

CITY OF LANCASTER, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2008**

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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 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, 2008, 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. They are continuing their 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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.

City of Lancaster
December 30, 2009

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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 44, 45,46, and 47, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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
December 30, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

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, 2008. 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 2008, resulting in \$108,213,483 of net assets. Net assets associated with governmental activities are approximately \$61 million, or 57% of the total net assets of the City. Net assets associated with business-type activities are approximately \$47 million, or 43% of the total net assets of the City. The largest portion of net assets consists of invested in capital assets, net of related debt, which is approximately \$80 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 \$10 million, or 17% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$10 million, or 21% of total net assets for business-type activities.
- As of the close of fiscal year 2008, the City of Lancaster's governmental funds reported a combined ending fund balance of \$5,754,395, a decrease of \$12,460,465 from the prior year which includes a prior year adjustment of \$1.75 million which increased beginning fund balance.
- At the end of the current fiscal year, total fund balance for the general fund was \$2,677,652. This represents approximately 11% of general fund expenditures which is less than the 15% required by the City's adopted fund balance policy. Of this amount, 99.99% 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 \$4 million which is primarily attributed to additions to the construction of City buildings.
- The City entered into leases totaling \$806,396 and made its regularly scheduled annual principal payments for a net decrease in long-term liabilities of \$1,859,528 as displayed on page 9.

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, 2008**

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, public works, drainage systems, library, human resources and finance. The business-type activities of the City include water and sewer, airport operations, refuse, and golf course 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. The City Council also 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, 2008**

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 43 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, 2008**

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, 2008, the City of Lancaster assets exceeded its liabilities by \$108,213,483.

The largest portion of the City's net assets, 74%, 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.

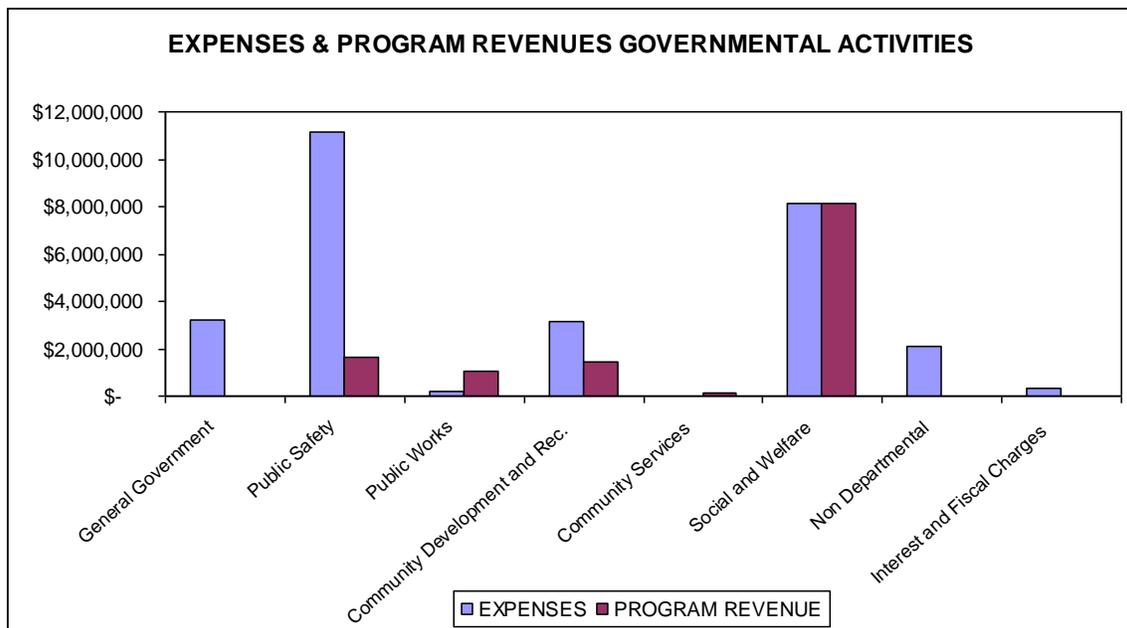
An additional portion of the City's net assets, 7%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$20,557,238 or 19%, may be used to meet the City's ongoing obligations to citizens and creditors.

	Governmental Activities 2008	Business-type Activities 2008	Total 2008	Governmental Activities 2007	Business-type Activities 2007	Total 2007
Current and Other Assets	\$ 25,409,225	\$ 18,483,634	\$ 43,892,859	\$ 37,586,288	\$ 20,335,187	\$ 57,921,475
Capital Assets	86,453,835	41,879,952	128,333,787	75,600,285	42,841,369	118,441,654
Total Assets	<u>\$ 111,863,060</u>	<u>\$ 60,363,586</u>	<u>\$ 172,226,646</u>	<u>\$ 113,186,573</u>	<u>\$ 63,176,556</u>	<u>\$ 176,363,129</u>
Long-Term Liabilities	\$ 46,231,016	12,044,180	\$ 58,275,196	\$ 44,880,525	\$ 12,802,762	\$ 57,683,287
Other Liabilities	4,412,297	1,325,670	5,737,967	5,958,675	1,499,254	7,457,929
Total Liabilities	<u>\$ 50,643,313</u>	<u>\$ 13,369,850</u>	<u>\$ 64,013,163</u>	<u>\$ 50,839,200</u>	<u>\$ 14,302,016</u>	<u>\$ 65,141,216</u>
Net Assets:						
Invested in Capital assets, net of Related Debt	\$ 50,425,678	\$ -	\$ 50,425,678	\$ 54,560,297	\$ 29,528,199	\$ 84,088,496
Restricted	297,651	36,932,916	37,230,567	602,144	4,862,321	5,464,465
Unrestricted	10,496,418	10,060,820	20,557,238	7,184,932	14,484,020	21,668,952
Total Net Assets	<u>\$ 61,219,747</u>	<u>\$ 46,993,736</u>	<u>\$ 108,213,483</u>	<u>\$ 62,347,373</u>	<u>\$ 48,874,540</u>	<u>\$ 111,221,913</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

Analysis of City's Operations The following table provides a summary of the City's operations for the year ended September 30, 2008. Overall, the City had a decrease in net assets of \$3,120,735 which includes a prior year adjustment of \$1.75 million which increased beginning net assets.

	Governmental Activities 2008	Business-type Activities 2008	Total 2008	Governmental Activities 2007	Business-type Activities 2007	Total 2007
REVENUES:						
Program Revenues:						
Charges for Services	\$ 3,682,085	\$ 12,803,014	\$ 16,485,099	\$ 4,665,593	\$ 12,263,563	\$ 16,929,156
Operating Grant & Contribution	10,588,454	19,281	10,607,735	8,463,863	59,177	8,523,040
Capital Grants & Contributions	132,158	-	132,158	6,557,823	1,475,994	8,033,817
General Revenue						
Taxes & Fees	18,280,947	-	18,280,947	16,164,303	-	16,164,303
Others	1,345,966	152,299	1,498,265	1,683,133	529,432	2,212,565
Total Revenues	34,029,610	12,974,594	47,004,204	37,534,715	14,328,166	51,862,881
Program Expenses						
General Government	5,395,286	-	5,395,286	4,489,095	-	4,489,095
Public Safety	14,116,941	-	14,116,941	13,166,813	-	13,166,813
Public Works	3,162,728	-	3,162,728	4,294,999	-	4,294,999
Community Development and Recreation	4,290,873	-	4,290,873	4,284,249	-	4,284,249
Community Services	-	-	-	-	-	-
Social and Welfare	9,015,301	-	9,015,301	8,071,230	-	8,071,230
Interest and Fiscal Charges	2,367,768	-	2,367,768	1,514,305	-	1,514,305
Water & Sewer	-	10,479,809	10,479,809	-	9,806,091	9,806,091
Refuse	-	2,026,237	2,026,237	-	1,794,083	1,794,083
Airport	-	914,387	914,387	-	1,154,670	1,154,670
Golf Course	-	107,311	107,311	-	125,495	125,495
Total Expenses	38,348,897	13,527,744	51,876,641	35,820,691	12,880,339	48,701,030
Increase (decrease in net assets before transfers)	(4,319,287)	(553,150)	(4,872,437)	1,714,024	1,447,827	3,161,851
Transfers	1,327,654	(1,327,654)	-	794,510	(794,510)	-
Change in Net Assets	(2,991,633)	(1,880,804)	(4,872,437)	2,508,534	653,317	3,161,851
Net Assets - Beginning, as restated	64,211,380	48,874,540	113,085,920	59,951,144	48,221,223	108,172,367
Net Assets - Ending	\$ 61,219,747	\$ 46,993,736	\$ 108,213,483	\$ 62,459,678	\$ 48,874,540	\$ 111,334,218



**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

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 \$5,754,395, a decrease of \$12,460,465 from the prior year including the restatement. This amount includes fund balance reserved for debt service of \$295,932 and reserved in inventory of \$3,929. The net unreserved fund balance was \$5,454,534, a decrease of \$11,442,957 from prior year. The majority of this decrease was due to the planned expenditure for construction of facilities.

