

# **City of Lancaster, Texas**

Annual Financial Report and Independent Accountants' Report

September 30, 2011

# City of Lancaster, Texas

September 30, 2011

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Honorable Mayor and  
Members of the City Council  
City of Lancaster, Texas  
Lancaster, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas (the City) as of and for the year ended September 30, 2011, 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1 – New Pronouncements*, in 2011, the City changed its method of accounting for fund balances under Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and  
Members of the City Council  
City of Lancaster, Texas  
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The accompanying management's discussion and analysis, budgetary, pension and other post employment benefits information as listed in the table of contents 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

March 27, 2012

# **City of Lancaster, Texas**

## **Management's Discussion and Analysis**

### **September 30, 2011**

#### ***Introduction***

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City of Lancaster, Texas (the City) for the fiscal year ended September 30, 2011. 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 2011, resulting in \$106,195,952 of net assets. Net assets associated with governmental activities are approximately \$57 million, or 53% of the total net assets of the City. Net assets associated with business-type activities are approximately \$49 million, or 47% 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 \$89 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$16.6 million, or 16% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$5 million, or 10% of total net assets for governmental activities; unrestricted net assets for business-type activities are approximately \$11 million, or 23% of total net assets for business-type activities.
- As of the close of fiscal year 2011, the City's Governmental Funds reported a combined ending fund balance of \$22,712,305, a decrease of \$3,022,991 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$4,554,413. This represents approximately 23% of General Fund expenditures, which is more than the 15% required by the City's adopted fund balance policy.

#### ***Overview of the Financial Statements***

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components (1) government-wide financial statements (2) fund financial statements and (3) notes to the financial statements. This report also contains other 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'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 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 10 – 11 of this report.*

**Fund Financial Statements** – A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Some funds are required to be established by state law and by bond covenants. The City Council also establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities when using certain taxes, grants, or other money. The City's two kinds of funds – Governmental and Proprietary – utilize different accounting approaches.

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

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 Nonmajor 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 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 these funds, 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-sector business enterprise.

*The Proprietary Fund financial statements can be found on pages 16 – 18 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 19 – 41 of this report.*

**Other Information** – In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligations. Required supplementary information immediately follows the notes to the financial statements. Combining statements for Nonmajor Governmental Funds, Enterprise Funds, and component units 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, 2011, City assets exceeded its liabilities by \$106,220,013.

The largest portion of the City’s net assets, 73%, 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, 21%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$6,945,731 or 6%, 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 2011	Business-type Activities 2011	Total 2011	Governmental Activities 2010	Business-type Activities 2010	Total 2010
Current and other assets	\$ 37,686,985	\$ 13,662,330	\$ 51,349,315	\$ 43,316,779	\$ 10,048,366	\$ 53,365,145
Capital assets	99,945,007	46,348,347	146,293,354	99,407,986	47,685,560	147,093,546
Total assets	<u>137,631,992</u>	<u>60,010,677</u>	<u>197,642,669</u>	<u>142,724,765</u>	<u>57,733,926</u>	<u>200,458,691</u>
Long-term liabilities	75,982,972	8,084,056	84,067,028	80,566,819	9,468,374	90,035,193
Other liabilities	4,858,232	2,521,457	7,379,689	4,054,757	1,726,401	5,781,158
Total liabilities	<u>80,841,204</u>	<u>10,605,513</u>	<u>91,446,717</u>	<u>84,621,576</u>	<u>11,194,775</u>	<u>95,816,351</u>
Net assets						
Invested in capital assets, net						
of related debt	50,606,700	38,270,127	88,876,827	51,819,877	38,435,110	90,254,987
Restricted	718,522	\$ -	718,522	222,762	6,167,456	6,390,218
Unrestricted	<u>5,465,566</u>	<u>11,135,037</u>	<u>16,600,603</u>	<u>6,060,550</u>	<u>1,936,585</u>	<u>7,997,135</u>
Total net assets	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>

**Analysis of City's Operations** – The following table provides a summary of the City's operations for the year ended September 30, 2011. Overall, the City had an increase in net assets of \$1,577,673.

