

CITY OF LANCASTER, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2009**

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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, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster (the City) as of and for the year ended September 30, 2009 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administration. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2009, and the respective changes in financial position, where applicable, cash flows and the respective budgetary comparison for the General Fund, 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 July 6, 2010, 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
July 6, 2010

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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 46, 47,48, and 49, 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
July 6, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

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, 2009. 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 2009, resulting in \$108,573,278 of net assets. Net assets associated with governmental activities are approximately \$61 million, or 56% of the total net assets of the City. Net assets associated with business-type activities are approximately \$47 million, or 44% 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 \$74 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$28 million, or 26% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$20 million, or 33% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$8 million, or 16% of total net assets for business-type activities.
- As of the close of fiscal year 2009, the City of Lancaster's governmental funds reported a combined ending fund balance deficit of \$2,234,296 a decrease of \$7,988,691 from the prior year. A significant portion of the decrease is in the capital projects fund. Bonds were sold in fiscal year 2010 to pay for construction.
- At the end of the current fiscal year, total fund balance for the general fund was \$3,908,328. This represents approximately 20% of general fund expenditures which is more than the 15% required by the City's adopted fund balance policy. Of this amount, 95.72% is available for spending at the government's discretion (unreserved fund balance).
- The City's total capital assets net of accumulated depreciation increased by approximately \$10 million which is primarily attributed to additions to the construction of City buildings.
- The City entered into leases totaling \$280,482 and made its regularly scheduled annual principal payments for a net decrease in long-term liabilities of \$2,386,560.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009

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.

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, are 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 government-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 the cost 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 45 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

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 statements. Combining statements for non-major governmental funds and component unit fund financial statements follow the section of required supplementary information.

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, 2009, the City of Lancaster assets exceeded its liabilities by \$108,573,278.

The largest portion of the City's net assets, 68%, 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, 6%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$27,873,296 or 26%, may be used to meet the City's ongoing obligations to citizens and creditors.

STATEMENT OF NET ASSETS FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

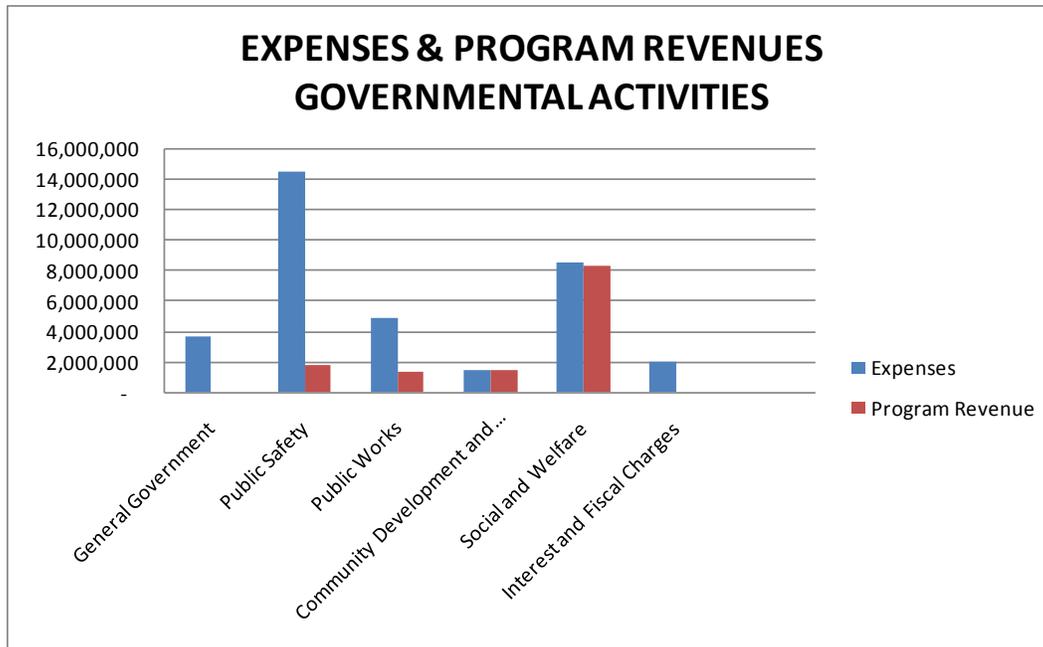
	Governmental Activities 2009	Business-type Activities 2009	Total 2009	Governmental Activities 2008	Business-type Activities 2008	Total 2008
Current and Other Assets	\$ 15,805,224	\$ 15,779,059	\$ 31,584,283	\$ 25,409,225	\$ 18,483,634	\$ 43,892,859
Capital Assets	94,214,821	43,713,430	137,928,251	86,453,835	41,879,952	128,333,787
Total Assets	<u>\$ 110,020,045</u>	<u>\$ 59,492,489</u>	<u>\$ 169,512,534</u>	<u>\$ 111,863,060</u>	<u>\$ 60,363,586</u>	<u>\$ 172,226,646</u>
Long-Term Liabilities	\$ 45,441,312	10,541,373	\$ 55,982,685	\$ 46,231,016	\$ 12,044,180	\$ 58,275,196
Other Liabilities	3,314,768	1,641,803	4,956,571	4,412,297	1,325,670	5,737,967
Total Liabilities	<u>\$ 48,756,080</u>	<u>\$ 12,183,176</u>	<u>\$ 60,939,256</u>	<u>\$ 50,643,313</u>	<u>\$ 13,369,850</u>	<u>\$ 64,013,163</u>
Net Assets:						
Invested in Capital assets, net of Related Debt	\$ 40,366,067	\$ 33,653,811	\$ 74,019,878	\$ 50,425,678	\$ 29,900,904	\$ 80,326,582
Restricted	620,279	6,059,825	6,680,104	297,651	7,032,012	7,329,663
Unrestricted	20,277,619	7,595,677	27,873,296	10,496,418	10,060,820	20,557,238
Total Net Assets	<u>\$ 61,263,965</u>	<u>\$ 47,309,313</u>	<u>\$ 108,573,278</u>	<u>\$ 61,219,747</u>	<u>\$ 46,993,736</u>	<u>\$ 108,213,483</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

Analysis of City's Operations The following table provides a summary of the City's operations for the year ended September 30, 2009. Overall, the City had an increase in net assets of \$359,795.

REVENUES AND EXPENSES FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

	Governmental Activities 2009	Business-type Activities 2009	Total 2009	Governmental Activities 2008	Business-type Activities 2008	Total 2008
REVENUES:						
Program Revenues:						
Charges for Services	\$ 3,229,244	\$ 12,957,175	\$ 16,186,419	\$ 3,412,826	\$ 12,659,259	\$ 16,072,085
Operating Grant & Contribution	8,424,486	30,695	8,455,181	10,710,353	16,460	10,726,813
Capital Grants & Contributions	1,384,895	530,710	1,915,605	68,932	-	68,932
General Revenue						
Taxes & Fees	19,277,229	-	19,277,229	18,373,429	-	18,373,429
Others	1,537,715	52,271	1,589,986	1,399,742	155,120	1,554,862
Total Revenues	33,853,569	13,570,851	47,424,420	33,965,282	12,830,839	46,796,121
Program Expenses						
General Government	3,689,422	-	3,689,422	4,396,709	-	4,396,709
Public Safety	14,487,896	-	14,487,896	14,630,788	-	14,630,788
Public Works	4,902,806	-	4,902,806	4,278,167	-	4,278,167
Community Development and Recreation	1,506,422	-	1,506,422	3,595,836	-	3,595,836
Community Services	-	-	-	-	-	-
Social and Welfare	8,496,435	-	8,496,435	9,015,301	-	9,015,301
Interest and Fiscal Charges	2,053,606	-	2,053,606	2,367,768	-	2,367,768
Water & Sewer	-	9,621,112	9,621,112	-	10,380,773	10,380,773
Refuse	-	1,247,727	1,247,727	-	107,311	107,311
Airport	-	923,923	923,923	-	1,981,518	1,981,518
Golf Course	-	135,276	135,276	-	914,387	914,387
Total Expenses	35,136,587	11,928,038	47,064,625	38,284,569	13,383,989	51,668,558
Increase (decrease in net assets before transfers)						
	(1,283,018)	1,642,813	359,795	(4,319,287)	(553,150)	(4,872,437)
Transfers	1,327,236	(1,327,236)	-	1,327,654	(1,327,654)	-
Change in Net Assets	44,218	315,577	359,795	(2,991,633)	(1,880,804)	(4,872,437)
Net Assets - Beginning, as restated	61,219,747	46,993,736	108,213,483	64,211,380	48,874,540	113,085,920
Net Assets - Ending	\$ 61,263,965	\$ 47,309,313	\$ 108,573,278	\$ 61,219,747	\$ 46,993,736	\$ 108,213,483



**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

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 a combined ending fund balance deficit of \$2,234,296 , a decrease of \$7,988,691 from the prior year. This amount includes fund balance reserved for debt service of \$586,712 and reserved for inventory of \$870. The net unreserved fund balance deficit was \$2,988,470 , a decrease of \$14,963,056 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 \$643,170 increase in fund balance this fiscal year, however the actual increase was \$1,230,676. The largest area of decrease was in building permit fees which is related to the national housing crisis and recession.