In the General Fund, the original budget projected a \$1,380,119 decrease in fund balance this fiscal year, however the actual decrease was \$2,523,811. The largest area of decrease was in building permit fees which is related to national housing crisis and recession.

The HUD Fund has a total fund balance of \$985,847 an increase of \$215,603 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.

Unrestricted net assets of the proprietary funds at the end of the year were \$10,060,820. The total decrease in net assets was \$1.9 million from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amount to \$128,333,787 (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	
	2007	2008	2007	2008	2007	2008
Land	\$ 11,821,072	\$ 11,957,972	\$ 3,596,261	\$ 3,596,261	\$ 15,417,333	\$ 15,554,233
Buildings	5,147,165	5,147,165	1,774,525	1,806,167	6,921,690	6,953,332
Equipment	12,644,533	13,668,946	2,507,114	2,658,004	15,151,647	16,326,950
Construction in Progress	5,837,827	12,560,230	802,275	-	6,640,102	12,560,230
Other Structures	-	-	53,554,334	53,554,334	53,554,334	53,554,334
Improvements	1,660,169	1,660,169	3,093,109	4,092,732	4,753,278	5,752,901
Streets and Bridges	70,957,344	75,940,830	-	-	70,957,344	75,940,830
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways & Taxiways	-	-	2,796,087	2,796,087	2,796,087	2,796,087
Accumulated Depreciation	(39,787,444)	(41,801,096)	(25,282,336)	(26,623,633)	(65,069,780)	(68,424,729)
Total	\$ 75,600,285	\$ 86,453,835	\$ 42,841,369	\$ 41,879,952	\$ 118,441,654	\$ 128,333,787

Long-term Debt At the end of the current fiscal year, the City had total bonds outstanding of \$55,090,002. Of this amount \$54,490,002 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	
	2007	2008	2007	2008	2007	2008
General Obligation Bonds	\$ 31,391,531	\$ 30,811,531	\$ 7,068,471	\$ 6,648,471	\$ 38,460,002	\$ 37,460,002
Certificates of Obligation	14,245,000	14,060,000	3,110,000	2,970,000	17,355,000	17,030,000
Notes payable	890,760	-	928,941	928,941	1,819,701	928,941
Revenue Bonds	-	-	670,000	600,000	670,000	600,000
Capital Leases	51,485	638,907	820,000	658,810	871,485	1,297,717
Total	\$ 46,578,776	\$ 45,510,438	\$ 12,597,412	\$ 11,806,222	\$ 59,176,188	\$ 57,316,660

The City's total long-term debt decreased by \$1,859,528, during the current fiscal year.

- 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, 2008**

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2009 budget, general fund revenues are budgeted to increase by 0.9% from the 2008 budget year. This increase is mostly attributed to an adjustment to the property tax rate. This adjustment was necessary due to the closure of the local hospital; an additional ambulance crew was added to compensate for the additional time required to transport patients.

Property taxes make up about 54% of budgeted revenues and sales tax make up about 17% 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.

BASIC FINANCIAL STATEMENTS



Lancaster

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
ASSETS					
Cash and cash equivalents	\$ 8,721,397	\$ 15,967,510	\$ 24,688,907	\$ 3,021,471	\$ 687,033
Receivable(s) (net of allowance)					
Notes	13,595,000	-	13,595,000	-	-
Delinquent taxes	1,126,076	-	1,126,076	-	-
Accounts	591,968	1,461,825	2,053,793	12,133	-
Sales tax	616,078	-	616,078	123,216	246,431
Fines	149,434	-	149,434	-	-
Due from other governments	3,472	-	3,472	-	-
Prepaid items	3,621	-	3,621	-	-
Inventory	308	109,087	109,395	-	-
Debt issue costs	601,871	322,087	923,958	-	-
Restricted assets:					
Cash and cash equivalents	-	623,125	623,125	-	-
Capital assets:					
Land and construction in progress	24,518,202	3,596,261	28,114,463	100,378	989,118
Other capital assets, net of accumulated depreciation	61,935,633	38,283,691	100,219,324	-	14,435,608
Total assets	111,863,060	60,363,586	172,226,646	3,257,198	16,358,190
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts and contracts payable	3,199,732	554,013	3,753,745	9,049	5,405
Accrued liabilities	918,964	87,387	1,006,351	8,363	-
Accrued interest	244,408	61,145	305,553	15,456	54,300
Deposits	49,193	623,125	672,318	-	-
Noncurrent liabilities:					
Due within one year	1,512,629	1,320,800	2,833,429	105,000	480,000
Due in more than one year	44,718,387	10,723,380	55,441,767	2,880,000	10,130,000
Total Liabilities	50,643,313	13,369,850	64,013,163	3,017,868	10,669,705
Net Assets:					
Invested in capital assets, net of related debt	50,425,678	29,900,904	80,326,582	100,378	4,814,726
Restricted for debt service	297,651	1,820,910	2,118,561	-	-
Restricted for capital	-	5,211,102	5,211,102	-	-
Unrestricted	10,496,418	10,060,820	20,557,238	138,952	873,759
Total Net Assets	\$ 61,219,747	\$ 46,993,736	\$ 108,213,483	\$ 239,330	\$ 5,688,485

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

**CITY OF LANCASTER
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2008**

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 5,395,286	\$ 25,410	\$ -	\$ -
Public safety	14,116,941	1,610,438	10,006	64,226
Public works	3,162,728	989,766	-	-
Community development and recreation	4,290,873	1,056,471	1,299,176	67,932
Social and welfare	9,015,301	-	9,279,272	-
Interest and fiscal charges	2,367,768	-	-	-
Total governmental activities	<u>38,348,897</u>	<u>3,682,085</u>	<u>10,588,454</u>	<u>132,158</u>
Business-type activities:				
Water and sewer	10,479,809	10,065,258	-	-
Refuse	2,026,237	1,988,397	-	-
Airport	914,387	682,872	19,281	-
Golf course	107,311	66,487	-	-
Total business-type activities	<u>13,527,744</u>	<u>12,803,014</u>	<u>19,281</u>	<u>-</u>
Total primary government	<u>\$ 51,876,641</u>	<u>\$ 16,485,099</u>	<u>\$ 10,607,735</u>	<u>\$ 132,158</u>
Component Units:				
Lancaster Economic Development Corporation	\$ 945,389	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	2,566,519	-	518,094	-
	<u>\$ 3,511,908</u>	<u>\$ -</u>	<u>\$ 518,094</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, as restated