## Revenues and Expenses for Governmental and Business-type Activities

	Governmental Activities 2011	Business-type Activities 2011	Total 2011	Governmental Activities 2010	Business-type Activities 2010	Total 2010
Revenues						
Program revenues						
Charges for services	\$ 2,656,324	\$ 14,416,910	\$ 17,073,234	\$ 3,198,615	\$ 13,372,728	\$ 16,571,343
Operating grant and contribution	8,765,448	50,089	8,815,537	8,817,871	382,600	9,200,471
Capital grants and contributions	1,740,834	-	1,740,834	1,866,380	565,364	2,431,744
General revenue						
Taxes and fees	20,919,755	-	20,919,755	18,566,343	-	18,566,343
Other	<u>1,221,524</u>	<u>93,171</u>	<u>1,314,695</u>	<u>1,410,397</u>	<u>40,060</u>	<u>1,450,457</u>
Total revenues	<u>35,303,885</u>	<u>14,560,170</u>	<u>49,864,055</u>	<u>33,859,606</u>	<u>14,360,752</u>	<u>48,220,358</u>
Program expenses						
General government	4,254,835	-	4,254,835	4,603,846	-	4,603,846
Public safety	14,333,669	-	14,333,669	14,829,005	-	14,829,005
Public works	4,832,457	-	4,832,457	5,678,976	-	5,678,976
Community development and recreation	1,048,563	-	1,048,563	1,317,628	-	1,317,628
Social and welfare	8,640,215	-	8,640,215	8,599,376	-	8,599,376
Interest and fiscal charges	2,837,440	-	2,837,440	2,880,768	-	2,880,768
Water and sewer	-	9,178,117	9,178,117	-	10,082,971	10,082,971
Refuse	-	2,196,791	2,196,791	-	1,769,530	1,769,530
Airport	-	905,354	905,354	-	810,211	810,211
Golf course	-	83,002	83,002	-	86,966	86,966
Total expenses	<u>35,947,179</u>	<u>12,363,264</u>	<u>48,310,443</u>	<u>37,909,599</u>	<u>12,749,678</u>	<u>50,659,277</u>
Increase (decrease in net assets)						
before transfers	(643,294)	2,196,906	1,553,612	(4,049,993)	1,611,074	(2,438,919)
Transfers	<u>(669,107)</u>	<u>669,107</u>	<u>-</u>	<u>2,381,236</u>	<u>(2,381,236)</u>	<u>-</u>
Change in net assets	<u>(1,312,401)</u>	<u>2,866,013</u>	<u>1,553,612</u>	<u>(1,668,757)</u>	<u>(770,162)</u>	<u>(2,438,919)</u>
Net assets, beginning	58,103,189	46,539,151	104,642,340	61,263,965	47,309,313	108,573,278
Prior period adjustment	-	-	-	(1,492,019)	-	(1,492,019)
Net assets, beginning of year, as restated	<u>58,103,189</u>	<u>46,539,151</u>	<u>104,642,340</u>	<u>59,771,946</u>	<u>47,309,313</u>	<u>107,081,259</u>
Net assets, ending of year	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>

## 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 of \$22,712,305, a decrease of \$3,022,991 from the prior year. This amount includes fund balance reserved for Debt Service of \$718,522, reserved for Public Improvement Districts of \$85,076, reserved for Capital Projects of \$15,286,477, reserved for Public Works, Grants, Law Enforcement Purposes, and Tourism of \$970,165. The net unassigned fund balance was \$4,554,413, a decrease of \$19,342,659 from prior year. The majority of the decrease was due to the implementation of GASB 54 and classification of fund balances.

In the General Fund, the original budget projected a \$179,355 decrease in fund balance this fiscal year; however the actual increase was \$796,833. Revenues generated from Taxes and Fees were \$353,918 over budget due to the improving economy and total expenditures were under budget by \$402,140, due to various implemented cost saving measures.

The HUD Fund has a total fund balance of \$1,097,652, an increase of \$137,387 from the prior year. The budget includes a planned reduction in administrative fees due to a shortfall of appropriation from the U.S. Department of Housing and Urban Development.

### 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 \$11,135,037. The total increase in net assets was \$2.9 million from the prior year.