The HUD Fund has a total fund balance of \$884,078 a decrease of \$101,769 from the prior year. The budget includes 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 \$7,595,677. The total increase in net assets was \$0.3 million from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2009**

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amount to \$137,928,251 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-Type Activities		Totals	
	2008	2009	2008	2009	2008	2009
Land	\$ 11,957,972	\$ 11,999,383	\$ 3,596,261	\$ 3,596,261	\$ 15,554,233	\$ 15,595,644
Buildings	5,147,165	22,769,952	4,867,634	4,867,634	10,014,799	27,637,586
Equipment	13,668,946	14,608,568	2,658,003	2,658,003	16,326,949	17,266,571
Construction in Progress	12,560,230	4,037,011	-	1,945,797	12,560,230	5,982,808
Other Structures	-	-	936,717	936,717	936,717	936,717
Improvements	1,660,169	1,660,169	53,648,883	54,967,088	55,309,052	56,627,257
Streets and Bridges	75,940,830	77,346,463	-	-	75,940,830	77,346,463
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	(41,801,096)	(45,526,344)	(26,623,633)	(28,054,157)	(68,424,729)	(73,580,501)
Total	\$ 86,453,835	\$ 94,214,821	\$ 41,879,952	\$ 43,713,430	\$ 128,333,787	\$ 137,928,251

Long-term Debt At the end of the current fiscal year, the City had total bonds outstanding of \$53,345,002. Of this amount \$52,815,002 is tax supported debt. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

	Governmental Activities		Business-Type Activities		Totals	
	2008	2009	2008	2009	2008	2009
General Obligation Bonds	\$ 30,811,531	\$ 30,181,531	\$ 6,648,471	\$ 6,153,471	\$ 37,460,002	\$ 36,335,002
Certificates of Obligation	14,060,000	13,710,000	2,970,000	2,770,000	17,030,000	16,480,000
Notes payable	-	-	928,941	417,356	928,941	417,356
Revenue Bonds	-	-	600,000	530,000	600,000	530,000
Capital Leases	638,907	715,197	658,810	452,545	1,297,717	1,167,742
Total	\$ 45,510,438	\$ 44,606,728	\$ 11,806,222	\$ 10,323,372	\$ 57,316,660	\$ 54,930,100

The City's total long-term debt decreased by \$2,386,560, 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, 2009**

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2010 budget, general fund revenues are budgeted to increase by 1.0% from the 2009 budget year. This increase is mostly attributed to an adjustment to the property tax rate.

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

Request for Information

For additional information please contact Director of Finance, Carl Wessels, at 972-218-1333 or 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, 2009**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
ASSETS					
Cash and cash equivalents	\$ 6,335,524	\$ 6,082,700	\$ 12,418,224	\$ 1,970,577	\$ -
Receivables (net of allowance)					
Notes	13,010,000	-	13,010,000	-	-
Delinquent taxes	1,304,630	-	1,304,630	-	-
Accounts	773,755	1,585,021	2,358,776	-	19,691
Sales tax	653,573	-	653,573	130,715	261,429
Fines	113,580	-	113,580	-	-
Miscellaneous	-	-	-	-	-
Internal balances	(7,051,995)	7,051,995	-	-	-
Due from other governments	7,945	-	7,945	-	-
Due from component unit	88,094	-	88,094	-	-
Inventory	870	56,709	57,579	-	-
Debt issuance costs	569,248	302,184	871,432	-	-
Restricted assets:					
Cash and cash equivalents	-	700,450	700,450	-	-
Capital assets:					
Land and construction in progress	16,036,394	5,542,058	21,578,452	100,378	989,118
Other capital assets, net of accumulated depreciation	78,178,427	38,171,372	116,349,799	-	13,653,543
Total assets	110,020,045	59,492,489	169,512,534	2,201,670	14,923,781
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts and contracts payable	2,148,817	622,808	2,771,625	2,942	32,798
Accrued liabilities	900,635	261,825	1,162,460	8,667	53,747
Accrued interest	240,129	56,720	296,849	14,931	52,440
Due to primary government	-	-	-	-	88,094
Deposits	25,187	700,450	725,637	-	-
Noncurrent liabilities:					
Due within one year	1,709,841	1,294,263	3,004,104	110,000	495,000
Due in more than one year	43,731,471	9,247,110	52,978,581	2,770,000	9,635,000
Total Liabilities	48,756,080	12,183,176	60,939,256	2,906,540	10,357,079
Net Assets:					
Invested in capital assets, net of related debt	40,366,067	33,653,811	74,019,878	100,378	4,512,661
Restricted for debt service	620,279	731,987	1,352,266	-	-
Restricted for capital	-	5,327,838	5,327,838	-	-
Unrestricted	20,277,619	7,595,677	27,873,296	(805,248)	54,041
Total Net Assets	\$ 61,263,965	\$ 47,309,313	\$ 108,573,278	\$ (704,870)	\$ 4,566,702

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

**CITY OF LANCASTER
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2009**

Functions/Programs	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 3,689,422	\$ -	\$ -	\$ -
Public safety	14,487,896	1,759,314	-	81,095
Public works	4,902,806	927,298	-	484,813
Community development and recreation	1,506,422	542,632	87,620	818,987
Social and welfare	8,496,435	-	8,336,866	-
Interest and fiscal charges	2,053,606	-	-	-
Total governmental activities	<u>35,136,587</u>	<u>3,229,244</u>	<u>8,424,486</u>	<u>1,384,895</u>
Business-type activities:				
Water and sewer	9,621,112	10,869,572	-	530,710
Refuse	1,247,727	1,465,835	-	-
Airport	923,923	541,019	30,695	-
Golf course	135,276	80,749	-	-
Total business-type activities	<u>11,928,038</u>	<u>12,957,175</u>	<u>30,695</u>	<u>530,710</u>
Total primary government	<u>\$ 47,064,625</u>	<u>\$ 16,186,419</u>	<u>\$ 8,455,181</u>	<u>\$ 1,915,605</u>
Component Units:				
Lancaster Economic Development Corporation	\$ 1,723,004	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	3,164,882	446,533	5,337	-
	<u>\$ 4,887,886</u>	<u>\$ 446,533</u>	<u>\$ 5,337</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

NET ASSETS (DEFICIT), 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 Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
\$ (3,689,422)	\$ -	\$ (3,689,422)	\$ -	\$ -
(12,647,487)	-	(12,647,487)	-	-
(3,490,695)	-	(3,490,695)	-	-
(57,183)	-	(57,183)	-	-
(159,569)	-	(159,569)	-	-
(2,053,606)	-	(2,053,606)	-	-
<u>(22,097,962)</u>	<u>-</u>	<u>(22,097,962)</u>	<u>-</u>	<u>-</u>
-	1,779,170	1,779,170	-	-
-	218,108	218,108	-	-
-	(352,209)	(352,209)	-	-
<u>-</u>	<u>(54,527)</u>	<u>(54,527)</u>	<u>-</u>	<u>-</u>
-	1,590,542	1,590,542	-	-
<u>\$ (22,097,962)</u>	<u>\$ 1,590,542</u>	<u>\$ (20,507,420)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (1,723,004)	\$ -
-	-	-	-	(2,713,012)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,723,004)</u>	<u>\$ (2,713,012)</u>
13,426,315	-	13,426,315	-	-
3,881,711	-	3,881,711	776,342	1,552,684
1,822,233	-	1,822,233	-	-
146,970	-	146,970	-	-
156,990	30,087	187,077	2,462	1,612
1,380,725	22,184	1,402,909	-	36,933
1,327,236	(1,327,236)	-	-	-
<u>22,142,180</u>	<u>(1,274,965)</u>	<u>20,867,215</u>	<u>778,804</u>	<u>1,591,229</u>
44,218	315,577	359,795	(944,200)	(1,121,783)
61,219,747	46,993,736	108,213,483	239,330	5,688,485
<u>\$ 61,263,965</u>	<u>\$ 47,309,313</u>	<u>\$ 108,573,278</u>	<u>\$ (704,870)</u>	<u>\$ 4,566,702</u>