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**

Primary Government			Component Units	
Governmental	Business - Type		Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Activities	Activities	Total		
\$ (5,369,876)	\$ -	\$ (5,369,876)	\$ -	\$ -
(12,432,271)	-	(12,432,271)	-	-
(2,172,962)	-	(2,172,962)	-	-
(1,867,294)	-	(1,867,294)	-	-
263,971	-	263,971	-	-
(2,367,768)	-	(2,367,768)	-	-
(23,946,200)	-	(23,946,200)	-	-
-	(414,551)	(414,551)	-	-
-	(37,840)	(37,840)	-	-
-	(212,234)	(212,234)	-	-
-	(40,824)	(40,824)	-	-
-	(705,449)	(705,449)	-	-
<u>\$ (23,946,200)</u>	<u>\$ (705,449)</u>	<u>\$ (24,651,649)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (945,389)	\$ -
-	-	-	-	(2,048,425)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (945,389)</u>	<u>\$ (2,048,425)</u>
12,617,630	-	12,617,630	-	-
3,463,123	-	3,463,123	692,625	1,396,371
2,158,341	-	2,158,341	-	-
41,853	-	41,853	-	-
1,141,586	143,189	1,284,775	2,413	9,392
204,380	9,110	213,490	-	21,200
1,327,654	(1,327,654)	-	-	-
<u>20,954,567</u>	<u>(1,175,355)</u>	<u>19,779,212</u>	<u>695,038</u>	<u>1,426,963</u>
(2,991,633)	(1,880,804)	(4,872,437)	(250,351)	(621,462)
<u>64,211,380</u>	<u>48,874,540</u>	<u>113,085,920</u>	<u>489,681</u>	<u>6,309,947</u>
<u>\$ 61,219,747</u>	<u>\$ 46,993,736</u>	<u>\$ 108,213,483</u>	<u>\$ 239,330</u>	<u>\$ 5,688,485</u>

**CITY OF LANCASTER
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

ASSETS	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,215,496	\$ 1,085,501	\$ 2,850,677	\$ 285,608	\$ 1,284,115	\$ 8,721,397
Receivable(s) (net of allowance for uncollectibles):						
Notes	-	-	-	13,595,000	-	13,595,000
Delinquent taxes	866,539	-	-	256,451	3,086	1,126,076
Accounts	457,967	-	17,000	-	117,001	591,968
Sales tax	616,078	-	-	-	-	616,078
Fines	149,434	-	-	-	-	149,434
Due from:						
Other funds	99,353	-	-	-	-	99,353
Other governments	3,472	-	-	-	-	3,472
Inventory, at cost	308	-	-	-	-	308
Prepaid items	-	3,621	-	-	-	3,621
TOTAL ASSETS	<u>\$ 5,408,647</u>	<u>\$ 1,089,122</u>	<u>\$ 2,867,677</u>	<u>\$ 14,137,059</u>	<u>\$ 1,404,202</u>	<u>\$ 24,906,707</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and contracts payable	\$ 755,072	\$ 3,922	\$ 2,393,216	\$ -	\$ 47,522	\$ 3,199,732
Accrued liabilities	885,553	-	-	-	33,411	918,964
Deposits	49,193	-	-	-	-	49,193
Due to:						
Other funds	-	99,353	-	-	-	99,353
Deferred revenue	1,041,177	-	-	13,841,127	2,766	14,885,070
Total liabilities	<u>2,730,995</u>	<u>103,275</u>	<u>2,393,216</u>	<u>13,841,127</u>	<u>83,699</u>	<u>19,152,312</u>
Fund Balances:						
Reserved for:						
Debt service	-	-	-	295,932	-	295,932
Inventory and prepaid items	308	3,621	-	-	-	3,929
Unreserved:						
Unreserved and undesignated	2,677,344	982,226	474,461	-	1,320,503	5,454,534
Total fund balances	<u>2,677,652</u>	<u>985,847</u>	<u>474,461</u>	<u>295,932</u>	<u>1,320,503</u>	<u>5,754,395</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,408,647</u>	<u>\$ 1,089,122</u>	<u>\$ 2,867,677</u>	<u>\$ 14,137,059</u>	<u>\$ 1,404,202</u>	<u>\$ 24,906,707</u>

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, 2008**

Total fund balance-governmental funds.	\$ 5,754,395
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.	601,871
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.	86,453,835
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.	(244,408)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	1,290,070
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.	13,595,000
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	(30,811,531)
Certificates of obligation bonds	(14,060,000)
Premium payable	(319,156)
Capital lease	(638,907)
Compensated absences	(1,280,563)
Deferred loss on refunding	879,141
Total net assets - governmental activities	\$ 61,219,747

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, 2008

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes and fees	\$ 16,011,131	\$ -	\$ -	\$ 2,150,822	\$ 1,027,942	\$ 19,189,895
Licenses and permits	771,028	-	-	-	220,412	991,440
Intergovernmental	85,190	9,230,350	67,932	-	-	9,383,472
Charges for services	455,084	-	-	-	-	455,084
Fines and forfeits	1,338,090	-	186,043	-	-	1,524,133
Interest	59,808	15,372	1,041,621	10,265	14,520	1,141,586
Miscellaneous	1,634,789	47,182	21,646	447,329	40,011	2,190,957
Total revenues	20,355,120	9,292,904	1,317,242	2,608,416	1,302,885	34,876,567
EXPENDITURES:						
Current:						
General government	4,185,437	-	1,884	-	908,990	5,096,311
Public safety	13,944,602	-	21,972	-	89,310	14,055,884
Public works	2,753,728	-	17,493	-	-	2,771,221
Community development and recreation	3,907,702	-	78,600	-	91,383	4,077,685
Social and welfare	-	9,015,301	-	-	-	9,015,301
Capital outlay	-	-	11,587,697	-	156,655	11,744,352
Debt service:						
Principal retirement	93,951	-	890,760	755,000	61,485	1,801,196
Interest and fiscal charges	30,668	-	26,992	2,481,168	48,468	2,587,296
Total expenditures	24,916,088	9,015,301	12,625,398	3,236,168	1,356,291	51,149,246
Excess (deficiency) of revenues over expenditures	(4,560,968)	277,603	(11,308,156)	(627,752)	(53,406)	(16,272,679)
Other financing sources (uses):						
Operating transfers in	1,429,334	-	955,873	-	125,035	2,510,242
Operating transfers out	(125,035)	(62,000)	-	-	(995,553)	(1,182,588)
Proceeds from capital lease	732,858	-	-	-	-	732,858
Total other financing sources (uses)	2,037,157	(62,000)	955,873	-	(870,518)	2,060,512
Fund balances, beginning of year, as restated	5,201,463	770,244	10,826,744	923,684	2,244,427	19,966,562
Fund balances, end of year	<u>\$ 2,677,652</u>	<u>\$ 985,847</u>	<u>\$ 474,461</u>	<u>\$ 295,932</u>	<u>\$ 1,320,503</u>	<u>\$ 5,754,395</u>

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, 2008**

Net change in fund balances - total governmental funds		\$ (14,212,167)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.		12,867,202
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.		(2,013,652)
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:		
General, certificate of obligation bonds, and note payable	\$ 1,655,760	
Capital leases	<u>145,436</u>	1,801,196
The issuance of long term debt, such as bonds and capital leases, 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:		
Capital lease proceeds	\$ 732,858	
Amortization of issue costs	(32,623)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>13,605</u>	658,176
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.		73,925
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.		(294,210)
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.		<u>(1,872,103)</u>
Change in net assets of governmental activities		<u>\$ (2,991,633)</u>