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amount to \$146,293,354 (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	
	2010	2011	2010	2011	2010	2011
Land	\$ 12,337,857	\$ 13,214,268	\$ 4,879,781	\$ 4,879,781	\$ 17,217,638	\$ 18,094,049
Buildings	24,487,196	24,487,196	4,941,048	4,950,436	29,428,244	29,437,632
Equipment	15,425,946	15,612,515	2,803,307	2,803,307	18,229,253	18,415,822
Construction in progress	3,779,844	5,922,209	4,562,766	4,759,158	8,342,610	10,681,367
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	1,660,169	3,071,457	55,664,932	55,664,932	57,325,101	58,736,389
Streets and bridges	83,860,110	83,637,070	-	-	83,860,110	83,637,070
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways and taxiways	-	-	3,410,079	3,422,564	3,410,079	3,422,564
Accumulated depreciation	(49,462,755)	(53,319,327)	(29,527,975)	(31,083,453)	(78,990,730)	(84,402,780)
Total	\$ 99,407,986	\$ 99,945,007	\$ 47,685,560	\$ 46,348,347	\$ 147,093,546	\$ 146,293,354

**Long-term Debt** – At the end of the current fiscal year, the City had total bonds outstanding of \$84,425,002, with \$84,055,022 being tax supported. The City also has approximately \$420,000 of additional debt through notes payable and capital leases.

	Governmental Activities		Business-type Activities		Totals	
	2010	2011	2010	2011	2010	2011
General Obligation Bonds	\$ 52,441,531	\$ 51,616,531	\$ 5,648,471	\$ 5,113,471	\$ 58,090,002	\$ 56,730,002
Certificates of Obligation	25,345,000	24,965,000	2,570,000	2,360,000	27,915,000	27,325,000
Notes Payable	-	-	152,560	72,552	152,560	72,552
Revenues Bonds	-	-	450,000	370,000	450,000	370,000
Capital Leases	498,961	268,975	447,600	-	946,561	268,975
Total	<u>\$ 78,285,492</u>	<u>\$ 76,850,506</u>	<u>\$ 9,268,631</u>	<u>\$ 7,916,023</u>	<u>\$ 87,554,123</u>	<u>\$ 84,766,529</u>

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

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

In the fiscal year 2012 budget, General Fund revenues are budgeted to decrease by 3.0% from the 2011 budget year. This decrease is mostly attributed to a decrease in fines and forfeitures, and licenses and permits due to current economic conditions.

Property taxes make up about 46% of budgeted revenues and sales tax make up about 23% of budgeted revenues.

***Request for Information***

For additional information please contact Director of Finance, Sheree Haynes, at 972-218-1333 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email [shaynes@lancaster-tx.com](mailto:shaynes@lancaster-tx.com).

## **Basic Financial Statements**

**City of Lancaster, Texas**  
**Statement of Net Assets**  
**September 30, 2011**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
<b>Assets</b>					
Cash and cash equivalents	\$ 21,220,124	\$ 10,281,664	\$ 31,501,788	\$ 2,704,046	\$ 537,568
Receivables (net of allowance)					
Notes	11,775,000	-	11,775,000	-	-
Delinquent taxes	1,009,246	-	1,009,246	-	-
Accounts	867,052	1,912,008	2,779,060	-	-
Sales tax	941,524	-	941,524	188,305	362,889
Fines	211,258	-	211,258	-	-
Due from other governments	12,287	-	12,287	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid expenses	188,179	340,197	528,376	580	7,250
Inventory	5,834	64,306	70,140	-	-
Debt issuance costs	927,728	260,782	1,188,510	-	-
Restricted assets					
Cash and cash equivalents	-	803,373	803,373	-	-
Capital assets					
Land and construction in progress	19,136,477	9,638,939	28,775,416	100,378	989,118
Other capital assets, net of accumulated depreciation	<u>80,808,530</u>	<u>36,709,408</u>	<u>117,517,938</u>	<u>-</u>	<u>12,161,228</u>
Total assets	<u>137,631,992</u>	<u>60,010,677</u>	<u>197,642,669</u>	<u>2,993,309</u>	<u>14,058,053</u>
<b>Liabilities</b>					
Accounts payable and contracts payable	785,860	1,588,899	2,374,759	5,366	156,931
Accrued liabilities	324,359	75,551	399,910	1,620	73,484
Accrued interest	530,541	53,634	584,175	14,094	49,287
Due to primary government	-	-	-	-	528,753
Deposits	181,816	803,373	985,189	-	-
Noncurrent liabilities					
Due within one-year	3,035,656	891,863	3,927,519	120,000	530,000
Due in more than one-year	<u>75,982,972</u>	<u>7,192,193</u>	<u>83,175,165</u>	<u>2,535,000</u>	<u>8,590,000</u>
Total liabilities	<u>80,841,204</u>	<u>10,605,513</u>	<u>91,446,717</u>	<u>2,676,080</u>	<u>9,928,455</u>
<b>Net Assets</b>					
Invested in capital assets (net of related debt)	50,606,700	38,270,127	88,876,827	100,378	4,030,346
Restricted for					
Debt service	718,522	-	718,522	-	-
Unrestricted	<u>5,465,566</u>	<u>11,135,037</u>	<u>16,600,603</u>	<u>216,851</u>	<u>99,252</u>
Total net assets	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 317,229</u>	<u>\$ 4,129,598</u>