**CITY OF LANCASTER
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009**

ASSETS	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 4,053,024	\$ 927,678	\$ -	\$ 571,068	\$ 783,754	\$ 6,335,524
Receivables (net of allowance for uncollectibles):						
Notes	-	-	-	13,010,000	-	13,010,000
Delinquent taxes	1,012,573	-	-	289,340	2,717	1,304,630
Accounts	552,396	-	17,000	-	204,359	773,755
Sales tax	653,573	-	-	-	-	653,573
Fines	113,580	-	-	-	-	113,580
Due from:						
Other governments	7,945	-	-	-	-	7,945
Component unit	88,094	-	-	-	-	88,094
Inventory, at cost	870	-	-	-	-	870
TOTAL ASSETS	\$ 6,482,055	\$ 927,678	\$ 17,000	\$ 13,870,408	\$ 990,830	\$ 22,287,971
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and contracts payable	\$ 614,988	\$ 13,181	\$ 1,450,287	\$ -	\$ 70,361	\$ 2,148,817
Accrued liabilities	824,012	30,419	-	-	46,204	900,635
Deposits	25,187	-	-	-	-	25,187
Due to:						
Other funds	-	-	7,051,995	-	-	7,051,995
Deferred revenue	1,109,540	-	-	13,283,696	2,397	14,395,633
Total liabilities	2,573,727	43,600	8,502,282	13,283,696	118,962	24,522,267
Fund balances:						
Reserved for:						
Debt service	-	-	-	586,712	-	586,712
Inventory	870	-	-	-	-	870
Court technology	35,871	-	-	-	-	35,871
Westwood wall	30,000	-	-	-	-	30,000
Unreserved, designated reported in:						
General fund	100,721	-	-	-	-	100,721
Unreserved and undesignated	3,740,866	884,078	(8,485,282)	-	871,868	(2,988,470)
Total fund balances	3,908,328	884,078	(8,485,282)	586,712	871,868	(2,234,296)
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,482,055	\$ 927,678	\$ 17,000	\$ 13,870,408	\$ 990,830	\$ 22,287,971

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, 2009**

Total fund balance-governmental funds	\$ (2,234,296)
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.	569,248
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.	94,214,821
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.	(240,129)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	1,385,633
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.	13,010,000
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	(30,181,531)
Certificates of obligation bonds	(13,710,000)
OPEB liability	(23,320)
Premium payable	(305,551)
Capital lease	(715,197)
Compensated absences	(1,329,190)
Deferred loss on refunding	<u>823,477</u>
Total net assets - governmental activities	<u><u>\$ 61,263,965</u></u>

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

CITY OF LANCASTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes and fees	\$ 16,660,858	\$ -	\$ -	\$ 2,255,817	\$ 1,124,398	\$ 20,041,073
Licenses and permits	495,859	-	-	-	250,178	746,037
Intergovernmental	223,944	8,277,191	818,987	-	-	9,320,122
Charges for services	517,691	-	-	-	-	517,691
Fines and forfeits	998,405	-	77,530	-	-	1,075,935
Interest	15,629	6,251	129,663	2,930	2,517	156,990
Miscellaneous	628,222	173,224	32,301	1,133,895	32,703	2,000,345
Total revenues	19,540,608	8,456,666	1,058,481	3,392,642	1,409,796	33,858,193
EXPENDITURES:						
Current:						
General government	3,292,946	-	-	-	3,485	3,296,431
Public safety	13,071,145	-	13,754	-	191,061	13,275,960
Public works	2,088,899	-	3	-	798,424	2,887,326
Community development and recreation	1,213,686	-	6,742	-	159,034	1,379,462
Social and welfare	-	8,496,435	-	-	-	8,496,435
Capital outlay	79,260	-	9,997,725	-	874,608	10,951,593
Debt service:						
Principal retirement	-	-	-	1,144,697	25,000	1,169,697
Interest and fiscal charges	-	-	-	1,957,165	26,038	1,983,203
Total expenditures	19,745,936	8,496,435	10,018,224	3,101,862	2,077,650	43,440,107
Excess (deficiency) of revenues over expenditures	(205,328)	(39,769)	(8,959,743)	290,780	(667,854)	(9,581,914)
Other financing sources (uses):						
Operating transfers in	1,436,004	-	-	-	-	1,436,004
Operating transfers out	-	(62,000)	-	-	(46,768)	(108,768)
Proceeds from capital lease	-	-	-	-	265,987	265,987
Total other financing sources (uses)	1,436,004	(62,000)	-	-	219,219	1,593,223
Net change in fund balances	1,230,676	(101,769)	(8,959,743)	290,780	(448,635)	(7,988,691)
Fund balances, beginning of year	2,677,652	985,847	474,461	295,932	1,320,503	5,754,395
Fund balances, end of year	<u>\$ 3,908,328</u>	<u>\$ 884,078</u>	<u>\$ (8,485,282)</u>	<u>\$ 586,712</u>	<u>\$ 871,868</u>	<u>\$ (2,234,296)</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, 2009**

Net change in fund balances - total governmental funds		\$ (7,988,691)																
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>																		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the amount of capital outlay recorded as capital assets in the current period.</p>		11,001,421																
<p>Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.</p>		484,813																
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>		(3,725,248)																
<p>Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">General and certificates of obligation bonds</td> <td style="width: 10%; text-align: right;">\$ 980,000</td> <td style="width: 30%;"></td> </tr> <tr> <td>Capital leases</td> <td style="text-align: right;"><u>189,697</u></td> <td></td> </tr> </table>	General and certificates of obligation bonds	\$ 980,000		Capital leases	<u>189,697</u>			1,169,697										
General and certificates of obligation bonds	\$ 980,000																	
Capital leases	<u>189,697</u>																	
<p>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:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">Capital lease proceeds</td> <td style="width: 10%; text-align: right;">\$ (265,987)</td> <td style="width: 30%;"></td> </tr> <tr> <td>OPEB liability</td> <td style="text-align: right;">(23,320)</td> <td></td> </tr> <tr> <td>Amortization of issuance costs</td> <td style="text-align: right;">(32,623)</td> <td></td> </tr> <tr> <td>Amortization of refunding loss</td> <td style="text-align: right;">(55,664)</td> <td></td> </tr> <tr> <td>Amortization of bond premium/discount</td> <td style="text-align: right;"><u>13,605</u></td> <td></td> </tr> </table>			Capital lease proceeds	\$ (265,987)		OPEB liability	(23,320)		Amortization of issuance costs	(32,623)		Amortization of refunding loss	(55,664)		Amortization of bond premium/discount	<u>13,605</u>		(363,989)
Capital lease proceeds	\$ (265,987)																	
OPEB liability	(23,320)																	
Amortization of issuance costs	(32,623)																	
Amortization of refunding loss	(55,664)																	
Amortization of bond premium/discount	<u>13,605</u>																	
<p>Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>		(48,627)																
<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>		4,279																
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.</p>		<u>(489,437)</u>																
Change in net assets of governmental activities		<u>\$ 44,218</u>																

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

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009**

ASSETS	Water and Sewer	Non-major Enterprise Funds	Total Proprietary Funds
Current assets:			
Cash and cash equivalents	\$ 5,837,681	\$ 245,019	\$ 6,082,700
Receivables (net of allowance for uncollectibles):			
Accounts	679,741	132,226	811,967
Unbilled	713,000	60,054	773,054
Due from other funds	7,856,571	-	7,856,571
Inventory	-	56,709	56,709
Total current assets	15,086,993	494,008	15,581,001
Restricted assets:			
Cash	700,450	-	700,450
Deferred bond issuance costs	298,894	3,290	302,184
Capital assets:			
Non-depreciable	2,031,358	3,510,700	5,542,058
Depreciable (net of accumulated depreciation)	35,167,957	3,003,415	38,171,372
TOTAL ASSETS	53,285,652	7,011,413	60,297,065
LIABILITIES			
Current liabilities:			
Accounts and contracts payable	353,113	269,695	622,808
Accrued liabilities	248,553	13,272	261,825
Accrued interest	54,250	2,470	56,720
Due to other funds	-	804,576	804,576
Deposits	700,450	-	700,450
Total current liabilities	1,356,366	1,090,013	2,446,379
Non-current liabilities:			
Due within one year	1,019,131	275,132	1,294,263
Due in more than one year	8,945,383	301,727	9,247,110
Total non-current liabilities	9,964,514	576,859	10,541,373
TOTAL LIABILITIES	11,320,880	1,666,872	12,987,752
NET ASSETS			
Invested in capital assets, net of related debt	27,298,228	6,355,583	33,653,811
Restricted for debt service	731,987	-	731,987
Restricted for capital	5,327,838	-	5,327,838
Unrestricted	8,606,719	(1,011,042)	7,595,677
TOTAL NET ASSETS	\$ 41,964,772	\$ 5,344,541	\$ 47,309,313