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

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS SEPTEMBER 30, 2008**

ASSETS	Water and Sewer	Non-major Enterprise Funds	Total Proprietary Funds
Current assets:			
Cash and cash equivalents	\$ 15,828,363	\$ 139,147	\$ 15,967,510
Receivables (net of allowance for uncollectibles):			
Accounts	645,154	259,951	905,105
Unbilled	556,720	-	556,720
Due from other funds	246,872	-	246,872
Inventory	-	109,087	109,087
Total current assets	17,277,109	508,185	17,785,294
Restricted assets:			
Cash	623,125	-	623,125
Deferred bond issuance costs	318,605	3,482	322,087
Capital assets:			
Non-depreciable	85,561	3,510,700	3,596,261
Depreciable (net)	35,180,100	3,103,591	38,283,691
TOTAL ASSETS	53,484,500	7,125,958	60,610,458
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	301,160	252,853	554,013
Accrued Liabilities	78,163	9,224	87,387
Accrued Interest	55,740	5,405	61,145
Due to other funds	-	246,872	246,872
Deposits	623,125	-	623,125
Total current liabilities	1,058,188	514,354	1,572,542
Non-current liabilities:			
Due within one year	997,174	323,626	1,320,800
Due in more than one year	9,949,119	774,261	10,723,380
Total non-current liabilities	10,946,293	1,097,887	12,044,180
TOTAL LIABILITIES	12,004,481	1,612,241	13,616,722
NET ASSETS			
Invested in capital assets, net of related debt	24,384,500	5,516,404	29,900,904
Restricted for debt service	1,820,910	-	1,820,910
Restricted for impact fees	5,211,102	-	5,211,102
Unrestricted	10,063,507	(2,687)	10,060,820
TOTAL NET ASSETS	\$ 41,480,019	\$ 5,513,717	\$ 46,993,736

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, 2008**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 9,457,164	\$ 2,693,037	\$ 12,150,201
Intergovernmental	-	19,281	19,281
Miscellaneous	48,607	-	48,607
Total operating revenues	<u>9,505,771</u>	<u>2,712,318</u>	<u>12,218,089</u>
OPERATING EXPENSES:			
Personnel services	1,340,301	172,446	1,512,747
Maintenance	561,149	185,704	746,853
Purchase of water	2,018,807	-	2,018,807
Materials and supplies	152,423	430,151	582,574
Heat, light and power	201,217	52,386	253,603
Depreciation	1,241,133	100,164	1,341,297
Benefit payments	405,170	-	405,170
Sewage treatment	3,112,031	-	3,112,031
Special services	506,201	2,047,008	2,553,209
Miscellaneous	103,634	2,158	105,792
Equipment rental	6,641	-	6,641
Total operating expenses	<u>9,648,707</u>	<u>2,990,017</u>	<u>12,638,724</u>
OPERATING LOSS	<u>(142,936)</u>	<u>(277,699)</u>	<u>(420,635)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	142,212	977	143,189
Interest and fiscal charges	(732,066)	(13,199)	(745,265)
Other nonoperating revenues	460,451	9,110	469,561
Total nonoperating revenues (expenses)	<u>(129,403)</u>	<u>(3,112)</u>	<u>(132,515)</u>
LOSS BEFORE TRANSFERS	<u>(272,339)</u>	<u>(280,811)</u>	<u>(553,150)</u>
TRANSFERS:			
Operating transfers out	(1,324,236)	(3,418)	(1,327,654)
Total transfers	<u>(1,324,236)</u>	<u>(3,418)</u>	<u>(1,327,654)</u>
CHANGE IN NET ASSETS	(1,596,575)	(284,229)	(1,880,804)
NET ASSETS, BEGINNING OF YEAR	<u>43,076,594</u>	<u>5,797,946</u>	<u>48,874,540</u>
NET ASSETS, END OF YEAR	<u>\$ 41,480,019</u>	<u>\$ 5,513,717</u>	<u>\$ 46,993,736</u>

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

**CITY OF LANCASTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS YEAR ENDED SEPTEMBER 30, 2008**

	Water and Sewer Fund	Non-major Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 9,787,924	\$ 2,658,090	\$ 12,446,014
Payments to other funds	(94,199)	-	(94,199)
Payments to employees	(1,729,658)	-	(1,729,658)
Payments to suppliers	(7,120,554)	(2,661,091)	(9,781,645)
Net cash provided by (used for) operating activities	843,513	(3,001)	840,512
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(348,238)	(31,642)	(379,880)
Principal payments on debt	(625,000)	-	(625,000)
Interest payments on debt	(788,207)	(6,866)	(795,073)
Principal payments on capital leases	(161,190)	(5,000)	(166,190)
Interest payments on capital leases	(61,117)	-	(61,117)
Impact fees collected	460,451	-	460,451
Net cash used for capital and related financing activities	(1,523,301)	(43,508)	(1,566,809)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers out to other funds	(1,324,236)	(3,418)	(1,327,654)
Proceeds from other nonoperating revenue	-	6,368	6,368
Net cash provided by (used for) noncapital financing activities	(1,324,236)	2,950	(1,321,286)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	142,212	3,719	145,931
Net decrease in cash and cash equivalents	(1,861,812)	(39,840)	(1,901,652)
Cash and cash equivalents, beginning of year	18,313,300	178,987	18,492,287
Cash and cash equivalents, end of year	\$ 16,451,488	\$ 139,147	\$ 16,590,635
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Unrestricted cash and cash equivalents	\$ 15,828,363	\$ 139,147	\$ 15,967,510
Restricted cash and cash equivalents	623,125	-	623,125
Total Cash and cash equivalents	\$ 16,451,488	\$ 139,147	\$ 16,590,635
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating loss	\$ (142,936)	\$ (277,699)	\$ (420,635)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	1,241,133	100,164	1,341,297
Provision for bad debts	180,381	-	180,381
Change in assets and liabilities:			
Increase in accounts receivable	(122,749)	(98,947)	(221,696)
(Increase) decrease in due to/ from other funds	(94,199)	94,199	-
(Increase) decrease in inventory	400	(29,087)	(28,687)
Increase (decrease) in accounts and contracts payable	(371,345)	208,248	(163,097)
Increase in accrued liabilities	11,530	121	11,651
Increase in deposits	125,485	-	125,485
Increase in compensated absences	15,813	-	15,813
Net cash provided by (used for) operating activities	\$ 843,513	\$ (3,001)	\$ 840,512

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

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. The Lancaster Housing Agency provides housing assistance to low income families

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.

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.

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

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, 2008 and 2007 were \$198,175 and \$164,016 for uncollectible taxes, \$489,871 and \$309,490 for water and sewer billings, and \$1,216,349 and \$4,962,088 for court fees and fines. Ambulance receivables were first recorded during the current fiscal year and an allowance for uncollectible ambulance of \$2,249,137 is reflected in the financial statements.

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, 2008, 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 \$1,653,294 (composed of \$1,193,908 related to the primary government and \$459,386 related to discretely presented component units) and the bank balances were \$1,954,045. The bank balances on September 30, 2008 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, 2008, 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, 2008 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, 2008, 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:

	<u>Carrying amount</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>
Primary Government Texpool	<u>\$ 24,118,124</u>	<u>\$ 24,118,124</u>	0.003
Total Primary Government	<u>24,118,124</u>	<u>24,118,124</u>	
Component Units Texpool	<u>3,249,118</u>	<u>3,249,118</u>	
Total Component Units	<u>3,249,118</u>	<u>3,249,118</u>	0.003
Total	<u><u>\$ 27,367,242</u></u>	<u><u>\$ 27,367,242</u></u>	

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, 2008, 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, 2008, the City had a tax rate of \$.671700 per \$100 assessed valuation, of which \$.6091 was allocated for general government and \$.0626 was allocated for the payment of principal and interest on general obligation debt.

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

NOTE 3. PROPERTY TAXES – CONTINUED

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 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, 2008, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund receivables	Interfund payables	Transfers in	Transfers out
General fund	\$ 99,353	\$ -	\$ 1,429,334	\$ 125,035
HUD special revenue fund	-	99,353	-	62,000
Capital Projects Fund	-	-	955,873	-
Non major governmental funds	-	-	125,035	995,553
Water and sewer fund	246,872	-	-	1,324,236
Non-major enterprise funds	-	246,872	-	3,418
	<u>\$ 346,225</u>	<u>\$ 346,225</u>	<u>\$ 2,510,242</u>	<u>\$ 2,510,242</u>

The General Fund interfund receivable is for a temporary loan to the HUD Fund for expenditures paid by the General Fund. The Water and Sewer Fund interfund receivable is a temporary cash overdraft for the Non-major Enterprise Funds. The interfund transfer to the General Fund from the HUD Special Revenue Fund, Non major Governmental Funds, Water and Sewer Funds, and Non-major Enterprise Funds is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer from the General Fund to the Non-major Governmental Funds is for the creation of a Special Revenue Fund that had previously been reported in the General Fund.