**City of Lancaster, Texas**  
**Statement of Activities**  
**Year Ended September 30, 2011**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/program				
Primary government				
Governmental activities				
General government	\$ 4,254,835	\$ -	\$ -	\$ -
Public safety	14,333,669	1,394,684	-	424,214
Public works	4,832,457	1,261,640	-	1,316,620
Community development and recreation	1,048,563	-	-	-
Social and welfare	8,640,215	-	8,765,448	-
Interest and fiscal charges	2,837,440	-	-	-
Total governmental activities	<u>35,947,179</u>	<u>2,656,324</u>	<u>8,765,448</u>	<u>1,740,834</u>
Business-type activities				
Water and sewer	9,178,117	11,480,609	-	-
Refuse	2,196,791	2,124,940	-	-
Airport	905,354	726,819	50,089	-
Golf course	83,002	84,542	-	-
Total business-type activities	<u>12,363,264</u>	<u>14,416,910</u>	<u>50,089</u>	<u>-</u>
Total primary government	<u>48,310,443</u>	<u>17,073,234</u>	<u>8,815,537</u>	<u>1,740,834</u>
Component units				
Lancaster Economic Development Corporation	424,755	-	-	-
Lancaster Recreational Development Corporation	2,890,914	554,944	52,037	-
Total component units	<u>3,315,669</u>	<u>554,944</u>	<u>52,037</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 (deficit), beginning of year		
		Net assets, end of year		

See Notes to Financial Statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Lancaster Economic Development Corporation</b>	<b>Lancaster Recreational Development Corporation</b>
\$ (4,254,835)	\$ -	\$ (4,254,835)	\$ -	\$ -
(12,514,771)	-	(12,514,771)	-	-
(2,254,197)	-	(2,254,197)	-	-
(1,048,563)	-	(1,048,563)	-	-
125,233	-	125,233	-	-
(2,837,440)	-	(2,837,440)	-	-
<u>(22,784,573)</u>	<u>-</u>	<u>(22,784,573)</u>	<u>-</u>	<u>-</u>
-	2,302,492	2,302,492	-	-
-	(71,851)	(71,851)	-	-
-	(128,446)	(128,446)	-	-
-	1,540	1,540	-	-
<u>-</u>	<u>2,103,735</u>	<u>2,103,735</u>	<u>-</u>	<u>-</u>
<u>(22,784,573)</u>	<u>2,103,735</u>	<u>(20,680,838)</u>	<u>-</u>	<u>-</u>
-	-	-	(424,755)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,283,933)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(424,755)</u>	<u>(2,283,933)</u>
13,621,585	-	13,621,585	-	-
4,693,061	-	4,693,061	944,875	1,877,225
2,477,222	-	2,477,222	-	-
127,887	-	127,887	-	-
40,627	15,105	55,732	3,577	-
1,180,897	78,066	1,258,963	-	630,529
(669,107)	669,107	-	-	-
<u>21,472,172</u>	<u>762,278</u>	<u>22,234,450</u>	<u>948,452</u>	<u>2,507,754</u>
(1,312,401)	2,866,013	1,553,612	523,697	223,821
<u>58,103,189</u>	<u>46,539,151</u>	<u>104,642,340</u>	<u>(206,468)</u>	<u>3,905,777</u>
<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 317,229</u>	<u>\$ 4,129,598</u>