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, 2009**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 10,637,616	\$ 2,087,603	\$ 12,725,219
Intergovernmental	-	30,695	30,695
Miscellaneous	115,220	-	115,220
Total operating revenues	<u>10,752,836</u>	<u>2,118,298</u>	<u>12,871,134</u>
OPERATING EXPENSES:			
Personnel services	1,274,626	157,782	1,432,408
Maintenance	148,365	180,252	328,617
Purchase of water	2,038,839	-	2,038,839
Materials and supplies	68,458	306,250	374,708
Heat, light and power	152,125	42,018	194,143
Depreciation	1,330,348	99,762	1,430,110
Benefit payments	378,507	35,637	414,144
Sewage treatment	3,351,989	-	3,351,989
Special services	407,280	1,427,123	1,834,403
Equipment rental	6,223	27,393	33,616
Total operating expenses	<u>9,156,760</u>	<u>2,276,217</u>	<u>11,432,977</u>
OPERATING INCOME (LOSS)	<u>1,596,076</u>	<u>(157,919)</u>	<u>1,438,157</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	29,819	268	30,087
Interest and fiscal charges	(464,352)	(30,709)	(495,061)
Impact fee revenue	116,736	-	116,736
Other nonoperating revenue	-	22,184	22,184
Total nonoperating revenues (expenses)	<u>(317,797)</u>	<u>(8,257)</u>	<u>(326,054)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>1,278,279</u>	<u>(166,176)</u>	<u>1,112,103</u>
CONTRIBUTIONS AND TRANSFERS:			
Capital contributions	530,710	-	530,710
Operating transfers out	(1,324,236)	(3,000)	(1,327,236)
Total transfers	<u>(793,526)</u>	<u>(3,000)</u>	<u>(796,526)</u>
CHANGE IN NET ASSETS	484,753	(169,176)	315,577
NET ASSETS, BEGINNING OF YEAR	<u>41,480,019</u>	<u>5,513,717</u>	<u>46,993,736</u>
NET ASSETS, END OF YEAR	<u>\$ 41,964,772</u>	<u>\$ 5,344,541</u>	<u>\$ 47,309,313</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, 2009**

	Water and Sewer Fund	Non-major Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 10,639,294	\$ 2,185,969	\$ 12,825,263
Payments to other funds	(7,609,699)	-	(7,609,699)
Payments to employees	(1,654,838)	(193,419)	(1,848,257)
Payments to suppliers	(5,950,936)	(1,351,093)	(7,302,029)
Net cash provided by (used for) operating activities	<u>(4,576,179)</u>	<u>641,457</u>	<u>(3,934,722)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,733,292)	-	(2,733,292)
Principal payments on debt	(955,000)	(511,585)	(1,466,585)
Interest payments on debt	(464,941)	(33,452)	(498,393)
Payments on capital leases	(6,264)	(10,000)	(16,264)
Impact fees collected	116,736	-	116,736
Net cash used for capital and related financing activities	<u>(4,042,761)</u>	<u>(555,037)</u>	<u>(4,597,798)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers out to other funds	(1,324,236)	(3,000)	(1,327,236)
Proceeds from other nonoperating revenue	-	22,184	22,184
Net cash provided by (used for) noncapital financing activities	<u>(1,324,236)</u>	<u>19,184</u>	<u>(1,305,052)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	29,819	268	30,087
Net increase (decrease) in cash and cash equivalents	(9,913,357)	105,872	(9,807,485)
Cash and cash equivalents, beginning of year	16,451,488	139,147	16,590,635
Cash and cash equivalents, end of year	<u>\$ 6,538,131</u>	<u>\$ 245,019</u>	<u>\$ 6,783,150</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Unrestricted cash and cash equivalents	\$ 5,837,681	\$ 245,019	\$ 6,082,700
Restricted cash and cash equivalents	700,450	-	700,450
Total cash and cash equivalents	<u>\$ 6,538,131</u>	<u>\$ 245,019</u>	<u>\$ 6,783,150</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,596,076	\$ (157,919)	\$ 1,438,157
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,330,348	99,762	1,430,110
Provision for bad debts	330,014	-	330,014
Change in assets and liabilities:			
Accounts receivable	(520,881)	67,671	(453,210)
Due to/ from other funds	(7,609,699)	557,704	(7,051,995)
Prepays	-	52,378	52,378
Accounts and contracts payable	51,953	17,597	69,550
Accrued liabilities	170,390	3,293	173,683
Deposits	77,325	-	77,325
Compensated absences	(1,705)	971	(734)
Net cash provided by (used for) operating activities	<u>\$ (4,576,179)</u>	<u>\$ 641,457</u>	<u>\$ (3,934,722)</u>

The Notes to 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'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. Economic and Recreational 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, 2009 were \$229,749 for uncollectible taxes, \$819,885 for water and sewer billings, \$75,730 for court fees and fines, and \$273,800 for ambulance fees 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, 2009, 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 \$1,038,799 (composed of \$905,496 related to the primary government and \$133,303 related to discretely presented component units) and the bank balances were \$1,092,198. The bank balances on September 30, 2009 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, 2009, 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, 2009 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, 2009, 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>\$ 12,213,178</u>	<u>\$ 12,213,178</u>	0.003
Total Primary Government	<u>12,213,178</u>	<u>12,213,178</u>	
Component Units			
Texpool	<u>1,837,274</u>	<u>1,837,274</u>	
Total Component Units	<u>1,837,274</u>	<u>1,837,274</u>	0.003
Total	<u><u>\$ 14,050,452</u></u>	<u><u>\$ 14,050,452</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, 2009, were 97.3% 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, 2009, the City had a tax rate of \$.7775 per \$100 assessed valuation, of which \$.6441 was allocated for general government and \$.1334 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, 2009, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund	\$ -	\$ -	\$ 1,436,004	\$ -
HUD Fund	-	-	-	62,000
Capital Projects Fund	-	7,051,995	-	-
Non-major Governmental Funds	-	-	-	46,768
Water and Sewer Fund	7,856,571	-	-	1,324,236
Non-major Enterprise Funds	-	804,576	-	3,000
	<u>\$ 7,856,571</u>	<u>\$ 7,856,571</u>	<u>\$ 1,436,004</u>	<u>\$ 1,436,004</u>

The Water and Sewer Fund interfund receivable is a temporary cash overdraft for the Capital Projects Fund and Non-major Enterprise Funds. The interfund transfer to the General Fund from the HUD 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.

**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, 2008	Increases	Decreases	Transfers	Balance September 30, 2009
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 11,957,972	\$ 41,411	\$ -	\$ -	\$ 11,999,383
Construction in progress	12,560,230	9,953,391	-	(18,476,610)	4,037,011
Total capital assets not being depreciated	<u>24,518,202</u>	<u>9,994,802</u>	<u>-</u>	<u>(18,476,610)</u>	<u>16,036,394</u>
Capital assets being depreciated:					
Buildings	5,147,165	-	-	17,622,787	22,769,952
Improvements	84,920,618	551,810	-	853,823	86,326,251
Equipment and furniture	13,668,946	939,622	-	-	14,608,568
Total capital assets being depreciated	103,736,729	1,491,432	-	18,476,610	123,704,771
Less accumulated depreciation	<u>41,801,096</u>	<u>3,725,248</u>	<u>-</u>	<u>-</u>	<u>45,526,344</u>
Total capital assets being depreciated, net	<u>61,935,633</u>	<u>(2,233,816)</u>	<u>-</u>	<u>18,476,610</u>	<u>78,178,427</u>
Governmental activities capital assets, net	<u>\$ 86,453,835</u>	<u>\$ 7,760,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,214,821</u>

