR	<u>\$ 4,132,029</u>	<u>\$ (1,108,078)</u>	<u>\$ 3,023,951</u>

**CITY OF LANCASTER, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES –  
RECREATIONAL DEVELOPMENT CORPORATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Net change in fund balances- total governmental funds	\$	93,341
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(788,519)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements.		455,000
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(41,229)
		(281,407)
Change in net assets of governmental activities	\$	(281,407)