**City of Lancaster, Texas**  
**Balance Sheet – Governmental Funds**  
**September 30, 2011**

**Assets**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,071,078	\$ 1,160,271	\$ 15,353,866	\$ 678,761	\$ 956,148	\$ 21,220,124
Receivables (net of allowance for uncollectibles)						
Notes	-	-	-	11,775,000	-	11,775,000
Delinquent taxes	799,561	-	-	187,487	22,198	1,009,246
Accounts	681,483	-	-	-	185,569	867,052
Sales tax	941,524	-	-	-	-	941,524
Fines	211,258	-	-	-	-	211,258
Due from						
Other governments	12,287	-	-	-	-	12,287
Component unit	528,753	-	-	-	-	528,753
Inventory, at cost	5,834	-	-	-	-	5,834
Prepaid items	172,340	6,307	-	-	9,532	188,179
<b>Total assets</b>	<b>6,424,118</b>	<b>1,166,578</b>	<b>15,353,866</b>	<b>12,641,248</b>	<b>1,173,447</b>	<b>36,759,257</b>

**Liabilities and Fund Balances**

<b>Liabilities</b>						
Accounts and contracts payable	654,313	12,838	67,389	-	51,320	785,860
Accrued liabilities	207,125	56,088	-	-	61,146	324,359
Deposits	181,816	-	-	-	-	181,816
Deferred revenue	826,451	-	-	11,922,726	5,740	12,754,917
<b>Total liabilities</b>	<b>1,869,705</b>	<b>68,926</b>	<b>67,389</b>	<b>11,922,726</b>	<b>118,206</b>	<b>14,046,952</b>
<b>Fund balances</b>						
Reserved for						
Housing and Urban Development	-	1,097,652	-	-	-	1,097,652
Capital projects	-	-	15,286,477	-	-	15,286,477
Debt service	-	-	-	718,522	-	718,522
Public works	-	-	-	-	467,955	467,955
Public improvement districts	-	-	-	-	85,076	85,076
Police grants	-	-	-	-	9,477	9,477
Tourism, convention centers, arts	-	-	-	-	252,144	252,144
Law enforcement purposes	-	-	-	-	240,589	240,589
Unassigned	4,554,413	-	-	-	-	4,554,413
<b>Total fund balances</b>	<b>4,554,413</b>	<b>1,097,652</b>	<b>15,286,477</b>	<b>718,522</b>	<b>1,055,241</b>	<b>22,712,305</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,424,118</b>	<b>\$ 1,166,578</b>	<b>\$ 15,353,866</b>	<b>\$ 12,641,248</b>	<b>\$ 1,173,447</b>	<b>\$ 36,759,257</b>

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Assets**  
**September 30, 2011**

Total fund balances – governmental funds	\$ 22,712,305
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 capitalized and amortized over the life of the debt in the government-wide statements.	927,728
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	99,945,007
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.	(530,541)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.	979,917
Notes receivable are not measureable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements	11,775,000
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	(51,616,531)
Certificates of obligation	(24,965,000)
Premiums on bond debt	(261,427)
Deferred loss on refunding	712,149
Compensated absences	(2,571,753)
OPEB liability	(47,091)
Capital leases	(268,975)
Total net assets of governmental activities	\$ 56,790,788