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

General and administrative	\$ 435,254
Public safety	1,158,325
Public works	2,011,014
Community development and recreation	<u>120,655</u>
Total depreciation expense - governmental activities	<u>\$ 3,725,248</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, 2008	Increases	Decreases	Balance September 30, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,596,261	\$ -	\$ -	\$ 3,596,261
Construction in progress	-	1,945,797		1,945,797
Total capital assets not being depreciated	<u>3,596,261</u>	<u>1,945,797</u>	<u>-</u>	<u>5,542,058</u>
Capital assets being depreciated:				
Plants and buildings	4,867,634	-	-	4,867,634
Improvements	53,648,883	1,318,205	-	54,967,088
Runways and taxiways	2,796,087	-	-	2,796,087
Other structures	936,717	-	-	936,717
Machinery and equipment	2,658,003	-	-	2,658,003
Total capital assets being depreciated	<u>64,907,324</u>	<u>1,318,205</u>	<u>-</u>	<u>66,225,529</u>
Less accumulated depreciation	<u>26,623,633</u>	<u>1,430,524</u>	<u>-</u>	<u>28,054,157</u>
Total capital assets being depreciated, net	<u>38,283,691</u>	<u>(112,319)</u>	<u>-</u>	<u>38,171,372</u>
Business-type activities capital assets, net	<u>\$ 41,879,952</u>	<u>\$ 1,833,478</u>	<u>\$ -</u>	<u>\$ 43,713,430</u>

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

Water and sewer	\$ 1,330,348
Airport	22,930
Golf	<u>77,246</u>
 Total depreciation expense - business-type activities	 <u>\$ 1,430,524</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, 2008	Increases	Decreases	Balance September 30, 2009
Lancaster Economic Development Corporation: Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	Balance September 30, 2008	Increases	Decreases	Balance September 30, 2009
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 amd furniture	379,259	5,040	-	384,299
Total capital assets being depreciated	20,142,428	5,040	-	20,147,468
Less accumulated depreciation	<u>5,706,820</u>	<u>787,105</u>	<u>-</u>	<u>6,493,925</u>
Total capital assets being depreciated, net	<u>14,435,608</u>	<u>(782,065)</u>	<u>-</u>	<u>13,653,543</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 15,424,726</u>	<u>\$ (782,065)</u>	<u>\$ -</u>	<u>\$ 14,642,661</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, 2008	Additions	Retirements	Balance September 30, 2009	Due Within One Year
Governmental activities					
General obligation bonds	\$ 30,811,531	\$ -	\$ (630,000)	\$ 30,181,531	\$ 735,000
Certificates of obligation	14,060,000	-	(350,000)	13,710,000	365,000
Premiums on bond debt	319,156	-	(13,605)	305,551	-
Deferred loss on refunding	(879,141)	-	55,664	(823,477)	-
Compensated absences	1,280,563	322,485	(273,858)	1,329,190	369,572
OPEB liability	-	68,395	(45,075)	23,320	-
Capital leases	638,907	265,987	(189,697)	715,197	240,269
Total governmental activities	\$ 46,231,016	\$ 656,867	\$ (1,446,571)	\$ 45,441,312	\$ 1,709,841
Business-type activities					
General obligation bonds	\$ 6,648,471	\$ -	\$ (495,000)	\$ 6,153,471	\$ 505,000
Notes payable	928,941	-	(511,585)	417,356	264,889
Certificates of obligation	2,970,000	-	(200,000)	2,770,000	200,000
Premiums on bond debt	267,024	-	(28,377)	238,647	-
Deferred loss on refunding	(94,197)	-	9,153	(85,044)	-
Revenue bonds	600,000	-	(70,000)	530,000	80,000
Compensated absences	65,131	14,495	(15,228)	64,398	23,085
Capital leases	658,810	-	(206,265)	452,545	221,289
Total business-type activities	\$ 12,044,180	\$ 14,495	\$ (1,517,302)	\$ 10,541,373	\$ 1,294,263
Discretely presented component units					
Notes payable to primary government	\$ 13,595,000	\$ -	\$ (585,000)	\$ 13,010,000	\$ 605,000
Total discretely presented component units	\$ 13,595,000	\$ -	\$ (585,000)	\$ 13,010,000	\$ 605,000

General long-term debt consists of capital leases, liabilities for accrued vacation leave, 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, notes payable, and capital leases outstanding at September 30, 2009, consist of the following:

	<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, 2024, 3.00% - 4.50%	\$ 12,351,531	\$ 371,191	\$ 77,280	\$ 12,800,002
\$24,300,000 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	<u>17,830,000</u>	<u>5,625,000</u>	<u>80,000</u>	<u>23,535,000</u>
	<u>\$ 30,181,531</u>	<u>\$ 5,996,191</u>	<u>\$ 157,280</u>	<u>\$ 36,335,002</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>\$ 530,000</u>	<u>\$ -</u>	<u>\$ 530,000</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%	\$ 2,535,000	\$ -	\$ -	\$ 2,535,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	<u>11,175,000</u>	<u>2,770,000</u>	<u>-</u>	<u>13,945,000</u>
	<u>\$ 13,710,000</u>	<u>\$ 2,770,000</u>	<u>\$ -</u>	<u>\$ 16,480,000</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%	\$ -	\$ -	\$ -	\$ -	\$ 10,130,000
\$3,035,000 note payable, due in annual installments through February 15, 2032 4.00% - 4.375%	-	-	-	-	2,880,000
\$812,500 note payable, due in quarterly installments through November 15, 2010 - 6.5%	-	-	312,500	312,500	-
\$116,441 note payable, due in monthly installments through July 1, 2015 - 7.5%	-	-	104,856	104,856	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417,356</u>	<u>\$ 417,356</u>	<u>\$ 13,010,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011, 4.35% - 5.00%	\$ -	\$ 435,000	\$ -	\$ 435,000	\$ -
\$500,000 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	283,753	17,545	-	301,298	-
\$260,128 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	165,457	-	-	165,457	-
\$265,987 Lease Purchase Agreement, due in annual installments through September 30, 2015, 5.00%	265,987	-	-	265,987	-
	<u>\$ 715,197</u>	<u>\$ 452,545</u>	<u>\$ -</u>	<u>\$ 1,167,742</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 one capital lease agreement in the current year, totaling \$265,987. The lease was for the acquisition of telephone equipment.

As of September 30, 2009, property and equipment under capital leases is carried at \$1,026,117, with \$246,674 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, 2009 are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 735,000	\$ 1,325,504	\$ 2,060,504	\$ 505,000	\$ 273,235	\$ 778,235
2011	825,000	1,297,453	2,122,453	535,000	252,435	787,435
2012	860,000	1,266,494	2,126,494	555,000	230,635	785,635
2013	950,000	1,232,599	2,182,599	580,000	207,935	787,935
2014	1,030,000	1,192,339	2,222,339	605,000	181,210	786,210
2015-2019	6,768,895	5,158,059	11,926,954	3,076,105	391,356	3,467,461
2020-2024	9,722,636	3,339,266	13,061,902	297,366	34,929	332,295
2025-2029	5,390,000	1,559,850	6,949,850	-	-	-
2030-2032	3,900,000	274,620	4,174,620	-	-	-
Total	\$ 30,181,531	\$ 16,646,184	\$ 46,827,715	\$ 6,153,471	\$ 1,571,735	\$ 7,725,206

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 365,000	\$ 575,591	\$ 940,591	\$ 200,000	\$ 109,906	\$ 309,906
2011	380,000	560,854	940,854	210,000	101,706	311,706
2012	445,000	543,991	988,991	220,000	93,106	313,106
2013	480,000	525,110	1,005,110	230,000	84,106	314,106
2014	520,000	505,076	1,025,076	240,000	74,706	314,706
2015-2019	3,240,000	2,158,960	5,398,960	540,000	296,930	836,930
2020-2024	3,730,000	1,416,731	5,146,731	660,000	175,391	835,391
2025-2029	2,975,000	671,365	3,646,365	470,000	31,499	501,499
2030-2032	1,575,000	110,975	1,685,975	-	-	-
Total	\$ 13,710,000	\$ 7,068,653	\$ 20,778,653	\$ 2,770,000	\$ 967,350	\$ 3,737,350

Note Payable						
Fiscal Year	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 264,889	\$ 18,882	\$ 283,771	\$ 605,000	\$ 528,600	\$ 1,133,600
2011	80,008	5,678	85,686	630,000	507,049	1,137,049
2012	18,588	3,660	22,248	650,000	484,190	1,134,190
2013	19,734	2,514	22,248	685,000	459,795	1,144,795
2014	20,951	1,297	22,248	715,000	433,360	1,148,360
2015-2019	13,186	97	13,283	4,035,000	1,703,348	5,738,348
2020-2024	-	-	-	5,045,000	723,881	5,768,881
2025-2029	-	-	-	645,000	43,203	688,203
Total	\$ 417,356	\$ 32,128	\$ 449,484	\$ 13,010,000	\$ 4,883,426	\$ 17,893,426

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

Revenue Bonds			
Fiscal Year	Business-type Activities		
	Principal	Interest	Total
2010	\$ 80,000	\$ 29,015	\$ 109,015
2011	80,000	24,775	104,775
2012	85,000	20,455	105,455
2013	90,000	15,823	105,823
2014	95,000	10,872	105,872
2015-2019	100,000	5,600	105,600
Total	<u>\$ 530,000</u>	<u>\$ 106,540</u>	<u>\$ 636,540</u>

Fiscal Year	Governmental Activities			Capital Leases		
	Principal	Interest	Total	Business-type Activities		
				Principal	Interest	Total
2010	\$ 240,269	\$ 25,163	\$ 265,432	\$ 220,815	\$ 22,934	\$ 243,749
2011	228,406	14,647	243,053	206,069	26,043	232,112
2012	114,785	5,864	120,649	25,661	277	25,938
2013	43,730	549	44,279	-	-	-
2014	43,912	367	44,279	-	-	-
2015	44,095	184	44,279	-	-	-
Total	<u>\$ 715,197</u>	<u>\$ 46,774</u>	<u>\$ 761,971</u>	<u>\$ 452,545</u>	<u>\$ 49,254</u>	<u>\$ 501,799</u>

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 833 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 833 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2008, valuations are contained in the 2008 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P.O. Box 149153, Austin, Texas 78714-9153.