**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, 2007	Increases	Decreases	Transfers	Balance September 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 11,821,072	\$ 136,900	\$ -	\$ -	\$ 11,957,972
Construction in progress	5,837,827	11,433,661	-	(4,711,258)	12,560,230
Total capital assets not being depreciated	<u>17,658,899</u>	<u>11,570,561</u>	<u>-</u>	<u>(4,711,258)</u>	<u>24,518,202</u>
Capital assets being depreciated:					
Buildings	5,147,165	-	-	-	5,147,165
Improvements	79,937,132	272,228	-	4,711,258	84,920,618
Equipment and furniture	12,644,533	1,024,413	-	-	13,668,946
Total capital assets being depreciated	97,728,830	1,296,641	-	4,711,258	103,736,729
Less accumulated depreciation	<u>39,787,444</u>	<u>2,013,652</u>	<u>-</u>	<u>-</u>	<u>41,801,096</u>
Total capital assets being depreciated, net	<u>57,941,386</u>	<u>(717,011)</u>	<u>-</u>	<u>4,711,258</u>	<u>61,935,633</u>
Governmental activities capital assets, net	<u>\$ 75,600,285</u>	<u>\$ 10,853,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,453,835</u>

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

General and administrative	\$ 235,273
Public safety	626,123
Public works	1,087,037
Community development and recreation	<u>65,219</u>
Total depreciation expense - governmental activities	<u>\$ 2,013,652</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, 2007	Increases	Decreases	Transfers	Balance September 30, 2008
Business-type activities:					
Water and Sewer System:					
Capital assets not being depreciated:					
Land	\$ 85,561	\$ -	\$ -	\$ -	\$ 85,561
Construction in progress	802,275	-	-	(802,275)	-
Total capital assets not being depreciated	887,836	-	-	(802,275)	85,561
Capital assets being depreciated:					
Plants and buildings	193,993	-	-	-	193,993
Improvements	52,649,259	197,349	-	802,275	53,648,883
Machinery and equipment	1,787,210	150,889	-	-	1,938,099
Total capital assets being depreciated	54,630,462	348,238	-	802,275	55,780,975
Less accumulated depreciation	19,359,742	1,241,133	-	-	20,600,875
Total capital assets being depreciated, net	35,270,720	(892,895)	-	802,275	35,180,100
Water and Sewer System capital assets, net	<u>\$ 36,158,556</u>	<u>\$ (892,895)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,265,661</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Enterprise Funds – Continued

	Balance September 30, 2007	Increases	Decreases	Adjustments/ Transfers	Balance September 30, 2008
Business-type activities:					
Regional Airport:					
Capital assets not being depreciated:					
Land	\$ 3,161,146	\$ -	\$ -	\$ -	\$ 3,161,146
Total capital assets not being depreciated	3,161,146	-	-	-	3,161,146
Capital assets being depreciated:					
Runways and taxiways	2,796,087	-	-	-	2,796,087
Buildings	1,580,532	-	-	-	1,580,532
Other equipment	143,425	-	-	-	143,425
Total capital assets being depreciated	4,520,044	-	-	-	4,520,044
Less accumulated depreciation	3,652,166	22,930	-	-	3,675,096
Total capital assets being depreciated, net	867,878	(22,930)	-	-	844,948
Regional Airport capital assets, net	<u>\$ 4,029,024</u>	<u>\$ (22,930)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,006,094</u>
Municipal Golf Course:					
Capital assets not being depreciated:					
Land	\$ 349,554	\$ -	\$ -	\$ -	\$ 349,554
Total capital assets not being depreciated	349,554	-	-	-	349,554
Capital assets being depreciated:					
Plants and buildings	3,093,109	-	-	-	3,093,109
Other structures	905,075	31,642	-	-	936,717
Machinery and equipment	576,479	-	-	-	576,479
Total capital assets being depreciated	4,574,663	31,642	-	-	4,606,305
Less accumulated depreciation	2,270,428	77,234	-	-	2,347,662
Total capital assets being depreciated, net	2,304,235	(45,592)	-	-	2,258,643
Municipal Golf Course capital assets, net	<u>\$ 2,653,789</u>	<u>\$ (45,592)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,608,197</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, 2007	Increases	Decreases	Balance September 30, 2008
Lancaster Economic Development Corporation: Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Construction in progress	-	-	-	-
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, 2007	Increases	Decreases	Balance September 30, 2008
Lancaster Recreational Development Corporation: 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>4,920,094</u>	<u>786,726</u>	<u>-</u>	<u>5,706,820</u>
Total capital assets being depreciated, net	<u>15,222,334</u>	<u>(786,726)</u>	<u>-</u>	<u>14,435,608</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 16,211,452</u>	<u>\$ (786,726)</u>	<u>\$ -</u>	<u>\$ 15,424,726</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, 2007	Additions	Retirements	Balance September 30, 2008	Due Within One Year
Governmental activities					
Note payable to other government	\$ 890,760	\$ -	\$ (890,760)	\$ -	\$ -
General obligation bonds	31,391,531	-	(580,000)	30,811,531	480,000
Certificates of obligation	14,245,000	-	(185,000)	14,060,000	350,000
Premiums on bond debt	332,761	-	(13,605)	319,156	-
Deferred loss on refunding	(934,805)	-	55,664	(879,141)	-
Compensated absences	1,206,638	539,211	(465,286)	1,280,563	525,235
Capital leases	51,485	732,858	(145,436)	638,907	157,394
Total governmental activities	\$ 47,183,370	\$ 1,272,069	\$ (2,224,423)	\$ 46,231,016	\$ 1,512,629
Business-type activities					
General obligation bonds	\$ 7,068,471	\$ -	\$ (420,000)	\$ 6,648,471	\$ 495,000
Notes payable	928,941	-	-	928,941	313,626
Certificates of obligation	3,110,000	-	(140,000)	2,970,000	200,000
Premiums on bond debt	295,401	-	(28,377)	267,024	-
Deferred loss on refunding	(139,370)	-	45,173	(94,197)	-
Revenue bonds	670,000	-	(70,000)	600,000	70,000
Compensated absences	49,319	46,268	(30,456)	65,131	36,603
Capital leases	820,000	27,270	(188,460)	658,810	205,571
Total business-type activities	\$ 12,802,762	\$ 73,538	\$ (832,120)	\$ 12,044,180	\$ 1,320,800
Discretely presented component units					
Notes payable to primary government	\$ 14,110,000	\$ -	\$ (515,000)	\$ 13,595,000	\$ 585,000
Total discretely presented component units	\$ 14,110,000	\$ -	\$ (515,000)	\$ 13,595,000	\$ 585,000

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, 2008, 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>				
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2005, 3.00% - 4.50%	\$ 12,831,531	\$ 371,191	\$ 77,280	\$ 13,280,002
\$24,300,000 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	<u>17,980,000</u>	<u>6,110,000</u>	<u>90,000</u>	<u>24,180,000</u>
	<u>\$ 30,811,531</u>	<u>\$ 6,481,191</u>	<u>\$ 167,280</u>	<u>\$ 37,460,002</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>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</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%	\$ 2,665,000	\$ -	\$ -	\$ 2,665,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	<u>11,395,000</u>	<u>2,970,000</u>	<u>-</u>	<u>14,365,000</u>
	<u>\$ 14,060,000</u>	<u>\$ 2,970,000</u>	<u>\$ -</u>	<u>\$ 17,030,000</u>

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

	Governmental Activities	Water and Sewer	Airport	Total Primary Government	Discretely Presented Component Units
<u>Note payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% - 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 10,610,000
\$3,035,000 note payable, due in annual installments through February 15, 2032 4.00% - 4.375%	-	-	-	-	2,985,000
\$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>\$ 13,595,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011, 4.35% - 5.00%	\$ -	\$ 635,000	\$ -	\$ 635,000	\$ -
\$500,000 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	412,699	23,810	-	436,509	-
\$260,128 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	226,208	-	-	226,208	-
	<u>\$ 638,907</u>	<u>\$ 658,810</u>	<u>\$ -</u>	<u>\$ 1,297,717</u>	<u>\$ -</u>

Capital leases represent the remaining principal amounts payable under lease purchase agreements for the acquisition of equipment through the General and Water and Sewer Funds. The City entered into two capital lease agreements in the current year, totaling \$760,128. These leases were for the acquisition of telephone equipment and vehicles.