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**Year Ended September 30, 2011**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes and fees	\$ 16,590,881	\$ -	\$ -	\$ 3,364,708	\$ 1,416,510	\$ 21,372,099
Licenses and permits	459,717	-	-	-	313,746	773,463
Intergovernmental	413,154	8,765,448	592,769	889,116	723,851	11,384,338
Charges for services	533,411	-	-	-	-	533,411
Fines and forfeits	861,273	-	48,385	-	-	909,658
Interest	5,021	1,351	32,661	1,477	424	40,934
Miscellaneous	337,881	75,383	21,429	-	46,978	481,671
<b>Total revenues</b>	<b>19,201,338</b>	<b>8,842,182</b>	<b>695,244</b>	<b>4,255,301</b>	<b>2,501,509</b>	<b>35,495,574</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	3,792,006	-	11,500	-	-	3,803,506
Public safety	13,215,005	-	-	-	60,117	13,275,122
Public works	1,916,680	-	-	-	806,038	2,722,718
Community development and recreation	811,058	-	-	-	97,848	908,906
Social and welfare	-	8,640,215	-	-	-	8,640,215
Capital outlay	66,808	2,580	2,725,086	-	888,011	3,682,485
<b>Debt service</b>						
Principal retirement	138,184	-	-	1,271,802	25,000	1,434,986
Interest and fiscal charges	-	-	-	3,346,782	34,738	3,381,520
<b>Total expenditures</b>	<b>19,939,741</b>	<b>8,642,795</b>	<b>2,736,586</b>	<b>4,618,584</b>	<b>1,911,752</b>	<b>37,849,458</b>
Excess (deficiency) of revenues over (under) expenditures	(738,403)	199,387	(2,041,342)	(363,283)	589,757	(2,353,884)
<b>Other financing sources (uses)</b>						
Operating transfers in	1,535,236	-	-	-	-	1,535,236
Operating transfers out	-	(62,000)	(2,100,343)	-	(42,000)	(2,204,343)
<b>Total other financing sources (uses)</b>	<b>1,535,236</b>	<b>(62,000)</b>	<b>(2,100,343)</b>	<b>-</b>	<b>(42,000)</b>	<b>(669,107)</b>
<b>Net Change in Fund Balances</b>	<b>796,833</b>	<b>137,387</b>	<b>(4,141,685)</b>	<b>(363,283)</b>	<b>547,757</b>	<b>(3,022,991)</b>
<b>Fund Balances, Beginning of Year</b>	<b>3,757,580</b>	<b>960,265</b>	<b>19,428,162</b>	<b>1,081,805</b>	<b>507,484</b>	<b>25,735,296</b>
<b>Fund Balances, End of Year</b>	<b>\$ 4,554,413</b>	<b>\$ 1,097,652</b>	<b>\$ 15,286,477</b>	<b>\$ 718,522</b>	<b>\$ 1,055,241</b>	<b>22,712,305</b>

**City of Lancaster, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2011**

Net change in fund balances – total governmental funds \$ (3,022,991)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 3,682,485

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. 705,644

Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (3,856,572)

Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:

General and certificates of obligation bonds	1,205,000	
Capital leases	<u>229,986</u>	1,434,986

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:

Amortization of bond issuance costs	(46,514)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>30,519</u>	(71,659)

Current year change in long-term liability for compensated absences and OPEB liability do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 138,350

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. 569,225

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. This is the net change in these revenues for the year. (891,869)

Change in net assets of governmental activities \$ (1,312,401)

**City of Lancaster, Texas**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2011**

<b>Assets</b>	<b>Water and Sewer</b>	<b>Airport Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Proprietary Funds</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 10,139,542	\$ 190	\$ 141,932	\$ 10,281,664
Receivables (net of allowance for uncollectibles)				
Accounts	972,199	34,710	139,144	1,146,053
Unbilled	631,561	-	134,394	765,955
Prepaid expenses	339,037	1,160	-	340,197
Inventory	-	64,306	-	64,306
Deferred bond issuance costs	257,683	3,099	-	260,782
	<u>12,340,022</u>	<u>103,465</u>	<u>415,470</u>	<u>12,858,957</u>
Total current assets				
<b>Noncurrent Assets</b>				
Restricted Assets				
Cash and cash equivalents	803,373	-	-	803,373
<b>Capital Assets</b>				
Nondepreciable	4,844,719	4,444,666	349,554	9,638,939
Depreciable (net of accumulated depreciation)	33,110,201	1,466,599	2,132,608	36,709,408
	<u>51,098,315</u>	<u>6,014,730</u>	<u>2,897,632</u>	<u>60,010,677</u>
Total assets				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts and contracts payable	360,643	1,019,041	209,215	1,588,899
Accrued liabilities	45,670	7,231	22,650	75,551
Accrued interest	51,385	2,249	-	53,634
Deposits	803,373	-	-	803,373
	<u>1,261,071</u>	<u>1,028,521</u>	<u>231,865</u>	<u>2,521,457</u>
Total current liabilities				
<b>Noncurrent Liabilities</b>				
Due within one-year	863,463	28,182	218	891,863
Due in more than one-year	7,004,115	187,424	654	7,192,193
	<u>7,867,578</u>	<u>215,606</u>	<u>872</u>	<u>8,084,056</u>
Total noncurrent liabilities				
Total liabilities	<u>9,128,649</u>	<u>1,244,127</u>	<u>232,737</u>	<u>10,605,513</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	30,092,306	5,695,659	2,482,162	38,270,127
Unrestricted	11,877,360	(925,056)	182,733	11,135,037
	<u>\$ 41,969,666</u>	<u>\$ 4,770,603</u>	<u>\$ 2,664,895</u>	<u>\$ 49,405,164</u>
Total net assets				