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.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Plan Description – Continued

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

Members can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. 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 (as of December 2008 and 2007):

	12/31/08	12/31/07
Deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	
	100% Repeating	100% Repeating
Updated service credit	Transfer	Transfer
	70% of CPI	70% of CPI
Annuity increase (to retirees)	Repeating	Repeating

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Contributions – Continued

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2007 valuation is effective for the rates beginning January 2009)

Annual Pension Cost

Contributions by the City were \$1,727,903, or 11.91% of the covered payroll of \$14,507,867 as required by the actuarial valuation. The total fiscal year 2009 payroll was \$14,023,246.

Annual City pension cost and related information for the last three years is as follows:

<u>Actuarial Information</u>	12/31/08	12/31/07	12/31/06
	Project Unit	Project Unit	Unit Credit
Actuarial cost method	Credit	Credit	Level %
Amortization method	Level %	Level %	Level %
	29 years-closed period	30 years-closed period	25 years-open period
Amortization period	Amortized cost	Amortized cost	Amortized cost
Asset valuation method			
Assumptions			
Investment return	7.5%	7.0%	7.0%
	varies by age and services	varies by age and services	None
Projected salary increases	3.0%	3.0%	3.5%
Inflation	2.1%	2.1%	None
Cost-of-living adjustment			
City specific assumptions			
Payroll growth assumption	3.0%	3.0%	5.0%
Withdrawal rates for Male/Female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid/High
 <u>Schedule of Funding Information</u>			
	12/31/08	12/31/07	12/31/06
Actuarial valuation date			
Actuarial Value of Assets	\$ 26,431,828	\$ 26,735,438	\$ 25,073,831
Actuarial Accrued Liability	\$ 42,814,837	\$ 42,017,867	\$ 33,586,441
Unfunded (Over-funded) Actuarial			
Accrued Liability (UAAL)	\$ 16,383,009	\$ 15,282,429	\$ 8,512,610
Funded ratio	61.7%	63.6%	74.7%
Annual Covered Payroll	\$ 14,507,867	\$ 13,260,730	\$ 11,817,666
UAAL as a Percentage of Covered Payroll	112.9%	115.2%	72.0%

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Annual Pension Cost – Continued

The City’s net pension obligation (NPO) for TMRS at December 31, 2008, 2007 and 2006 is calculated as follows:

	December 31,		
	2008	2007	2006
Actuarial valuation date:			
NPO, beginning of the year	\$ -	\$ -	\$ -
Annual pension cost:			
Annual required contribution (ARC)	1,727,903	1,481,222	1,357,201
Contributions Made	(1,727,903)	(1,481,222)	(1,357,201)
NPO, end of the year	\$ -	\$ -	\$ -

Supplemental Death Benefit Fund

The City contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined annually, and the rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you go basis; any excess contributions and investment income over payments then become net assets available for postemployment benefits other than pension benefits (OPEB). The City’s contributions to SDBF for the fiscal years ended September 30, 2009, 2008 and 2007, were \$73,918, \$111,113, and \$71,856, respectively, which equaled the required contributions each year.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Supplemental Death Benefit Fund – Continued

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary. The death benefit for retirees is considered an OPEB and is fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the Pension Trust Fund.

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City provides post-employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Benefits Provided

The City provides post-employment medical and dental care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. To be eligible for coverage an employee must qualify under all three of the following:

1. The retiree must have been covered for medical benefits under the City Health Plan as an employee immediately prior to termination of employment.
2. Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than ninety days from termination of employment; and
3. Enroll for retiree Health coverage within thirty-one days of the date of termination.

As of September 30, 2009, membership consisted of:

Retires and beneficiaries receiving benefits	7
Active employees	<u>275</u>
Total	<u><u>282</u></u>

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

NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Funding Policy

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving medical benefits contribute \$530 per month for retiree-only coverage, \$760 per month for retiree and spouse and \$820 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

Annual OPEB Costs

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2009:

	2009
Annual required contribution	\$ 68,395
Interest on prior year Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	68,395
Contributions made	(45,075)
Increase in net OPEB obligation	23,320
Net Obligation - beginning of year	-
Net Obligation - end of year	\$ 23,320
Percentage of OPEB costs contributed	65.90%

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

NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2008 was as follows:

Actuarial accrued liability	\$	498,266
Actuarial value of plan assets		-
		-
Unfunded actuarial accrued liability	\$	498,266
Funded ratio		0.0%
Covered payroll		14,507,867
Unfunded actuarial accrued liability as a percentage of covered payroll		3.43%

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. The rate of inflation is assumed to be 3%.

NOTE 9. 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 9. 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, 2009 was \$3,351,989. 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, 2009.

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, 2009 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 10. 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 11. 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	\$ 282,497
HUD Fund	Social and welfare	885,676

NOTE 12. DEFICIT FUND BALANCE FOR CAPITAL PROJECTS

A deficit undesignated fund balance of \$8,485,282 exists in the Capital Projects Fund. The deficit results from the unfunded projects approved by the City. In March of fiscal year 2010, the City sold bonds to eliminate the deficit.

NOTE 13. SUBSEQUENT EVENTS

On March 15, 2010, the City sold \$22,995,000 General Obligation Build America Bonds and \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue, Certificates of Obligation Build America Bonds. The American Recovery and Reinvestment Act of 2009 authorizes the City to issue taxable obligations to finance capital expenditures that could be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable obligations. The City will issue all of the Bonds as obligations that are not obligations described in section 103(a) of the Internal Revenue Code and the interest on which is not excludable from gross income for federal income tax purposes. The City will deposit the subsidy payments for the Bonds into a special subaccount within the interest and sinking fund for the Bonds to be used to reduce the amount of regularly scheduled debt service payments on the Bonds; provided, however, that such subsidy payments are not pledged as security to pay debt service on the Bonds. No holders of Bonds are entitled to such subsidy payment or to receive a tax credit with respect to the Bonds.



Lancaster

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a percentage of Covered Payroll
	[1]	[2]	[3] [1] / [2]	[4] [2] - [1]	[5]	[6] [4] / [5]
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%
12/31/2008	26,431,828	42,814,837	61.7%	16,383,009	14,507,867	112.9%

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS PLAN
ANALYSIS OF FUNDING PROGRESS
(UNAUDITED)
SEPTEMBER 30, 2009**

Fiscal Year	Actuarial Value of Assets [1]	Actuarial Accrued Liability (AAL) [2]	Funded Ratio [3]	Unfunded AAL (UAAL) [4]	Covered Payroll [5]	UAAL as a percentage of Covered Payroll [6]
			[1] / [2]	[2] - [1]		[4] / [5]
2008	N/A	N/A	N/A	N/A	N/A	N/A
2009	-	\$ 498,266	0.0%	\$ 498,266	\$ 14,507,867	3.4%