As of September 30, 2008, property and equipment is carried at \$2,645,128, with \$453,013 in accumulated depreciation.

**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, 2008 are as follows:

Fiscal Year	General Obligation Bonds			Revenue Bonds	
	Governmental Activities	Water and Sewer Fund	Airport Fund	Total	Water and Sewer Fund
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	2,182,599	772,317	15,618	2,970,534	105,822
2014-2018	11,624,038	4,111,203	76,850	15,812,091	211,473
2019-2023	12,967,919	273,819	56,989	13,298,727	-
2024-2028	8,177,432	55,507	11,595	8,244,534	-
2029-2032	5,566,275	-	-	5,566,275	-
	48,806,625	8,285,914	227,524	57,320,063	739,195
Less Interest	17,995,094	1,804,723	60,244	19,860,061	139,195
Total principal	\$ 30,811,531	\$ 6,481,191	\$ 167,280	\$ 37,460,002	\$ 600,000

Fiscal Year	Certificates of Obligation		Note Payable		
	Governmental Activities	Water and Sewer Fund	Governmental Activities	Business-type Activities	Component Unit
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	1,005,111	314,106	-	22,248	1,144,795
2014-2018	5,340,795	986,031	-	42,644	5,729,752
2019-2023	5,392,094	832,353	-	-	5,773,112
2024-2028	3,872,590	670,144	-	-	1,840,928
2029-2032	2,249,465	-	-	-	-
	21,669,722	4,055,258	-	995,158	19,026,933
Less Interest	7,609,722	1,085,258	-	66,217	5,431,933
Total principal	\$ 14,060,000	\$ 2,970,000	\$ -	\$ 928,941	\$ 13,595,000

Fiscal Year	Capital Leases		
	Governmental Activities	Business-type Activities	Total
2009	\$ 190,057	\$ 233,106	\$ 423,163
2010	192,160	237,934	430,094
2011	192,162	232,112	424,274
2012	141,158	6,632	147,790
	715,537	709,784	1,425,321
Less Interest	76,630	50,974	127,604
Total principal	\$ 638,907	\$ 658,810	\$ 1,297,717

**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 827 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.

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

Deposit rate	7%
Matching ratio (City to employee)	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The service retirement eligibilities for the City are 5 years at 60 years of age, or 20 years at any age.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Plan Description – Continued

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

Under the state law governing TMRS, an actuary annually determines the City contribution rate. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006 valuation is effective for rates beginning January 2008)

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehension Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$36,162,885 and the funded ratio would have been 73.9%.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Contributions – Continued

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

The following is a schedule of actuarial liabilities and funding progress and includes those employees of the Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation covered by the plan.

Actuarial valuation date	12/31/2007
Actuarial valuation of assets	\$ 26,735,438
Actuarial accrued liability	\$ 42,017,867
Percentage funded	63.63%
Unfunded actuarial accrued liability	\$ 15,282,429
Annual covered payroll	\$ 13,260,730
Unfunded actuarial accrued liability as a percentage of covered payroll	115.25%
Net pension obligation (NPO) at beginning of period	\$ -
Annual pension cost:	
Annual required contribution (ARC)	\$ 1,481,222
Interest on NPO	-
Adjusted to the ARC	-
Total annual pension costs	<u>\$ 1,481,222</u>
Contributions made	(1,481,222)
Increase in NPA	-
NPO at end of period	<u><u>\$ -</u></u>

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Contributions – Continued

Trend information for the past three years for TMRS is as follows:

	Fiscal Year Ended September 30		
	2008	2007	2006
NPO at the beginning of the period	\$ -	\$ -	\$ -
Annual required contribution	1,481,222	1,357,201	1,283,308
Contributions made (100%)	<u>1,481,222</u>	<u>1,357,201</u>	<u>1,283,308</u>
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following actuarial assumptions were used:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	30 years – closed period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.1%

The City is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

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 reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in any of the past three fiscal years.

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

NOTE 8. COMMITMENTS AND CONTINGENCIES – CONTINUED

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, 2008 was \$3,001,161. 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, 2008.

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, 2008 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

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):

<u>Fund</u>	<u>Department</u>	<u>Excess Expenditures over Appropriations</u>
General Fund	General government	\$ 683,914
General Fund	Public safety	95,337
HUD Fund	Social and welfare	1,444,201

NOTE 11. PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended September 30, 2007, amounts totaling \$1,751,477 were incorrectly recorded as expenditures of the General Fund. These amounts should have been recorded as net operations of the component unit known as the Lancaster Recreation Development Corporation (LRDC), thereby understating fund balance in the General Fund and overstating fund balance in the LRDC.

NOTE 12. DEFICIT NET ASSETS

At year-end, a deficit net asset of \$220,159 was reported in the refuse disposal fund. Management has increased residential refuse disposal fees during fiscal year 2009 which is estimated to significantly reduce the deficit over the next fiscal year.



Lancaster

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2000	\$ 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%
12/31/2006	25,073,831	33,586,441	74.7%	8,512,610	11,817,666	72.0%
12/31/2007	26,735,438	42,017,867	63.6%	15,282,429	13,260,730	115.2%

**CITY OF LANCASTER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and fees	\$ 16,389,349	\$ 16,189,349	\$ 16,011,131	\$ (178,218)
Licenses and permits	718,600	718,600	771,028	52,428
Intergovernmental	-	-	85,190	85,190
Charges for services	872,500	872,500	455,084	(417,416)
Fines and forfeits	1,698,950	1,698,950	1,338,090	(360,860)
Interest	79,000	79,000	59,808	(19,192)
Miscellaneous	1,633,639	1,633,639	1,634,789	1,150
Total revenues	<u>21,392,038</u>	<u>21,192,038</u>	<u>20,355,120</u>	<u>(836,918)</u>
Expenditures				
Current:				
General government	3,301,523	3,501,523	4,185,437	(683,914)
Public safety	13,849,265	13,849,265	13,944,602	(95,337)
Public works	3,059,179	3,059,179	2,753,728	305,451
Community development and recreation	4,187,712	3,924,312	3,907,702	16,610
Debt service:				
Non-departmental	-	-	93,951	(93,951)
	-	-	30,668	(30,668)
Total expenditures	<u>24,397,679</u>	<u>24,334,279</u>	<u>24,916,088</u>	<u>(581,809)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,005,641)</u>	<u>(3,142,241)</u>	<u>(4,560,968)</u>	<u>(1,418,727)</u>
Other financing sources (uses)				
Operating transfers in	2,507,522	1,625,522	1,429,334	(196,188)
Operating transfers out	(882,000)	-	(125,035)	(125,035)
Proceeds from capital lease	-	-	732,858	732,858
Total other financing sources (uses)	<u>1,625,522</u>	<u>1,625,522</u>	<u>2,037,157</u>	<u>411,635</u>
Net change in fund balance	(1,380,119)	(1,516,719)	(2,523,811)	(1,007,092)
Fund balances - beginning of year, as restated	<u>5,201,463</u>	<u>5,201,463</u>	<u>5,201,463</u>	<u>-</u>
Fund balances - end of year	<u>\$ 3,821,344</u>	<u>\$ 3,684,744</u>	<u>\$ 2,677,652</u>	<u>\$ (1,007,092)</u>