**City of Lancaster, Texas**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**Proprietary Funds**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Funds	Total
<b>Operating Revenues</b>				
Charges for services	\$ 11,087,020	\$ 726,819	\$ 2,209,482	\$ 14,023,321
Intergovernmental	-	50,089	-	50,089
Miscellaneous	292,108	-	-	292,108
	<u>11,379,128</u>	<u>776,908</u>	<u>2,209,482</u>	<u>14,365,518</u>
Total operating revenues				
<b>Operating Expenses</b>				
Personnel services	1,216,864	168,268	978	1,386,110
Maintenance	178,842	27,818	204,844	411,504
Purchase of water	1,962,499	-	-	1,962,499
Materials and supplies	83,463	472,921	120	556,504
Heat, light and power	167,958	31,877	(4,899)	194,936
Depreciation	1,436,110	40,419	78,949	1,555,478
Benefit payments	499,164	44,543	354	544,061
Sewage treatment	3,198,974	-	-	3,198,974
Special services	410,169	94,601	1,994,727	2,499,497
Capital outlay	16,892	-	-	16,892
Equipment rental	7,182	24,907	4,720	36,809
	<u>9,178,117</u>	<u>905,354</u>	<u>2,279,793</u>	<u>12,363,264</u>
Total operating expenses				
<b>Operating Income (Loss)</b>	<u>2,201,011</u>	<u>(128,446)</u>	<u>(70,311)</u>	<u>2,002,254</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	14,770	-	335	15,105
Interest and fiscal charges	(371,054)	(13,472)	-	(384,526)
Impact fee revenue	101,480	-	-	101,480
Other nonoperating revenue	434,998	27,594	-	462,592
	<u>180,194</u>	<u>14,122</u>	<u>335</u>	<u>194,651</u>
Total nonoperating revenues				
<b>Income (Loss) Before Transfers</b>	<u>2,381,205</u>	<u>(114,324)</u>	<u>(69,976)</u>	<u>2,196,905</u>
<b>Transfers</b>				
Operating transfers in	-	2,100,343	-	2,100,343
Operating transfers out	(1,424,236)	-	(7,000)	(1,431,236)
	<u>(1,424,236)</u>	<u>2,100,343</u>	<u>(7,000)</u>	<u>669,107</u>
Total transfers in/out				
<b>Change in Net Assets</b>	956,969	1,986,019	(76,976)	2,866,012
<b>Net Assets, Beginning of Year</b>	<u>41,012,697</u>	<u>2,784,584</u>	<u>2,741,871</u>	<u>46,539,152</u>
<b>Net Assets, End of Year</b>	<u>\$ 41,969,666</u>	<u>\$ 4,770,603</u>	<u>\$ 2,664,895</u>	<u>49,405,164</u>