CITY OF LANCASTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and fees	\$ 16,735,624	\$ 16,785,170	\$ 16,660,858	\$ (124,312)
Licenses and permits	726,608	726,608	495,859	(230,749)
Intergovernmental	-	10,000	223,944	213,944
Charges for services	464,300	464,300	517,691	53,391
Fines and forfeits	1,212,332	1,212,332	998,405	(213,927)
Interest	-	-	15,629	15,629
Miscellaneous	260,553	260,553	628,222	367,669
Total revenues	19,399,417	19,458,963	19,540,608	81,645
Expenditures:				
Current:				
General government	3,006,282	3,010,449	3,292,946	(282,497)
Public safety	13,487,770	13,483,556	13,071,145	412,411
Public works	2,410,691	2,410,615	2,088,899	321,716
Community development and recreation	1,280,420	1,804,683	1,213,686	590,997
Capital outlay	-	142,000	79,260	62,740
Total expenditures	20,185,163	20,851,303	19,745,936	1,105,367
Excess (deficiency) of revenues over expenditures	<u>(785,746)</u>	<u>(1,392,340)</u>	<u>(205,328)</u>	<u>1,187,012</u>
Other financing sources:				
Operating transfers in	<u>1,428,916</u>	<u>1,428,916</u>	<u>1,436,004</u>	<u>7,088</u>
Total other financing sources	1,428,916	1,428,916	1,436,004	7,088
Net change in fund balances	643,170	36,576	1,230,676	1,194,100
Fund balances - beginning of year	<u>2,677,652</u>	<u>2,677,652</u>	<u>2,677,652</u>	<u>-</u>
Fund balances - end of year	<u><u>\$ 3,320,822</u></u>	<u><u>\$ 2,714,228</u></u>	<u><u>\$ 3,908,328</u></u>	<u><u>\$ 1,194,100</u></u>

CITY OF LANCASTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
HUD FUND
YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 7,744,346	\$ 8,738,100	\$ 8,277,191	\$ (460,909)
Interest	-	-	6,251	6,251
Miscellaneous	-	-	173,224	173,224
Total revenues	7,744,346	8,738,100	8,456,666	(281,434)
Expenditures:				
Social and welfare	7,617,979	7,610,759	8,496,435	(885,676)
Total expenditures	7,617,979	7,610,759	8,496,435	(885,676)
Excess (deficiency) of revenues over expenditures	126,367	1,127,341	(39,769)	(1,167,110)
Other financing uses:				
Operating transfers out	-	(62,000)	(62,000)	-
Total other financing uses	-	(62,000)	(62,000)	-
Net change in fund balances	126,367	1,065,341	(101,769)	(1,167,110)
Fund balances - beginning of year	985,847	985,847	985,847	-
Fund balances - end of year	<u>\$ 1,112,214</u>	<u>\$ 2,051,188</u>	<u>\$ 884,078</u>	<u>\$ (1,167,110)</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, 2009:

Fund	Department	Excess Expenditures over Appropriations
General Fund	General government	\$ 282,497
HUD Fund	Social and welfare	885,676

**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, 2009**

	<u>Stormwater Drainage Fund</u>	<u>Public Improvement Districts Fund</u>	<u>Police State Seized Fund</u>	<u>Police Federal Seized Fund</u>	<u>Hotel/ Motel Fund</u>	<u>Emergency 911 Fund</u>	<u>Total Non-major Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ 124,741	\$ 12,156	\$ 15,180	\$ 12,164	\$ 210,530	\$ 408,983	\$ 783,754
Receivables (net of allowance for uncollectibles):							
Delinquent taxes	-	2,717	-	-	-	-	2,717
Accounts receivable	185,342	-	-	-	15,005	4,012	204,359
TOTAL ASSETS	<u>\$ 310,083</u>	<u>\$ 14,873</u>	<u>\$ 15,180</u>	<u>\$ 12,164</u>	<u>\$ 225,535</u>	<u>\$ 412,995</u>	<u>\$ 990,830</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts and contracts payable	\$ 40,102	\$ 1,594	\$ 1,233	\$ -	\$ -	\$ 27,432	\$ 70,361
Accrued liabilities	25,456	-	-	-	-	20,748	46,204
Deferred revenue	-	2,397	-	-	-	-	2,397
Total liabilities	<u>65,558</u>	<u>3,991</u>	<u>1,233</u>	<u>-</u>	<u>-</u>	<u>48,180</u>	<u>118,962</u>
Fund balances:							
Unreserved, undesignated	244,525	10,882	13,947	12,164	225,535	364,815	871,868
Total fund balances	<u>244,525</u>	<u>10,882</u>	<u>13,947</u>	<u>12,164</u>	<u>225,535</u>	<u>364,815</u>	<u>871,868</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 310,083</u>	<u>\$ 14,873</u>	<u>\$ 15,180</u>	<u>\$ 12,164</u>	<u>\$ 225,535</u>	<u>\$ 412,995</u>	<u>\$ 990,830</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, 2009**

	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
Revenues:							
Taxes and fees	\$ 897,124	\$ 114,384	\$ -	\$ -	\$ 112,890	\$ -	\$ 1,124,398
Licenses and permits	-	-	-	-	-	250,178	250,178
Miscellaneous	885	-	29,824	-	1,994	-	32,703
Interest	920	76	50	15	367	1,089	2,517
Total revenues	<u>898,929</u>	<u>114,460</u>	<u>29,874</u>	<u>15</u>	<u>115,251</u>	<u>251,267</u>	<u>1,409,796</u>
Expenditures:							
Current:							
General government	3,485	-	-	-	-	-	3,485
Public safety	-	-	33,602	8,858	7,801	140,800	191,061
Public works	798,424	-	-	-	-	-	798,424
Community development and recreation	-	119,034	-	-	40,000	-	159,034
Capital outlay	-	-	-	-	-	874,608	874,608
Debt service:							
Principal retirement	25,000	-	-	-	-	-	25,000
Interest and fiscal charges	26,038	-	-	-	-	-	26,038
Total expenditures	<u>852,947</u>	<u>119,034</u>	<u>33,602</u>	<u>8,858</u>	<u>47,801</u>	<u>1,015,408</u>	<u>2,077,650</u>
Excess (deficiency) of revenues over expenditures	<u>45,982</u>	<u>(4,574)</u>	<u>(3,728)</u>	<u>(8,843)</u>	<u>67,450</u>	<u>(764,141)</u>	<u>(667,854)</u>
Other financing sources (uses):							
Operating transfers out	(39,680)	-	(7,088)	-	-	-	(46,768)
Proceeds from capital lease	-	-	-	-	-	265,987	265,987
Total other financing sources (uses)	<u>(39,680)</u>	<u>-</u>	<u>(7,088)</u>	<u>-</u>	<u>-</u>	<u>265,987</u>	<u>219,219</u>
Net change in fund balances	6,302	(4,574)	(10,816)	(8,843)	67,450	(498,154)	(448,635)
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 244,525</u>	<u>\$ 10,882</u>	<u>\$ 13,947</u>	<u>\$ 12,164</u>	<u>\$ 225,535</u>	<u>\$ 364,815</u>	<u>\$ 871,868</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, 2009**

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and fees	\$ 915,000	\$ 915,000	\$ 897,124	\$ (17,876)
Miscellaneous	-	-	885	885
Interest	-	-	920	920
Total revenues	<u>915,000</u>	<u>915,000</u>	<u>898,929</u>	<u>(16,071)</u>
Expenditures:				
Current:				
General government	-	4,800	3,485	1,315
Public works	1,122,938	1,122,938	798,424	324,514
Debt service:				
Principal retirement	-	51,013	25,000	26,013
Interest and fiscal charges	-	-	26,038	(26,038)
Total expenditures	<u>1,122,938</u>	<u>1,178,751</u>	<u>852,947</u>	<u>325,804</u>
Excess (deficiency) of revenues over expenditures	<u>(207,938)</u>	<u>(263,751)</u>	<u>45,982</u>	<u>309,733</u>
Other financing uses:				
Operating transfers out	<u>(39,680)</u>	<u>(39,680)</u>	<u>(39,680)</u>	<u>-</u>
Total other financing uses	<u>(39,680)</u>	<u>(39,680)</u>	<u>(39,680)</u>	<u>-</u>
Fund balances, beginning of year	<u>238,223</u>	<u>238,223</u>	<u>238,223</u>	<u>-</u>
Fund balances, end of year	<u>\$ (9,395)</u>	<u>\$ (65,208)</u>	<u>\$ 244,525</u>	<u>\$ 309,733</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, 2009**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 123,465	\$ 121,554	\$ 245,019
Receivables (net of allowance for uncollectibles):				
Accounts	2,080	-	130,146	132,226
Unbilled	-	-	60,054	60,054
Inventory	56,709	-	-	56,709
Deferred bond issuance costs	3,290	-	-	3,290
Capital assets:				
Non-depreciable	3,161,146	349,554	-	3,510,700
Depreciable (net of accumulated depreciation)	<u>822,018</u>	<u>2,181,397</u>	<u>-</u>	<u>3,003,415</u>
TOTAL ASSETS	<u>4,045,243</u>	<u>2,654,416</u>	<u>311,754</u>	<u>7,011,413</u>
LIABILITIES				
Current liabilities:				
Accounts and contracts payable	41,032	8,674	219,989	269,695
Accrued liabilities	10,128	330	2,814	13,272
Due to other funds	804,576	-	-	804,576
Accrued interest	2,470	-	-	2,470
Noncurrent liabilities:				
Due in one year	274,889	-	243	275,132
Due in more than one year	<u>300,999</u>	<u>-</u>	<u>728</u>	<u>301,727</u>
TOTAL LIABILITIES	<u>1,434,094</u>	<u>9,004</u>	<u>223,774</u>	<u>1,666,872</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,824,632	2,530,951	-	6,355,583
Unrestricted	<u>(1,213,483)</u>	<u>114,461</u>	<u>87,980</u>	<u>(1,011,042)</u>
TOTAL NET ASSETS	<u>\$ 2,611,149</u>	<u>\$ 2,645,412</u>	<u>\$ 87,980</u>	<u>\$ 5,344,541</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2009**