**CITY OF LANCASTER, TEXAS
HUD FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 7,975,000	\$ 7,975,000	\$ 9,230,350	\$ 1,255,350
Interest	-	-	15,372	15,372
Miscellaneous	-	-	47,182	47,182
Total revenues	<u>7,975,000</u>	<u>7,975,000</u>	<u>9,292,904</u>	<u>1,317,904</u>
Expenditures				
Social and welfare	<u>7,571,100</u>	<u>7,571,100</u>	<u>9,015,301</u>	<u>(1,444,201)</u>
Total expenditures	<u>7,571,100</u>	<u>7,571,100</u>	<u>9,015,301</u>	<u>(1,444,201)</u>
Excess (deficiency) of revenues over expenditures	<u>403,900</u>	<u>403,900</u>	<u>277,603</u>	<u>(126,297)</u>
Other financing uses				
Operating transfers out	<u>(64,525)</u>	<u>(64,525)</u>	<u>(62,000)</u>	<u>(2,525)</u>
Net change in fund balance	339,375	339,375	215,603	(128,822)
Fund balances - beginning of year	<u>770,244</u>	<u>770,244</u>	<u>770,244</u>	<u>-</u>
Fund balances - end of year	<u>\$ 1,109,619</u>	<u>\$ 1,109,619</u>	<u>\$ 985,847</u>	<u>\$ (128,822)</u>

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

BUDGETS AND BUDGETARY ACCOUNTING

The City adopts an “appropriated budget” of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

An operating budget for the General Fund and HUD Fund is legally adopted each fiscal year.

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

The City generally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget including proposed expenditures and the means of financing them is submitted to the City Council by the City Manager.
2. Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City.
3. A public hearing on the budget is held.
4. Prior to October 1, the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

Departmental appropriations that have not been expended or encumbered by the departments at the end of the fiscal year will lapse.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had expenditures in excess of appropriations for the fiscal year ended September 30, 2008:

Fund	Department	Excess Expenditures over Appropriations
General Fund	General government	\$ 683,914
General Fund	Public safety	95,337
HUD Fund	Social and welfare	1,444,201

**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 State Seized Fund – to account for the activities of related to funds awarded to the City by the Courts.

Police Federal Seized Fund – to account for the activities of related to funds awarded to the City by the Courts.

Hotel Motel Fund – to account for the revenues received from a hotel and motel tax.

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, 2008**

	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Non-major Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 175,857	\$ 17,337	\$ 42,101	\$ 21,007	\$ 158,085	\$ 869,728	\$ 1,284,115
Receivables (net of allowance for uncollectibles):							
Delinquent taxes	-	3,086	-	-	-	-	3,086
Accounts receivable	117,001	-	-	-	-	-	117,001
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 292,858</u>	<u>\$ 20,423</u>	<u>\$ 42,101</u>	<u>\$ 21,007</u>	<u>\$ 158,085</u>	<u>\$ 869,728</u>	<u>\$ 1,404,202</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts and contracts payable	\$ 38,562	\$ 2,201	\$ -	\$ -	\$ -	\$ 6,759	\$ 47,522
Accrued liabilities	16,073	-	17,338	-	-	-	33,411
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	-	2,766	-	-	-	-	2,766
Total liabilities	<u>54,635</u>	<u>4,967</u>	<u>17,338</u>	<u>-</u>	<u>-</u>	<u>6,759</u>	<u>83,699</u>
Fund balances:							
Unreserved, undesignated	238,223	15,456	24,763	21,007	158,085	862,969	1,320,503
Total fund balances	<u>238,223</u>	<u>15,456</u>	<u>24,763</u>	<u>21,007</u>	<u>158,085</u>	<u>862,969</u>	<u>1,320,503</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 292,858</u>	<u>\$ 20,423</u>	<u>\$ 42,101</u>	<u>\$ 21,007</u>	<u>\$ 158,085</u>	<u>\$ 869,728</u>	<u>\$ 1,404,202</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, 2008**

	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Nonmajor Governmental Funds
Revenues:							
Taxes and fees	\$ 880,902	\$ 54,558	\$ -	\$ -	\$ 92,482	\$ -	\$ 1,027,942
Licenses and permits	-	-	-	-	-	220,412	220,412
Miscellaneous	-	-	39,703	-	308	-	40,011
Interest	6,164	246	452	-	966	6,692	14,520
Total revenues	887,066	54,804	40,155	-	93,756	227,104	1,302,885
Expenditures:							
Current:							
General government	908,990	-	-	-	-	-	908,990
Public safety	-	-	39,802	-	-	49,508	89,310
Community development and recreation	-	51,684	-	-	39,699	-	91,383
Capital outlay	156,655	-	-	-	-	-	156,655
Debt service:							
Principal retirement	10,000	-	-	-	-	51,485	61,485
Interest and fiscal charges	37,951	-	-	-	-	10,517	48,468
Total expenditures	1,113,596	51,684	39,802	-	39,699	111,510	1,356,291
Excess (deficiency) of revenues over expenditures	(226,530)	3,120	353	-	54,057	115,594	(53,406)
Other financing sources (uses)							
Operating transfers in	-	-	-	21,007	104,028	-	125,035
Operating transfers out	(995,553)	-	-	-	-	-	(995,553)
Total other financing sources (uses)	(995,553)	-	-	21,007	104,028	-	(870,518)
Fund balance, beginning of year	1,460,306	12,336	24,410	-	-	747,375	2,244,427
Fund balance, end of year	<u>\$ 238,223</u>	<u>\$ 15,456</u>	<u>\$ 24,763</u>	<u>\$ 21,007</u>	<u>\$ 158,085</u>	<u>\$ 862,969</u>	<u>\$ 1,320,503</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, 2008