	<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	\$ 541,019	\$ 80,749	1,465,835	\$ 2,087,603
Intergovernmental	30,695	-	-	30,695
Total operating revenues	<u>571,714</u>	<u>80,749</u>	<u>1,465,835</u>	<u>2,118,298</u>
OPERATING EXPENSES:				
Personnel services	154,695	-	3,087	157,782
Maintenance	141,194	39,058	-	180,252
Materials and supplies	306,250	-	-	306,250
Heat, light, and power	34,900	7,118	-	42,018
Depreciation and amortization	22,516	77,246	-	99,762
Benefit payments	34,947	-	690	35,637
Special services	171,319	11,854	1,243,950	1,427,123
Equipment rental	27,393	-	-	27,393
Total operating expenses	<u>893,214</u>	<u>135,276</u>	<u>1,247,727</u>	<u>2,276,217</u>
OPERATING INCOME (LOSS)	<u>(321,500)</u>	<u>(54,527)</u>	<u>218,108</u>	<u>(157,919)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	11	225	32	268
Interest and fiscal charges	(30,709)	-	-	(30,709)
Other nonoperating revenue	22,184	-	-	22,184
Total nonoperating revenues (expenses)	<u>(8,514)</u>	<u>225</u>	<u>32</u>	<u>(8,257)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(330,014)</u>	<u>(54,302)</u>	<u>218,140</u>	<u>(166,176)</u>
Transfers out	-	(3,000)	-	(3,000)
CHANGE IN NET ASSETS	<u>(330,014)</u>	<u>(57,302)</u>	<u>218,140</u>	<u>(169,176)</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>2,941,163</u>	<u>2,702,714</u>	<u>(130,160)</u>	<u>5,513,717</u>
NET ASSETS, END OF YEAR	<u>\$ 2,611,149</u>	<u>\$ 2,645,412</u>	<u>\$ 87,980</u>	<u>\$ 5,344,541</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2009**

	<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	\$ 696,560	\$ 80,749	\$ 1,408,660	\$ 2,185,969
Payments to employees	(189,642)	-	(3,777)	(193,419)
Payments to suppliers	(7,338)	(60,394)	(1,283,361)	(1,351,093)
Net cash provided by operating activities	<u>499,580</u>	<u>20,355</u>	<u>121,522</u>	<u>641,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal payments on note payable	(511,585)	-	-	(511,585)
Principal payments on debt	(10,000)	-	-	(10,000)
Interest payments	(33,452)	-	-	(33,452)
Net cash used for capital and related financing activities	<u>(555,037)</u>	<u>-</u>	<u>-</u>	<u>(555,037)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out to other funds	-	(3,000)	-	(3,000)
Proceeds from other nonoperating revenue	22,184	-	-	22,184
Net cash provided by (used for) noncapital financing activities	<u>22,184</u>	<u>(3,000)</u>	<u>-</u>	<u>19,184</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	11	225	32	268
Net cash provided by investing activities	<u>11</u>	<u>225</u>	<u>32</u>	<u>268</u>
Net increase (decrease) in cash and cash equivalents	(33,262)	17,580	121,554	105,872
Cash and cash equivalents, beginning of year	33,262	105,885	-	139,147
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 123,465</u>	<u>\$ 121,554</u>	<u>\$ 245,019</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating gain (loss)	\$ (321,500)	\$ (54,527)	\$ 218,108	\$ (157,919)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	22,516	77,246	-	99,762
Change in assets and liabilities:				
Accounts receivable	124,846	-	(57,175)	67,671
Due from other funds	623,691	-	(65,987)	557,704
Inventory	52,378	-	-	52,378
Accounts and contract payable	(2,830)	(2,364)	22,791	17,597
Accrued liabilities	479	-	2,814	3,293
Compensated absences	-	-	971	971
Net cash provided by operating activities	<u>\$ 499,580</u>	<u>\$ 20,355</u>	<u>\$ 121,522</u>	<u>\$ 641,457</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, 2009**

ASSETS

Cash and cash equivalents	\$ 1,970,577
Sales tax receivable	<u>130,715</u>
Total assets	<u><u>\$ 2,101,292</u></u>

LIABILITIES

Accounts payable	\$ 2,942
Accrued liabilities	<u>8,667</u>
Total liabilities	<u>11,609</u>

FUND BALANCE

Unreserved and undesignated	<u>2,089,683</u>
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TOTAL FUND BALANCE

2,089,683

TOTAL LIABILITIES AND FUND BALANCE

\$ 2,101,292

**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS – ECONOMIC
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2009**

Total fund balance-governmental funds	\$ 2,089,683
Amounts reported for governmental activities in the statement of net assets are different because:	
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.	(14,931)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	100,378
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(2,880,000)</u>
Total net deficit - governmental activities	<u><u>\$ (704,870)</u></u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ECONOMIC
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

REVENUES:

Taxes and fees	\$ 776,342
Interest	<u>2,462</u>

Total revenues	<u>778,804</u>
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EXPENDITURES:

Cultural and recreation	1,601,979
Debt service:	
Principal retirement	105,000
Interest and fiscal charges	<u>121,550</u>

Total expenditures	<u>1,828,529</u>
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Deficiency of revenues under expenditures	(1,049,725)
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FUND BALANCE, BEGINNING OF YEAR	<u>3,139,408</u>
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FUND BALANCE, END OF YEAR	<u><u>\$ 2,089,683</u></u>
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**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AN CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES – ECONOMIC
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Net change in fund balances- total governmental funds	\$ (1,049,725)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<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>	105,000
<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>	<u>525</u>
Change in net deficit of governmental activities	<u><u>\$ (944,200)</u></u>

**CITY OF LANCASTER, TEXAS
BALANCE SHEET- RECREATIONAL
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2009**

ASSETS

Receivables:

Sales tax	\$ 261,429
Accounts	<u>19,691</u>

Total assets	\$ <u><u>281,120</u></u>
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LIABILITIES

Accounts payable	\$ 32,798
Accrued liabilities	53,747
Due to primary government	<u>88,094</u>

Total liabilities	<u>174,639</u>
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FUND BALANCE

Unreserved:	
Unreserved and undesignated	<u>106,481</u>

Total fund balance	<u>106,481</u>
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TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>281,120</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
SEPTEMBER 30, 2009**

Total fund balance-governmental funds	\$ 106,481
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.	14,642,661
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.	(52,440)
Long-term liabilities 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 a note payable.	<u>(10,130,000)</u>
Total net assets - governmental activities	<u><u>\$ 4,566,702</u></u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE—RECREATIONAL
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

REVENUES:

Taxes and fees	\$ 1,552,684
Charges for services	446,533
Intergovernmental	5,337
Miscellaneous	36,933
Interest	<u>1,612</u>
 Total revenues	 <u>2,043,099</u>

EXPENDITURES:

Cultural and recreation	1,952,679
Capital outlay	5,040
Debt service:	
Principal retirement	480,000
Interest and fiscal charges	<u>426,958</u>
 Total expenditures	 <u>2,864,677</u>

Deficiency of revenues under expenditures	(821,578)
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FUND BALANCE, BEGINNING OF YEAR	<u>928,059</u>
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FUND BALANCE, END OF YEAR	<u><u>\$ 106,481</u></u>
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**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES –
RECREATIONAL DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Net change in fund balances- total governmental funds	\$	(821,578)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the amount of capital outlay recorded as capital assets in the current period.</p>		5,040
<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>		(787,105)
<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>		480,000
<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>		1,860
		1,860
Change in net assets of governmental activities	\$	(1,121,783)