	<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	\$ 972,471	\$ 972,471	\$ 880,902	\$ (91,569)
Interest	-	-	6,164	6,164
Total revenues	<u>972,471</u>	<u>972,471</u>	<u>887,066</u>	<u>(85,405)</u>
Expenditures				
Current:				
General government	976,571	976,571	908,990	67,581
Capital outlay	290,000	290,000	156,655	133,345
Debt service:				
Principal retirement	-	-	10,000	(10,000)
Interest and fiscal charges	-	-	37,951	(37,951)
Total expenditures	<u>1,266,571</u>	<u>1,266,571</u>	<u>1,113,596</u>	<u>152,975</u>
Excess (deficiency) of revenues over expenditures	<u>(294,100)</u>	<u>(294,100)</u>	<u>(226,530)</u>	<u>67,570</u>
Other financing sources (uses)				
Operating transfers out	<u>(39,680)</u>	<u>(39,680)</u>	<u>(995,553)</u>	<u>(955,873)</u>
Total other financing sources (uses)	<u>(39,680)</u>	<u>(39,680)</u>	<u>(995,553)</u>	<u>(955,873)</u>
Fund balance, beginning of year	<u>1,460,306</u>	<u>1,460,306</u>	<u>1,460,306</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,126,526</u>	<u>\$ 1,126,526</u>	<u>\$ 238,223</u>	<u>\$ (888,303)</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 three 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, 2008**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 33,262	\$ 105,885	\$ -	\$ 139,147
Accounts receivable (net of allowance for unreceivables):	126,926	-	133,025	259,951
Inventory	109,087	-	-	109,087
Deferred bond issuance costs	3,482	-	-	3,482
Capital assets:				
Non-depreciable	3,161,146	349,554	-	3,510,700
Depreciable (net)	844,948	2,258,643	-	3,103,591
TOTAL ASSETS	<u>4,278,851</u>	<u>2,714,082</u>	<u>133,025</u>	<u>7,125,958</u>
LIABILITIES				
Current liabilities:				
Accounts and contracts payable	44,617	11,038	197,198	252,853
Accrued liabilities	8,894	330	-	9,224
Due to other funds	180,885	-	65,987	246,872
Accrued interest	5,405	-	-	5,405
Noncurrent liabilities:				
Due in one year	323,626	-	-	323,626
Due in more than one year	774,261	-	-	774,261
TOTAL LIABILITIES	<u>1,337,688</u>	<u>11,368</u>	<u>263,185</u>	<u>1,612,241</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	2,908,207	2,608,197	-	5,516,404
Unrestricted	32,956	94,517	(130,160)	(2,687)
TOTAL NET ASSETS (DEFICIT)	<u>\$ 2,941,163</u>	<u>\$ 2,702,714</u>	<u>\$ (130,160)</u>	<u>\$ 5,513,717</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
OPERATING REVENUES:				
Charges for services	\$ 682,872	\$ 66,487	\$ 1,943,678	\$ 2,693,037
Intergovernmental	19,281	-	-	19,281
Total operating revenues	<u>702,153</u>	<u>66,487</u>	<u>1,943,678</u>	<u>2,712,318</u>
OPERATING EXPENSES:				
Personnel services	172,446	-	-	172,446
Maintenance	167,990	17,714	-	185,704
Materials and supplies	430,151	-	-	430,151
Heat, light and power	40,023	12,363	-	52,386
Depreciation	22,930	77,234	-	100,164
Special services	65,490	-	1,981,518	2,047,008
Miscellaneous	2,158	-	-	2,158
Total operating expenses	<u>901,188</u>	<u>107,311</u>	<u>1,981,518</u>	<u>2,990,017</u>
OPERATING LOSS	<u>(199,035)</u>	<u>(40,824)</u>	<u>(37,840)</u>	<u>(277,699)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	131	846	-	977
Interest and fiscal charges	(13,199)	-	-	(13,199)
Other nonoperating revenue	6,368	2,742	-	9,110
Total nonoperating revenues (expenses)	<u>(6,700)</u>	<u>3,588</u>	<u>-</u>	<u>(3,112)</u>
LOSS BEFORE TRANSFERS	<u>(205,735)</u>	<u>(37,236)</u>	<u>(37,840)</u>	<u>(280,811)</u>
Transfers out	-	(3,418)	-	(3,418)
CHANGE IN NET ASSETS	<u>(205,735)</u>	<u>(40,654)</u>	<u>(37,840)</u>	<u>(284,229)</u>
NET ASSETS, (DEFICIT) BEGINNING OF YEAR	<u>3,146,898</u>	<u>2,743,368</u>	<u>(92,320)</u>	<u>5,797,946</u>
NET ASSETS, (DEFICIT) END OF YEAR	<u>\$ 2,941,163</u>	<u>\$ 2,702,714</u>	<u>\$ (130,160)</u>	<u>\$ 5,513,717</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 736,231	\$ 66,487	\$ 1,855,372	\$ 2,658,090
Payments to suppliers	(786,330)	(19,389)	(1,855,372)	(2,661,091)
Net cash provided by (used for) operating activities	<u>(50,099)</u>	<u>47,098</u>	<u>-</u>	<u>(3,001)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	-	(31,642)	-	(31,642)
Principal payments on debt	(5,000)	-	-	(5,000)
Interest payments on debt	(6,866)	-	-	(6,866)
Net cash used for capital and related financing activities	<u>(11,866)</u>	<u>(31,642)</u>	<u>-</u>	<u>(43,508)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out to other funds	-	(3,418)	-	(3,418)
Proceeds from other nonoperating revenue	6,368	-	-	6,368
Net cash provided by (used for) noncapital financing activities	<u>6,368</u>	<u>(3,418)</u>	<u>-</u>	<u>2,950</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	131	3,588	-	3,719
Net cash provided by investing activities	<u>131</u>	<u>3,588</u>	<u>-</u>	<u>3,719</u>
Net increase (decrease) in cash and cash equivalents	(55,466)	15,626	-	(39,840)
Cash and cash equivalents, beginning of year	88,728	90,259	-	178,987
Cash and cash equivalents, end of year	<u>\$ 33,262</u>	<u>\$ 105,885</u>	<u>\$ -</u>	<u>\$ 139,147</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating loss	\$ (199,035)	\$ (40,824)	\$ (37,840)	\$ (277,699)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	22,930	77,234	-	100,164
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	34,078	-	(133,025)	(98,947)
(Increase) decrease in due from other funds	120,532	-	(26,333)	94,199
Increase in inventory	(29,087)	-	-	(29,087)
Increase in accounts and contract payable	362	10,688	197,198	208,248
Increase in accrued liabilities	121	-	-	121
Net cash provided by (used for) operating activities	<u>\$ (50,099)</u>	<u>\$ 47,098</u>	<u>\$ -</u>	<u>\$ (3,001)</u>

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

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

Lancaster 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, 2008**

ASSETS

Cash and cash equivalents	\$ 3,021,471
Accounts receivable - sales tax	123,216
Other receivable	<u>12,133</u>
Total assets	<u><u>\$ 3,156,820</u></u>

LIABILITIES

Accounts payable	\$ 9,049
Accrued liabilities	<u>8,363</u>
Total liabilities	<u>17,412</u>

FUND BALANCE

Unreserved and undesignated	<u>3,139,408</u>
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TOTAL FUND BALANCE **3,139,408**

TOTAL LIABILITIES AND FUND BALANCE **\$ 3,156,820**

**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS – ECONOMIC
DEVELOPMENT CORPORATION SEPTEMBER 30, 2008**

Total fund balance-governmental funds.	\$ 3,139,408
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>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.</p>	(15,456)
<p>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.</p>	100,378
<p>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.</p>	<u>(2,985,000)</u>
Total net assets - governmental activities	<u><u>\$ 239,330</u></u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES- ECONOMIC
DEVELOPMENT CORPORATION FOR THE YEAR ENDED SEPTEMBER 30, 2008**

REVENUES:	
Taxes and fees	\$ 692,625
Interest	<u>2,413</u>
Total revenues	<u>695,038</u>
EXPENDITURES:	
Cultural and recreation	752,929
Debt service:	
Principal retirement	50,000
Interest and fiscal charges	<u>177,004</u>
Total expenditures	<u>979,933</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(284,895)
FUND BALANCE, BEGINNING OF YEAR	<u>3,424,303</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 3,139,408</u></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 – ECONOMIC
DEVELOPMENT CORPORATION FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Net change in fund balances- total governmental funds	\$ (284,895)
Amounts reported for governmental activities in the statement of activities are different because:	
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.	50,000
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.	<u>(15,456)</u>
Change in net assets of governmental activities	<u><u>\$ (250,351)</u></u>

**CITY OF LANCASTER, TEXAS
BALANCE SHEET- RECREATIONAL
DEVELOPMENT CORPORATION SEPTEMBER 30, 2008**

ASSETS

Cash and cash equivalents	\$ 687,033
Accounts receivable - sales tax	<u>246,431</u>
Total assets	<u><u>\$ 933,464</u></u>

LIABILITIES

Accounts payable	<u>\$ 5,405</u>
Total liabilities	<u>5,405</u>

FUND BALANCE

Unreserved:	
Unreserved and undesignated	<u>928,059</u>
Total fund balance	<u>928,059</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 933,464</u></u>
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**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, 2008**

Total fund balance-governmental funds.	\$ 928,059
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.	15,424,726
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.	(54,300)
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>(10,610,000)</u>
Total net assets - governmental activities	<u>\$ 5,688,485</u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES—RECREATIONAL
DEVELOPMENT CORPORATION YEAR ENDED SEPTEMBER 30, 2008**

REVENUES:

Taxes and fees	\$ 1,385,249
Charges for services	518,094
Miscellaneous	32,322
Interest	<u>9,392</u>
Total revenues	<u><u>1,945,057</u></u>

EXPENDITURES:

Cultural and recreation	1,382,829
Debt service:	
Principal retirement	465,000
Interest and fiscal charges	<u>441,643</u>
Total expenditures	<u><u>2,289,472</u></u>

DEFICIENCY OF REVENUES

UNDER EXPENDITURES (344,415)

FUND BALANCE, BEGINNING OF YEAR, AS RESTATED 1,272,474

FUND BALANCE, END OF YEAR \$ 928,059

**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, 2008**

Net change in fund balances- total governmental funds	\$	(344,415)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<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>		(786,726)
<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.</p>		465,000
<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>		44,679
		44,679
Change in net assets of governmental activities	\$	(621,462)