**City of Lancaster, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Fund	Total
<b>Operating Activities</b>				
Receipts from customers and users	\$ 11,295,786	\$ 749,856	\$ 2,070,775	\$ 14,116,417
Receipts from other funds	2,851,393	(2,851,393)	-	-
Payments to employees	(1,716,028)	(212,811)	4,876	(1,923,963)
Payments to suppliers	(6,538,046)	311,456	(2,173,845)	(8,400,435)
Net cash provided by (used in) operating activities	<u>5,893,105</u>	<u>(2,002,892)</u>	<u>(98,194)</u>	<u>3,792,019</u>
<b>Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(196,392)	(20,524)	(1,349)	(218,265)
Principal payments on debt	(419,447)	(91,049)	-	(510,496)
Interest payments on debt	(426,222)	-	-	(426,222)
Payments on capital leases	(447,600)	-	-	(447,600)
Impact fees collected	101,480	-	-	101,480
Utility deposits collected	49,816	-	-	49,816
Net cash used in capital and financing activities	<u>(1,338,365)</u>	<u>(111,573)</u>	<u>(1,349)</u>	<u>(1,451,287)</u>
<b>Noncapital and Related Financing Activities</b>				
Operating transfers in from other funds	-	2,100,343	-	2,100,343
Operating transfers out to other funds	(1,424,236)	-	(7,000)	(1,431,236)
Proceeds from other nonoperating revenue	78,714	14,122	336	93,172
Net cash provided by (used in) noncapital financing activities	<u>(1,345,522)</u>	<u>2,114,465</u>	<u>(6,664)</u>	<u>762,279</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,209,218	-	(106,207)	3,103,011
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,733,697</u>	<u>190</u>	<u>248,139</u>	<u>7,982,026</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 10,942,915</u>	<u>\$ 190</u>	<u>\$ 141,932</u>	<u>\$ 11,085,037</u>
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>				
Operating income (loss)	\$ 2,201,011	\$ (128,446)	\$ (70,311)	\$ 2,002,254
Item not requiring cash				
Depreciation and amortization	1,436,110	40,419	78,949	1,555,478
Changes in				
Accounts receivable	(83,342)	(27,052)	(63,731)	(174,125)
Due from other funds	2,851,393	(2,851,393)	-	-
Inventories	-	(18,131)	-	(18,131)
Prepays	(339,037)	(1,160)	-	(340,197)
Other assets	21,500	-	-	21,500
Accounts payable	8,227	989,368	(49,309)	948,286
Accrued expenses	(202,757)	(6,497)	6,208	(203,046)
Net cash provided by (used in) operating activities	<u>\$ 5,893,105</u>	<u>\$ (2,002,892)</u>	<u>\$ (98,194)</u>	<u>\$ 3,792,019</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**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:

***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 (1) the primary government must be able to impose its will or (2) 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.

***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.

# City of Lancaster, Texas

## Notes to Basic Financial Statements

### September 30, 2011

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 nonmajor 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.

**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.

# City of Lancaster, Texas

## Notes to Basic Financial Statements

### September 30, 2011

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 Funds:

**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.

**Airport Fund** – The Airport Fund is used to account for the operation of the City’s regional airport.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund’s principal ongoing operations. 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 nonoperating revenues and expenses.

#### ***Classification of Fund Equity***

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned in governmental funds. Nonspendable fund balance cannot be spent, either because it is not in spendable form or because of legal or contractual requirements. Restricted fund balance have constraints for specific purposes which are externally imposed by providers, such as creditors, grantors, or other governments; or by enabling legislation of the City Council. Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by City management based on Council direction. Unassigned fund balances include residual positive fund balances within the General Fund that had not been classified within the other mentioned categories. Unassigned fund balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

#### ***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 noncurrent) 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.

Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other

# **City of Lancaster, Texas**

## **Notes to Basic Financial Statements**

### **September 30, 2011**

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 GASB. 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.

#### ***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.

#### ***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.

#### ***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.

**City of Lancaster, Texas**  
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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.

***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, 2011, were \$309,372 for uncollectible taxes, \$1,008,383 for water and sewer billings, \$140,839 for court fees and fines, and \$1,230,665 for ambulance fees is reflected in the financial statements.

***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.

***Prepaid Items***

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

***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."

***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.

***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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

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

***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.

The liability for unused vested vacation leave as of September 30, 2011, 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.

***New Pronouncements***

Effective October 1, 2010, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established new categories for reporting fund balance, revised the definitions for Governmental Fund types and changes the presentation of fund balance. Fund balances of capital projects and HUD funds previously classified as unreserved are now classified as restricted under GASB No. 54. The adoption of GASB 54 had no effect on total beginning fund balances of governmental funds.

**Note 2: Cash and Investments**

At year-end, the carrying amount of the City's bank deposits was \$1,309,593 (composed of \$1,288,460 related to the primary government and \$21,133 related to discretely presented component units) and the bank balances were \$1,563,446. The bank balances on September 30, 2011, 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, repurchase agreements and municipal pools. During the year ended September 30, 2011, 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.

**City of Lancaster, Texas**  
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During the year ended September 30, 2011, the City invested in TexPool and LOGIC funds. TexPool and LOGIC are investment funds authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool and LOGIC operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and LOGIC use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and LOGIC is the same as the value of TexPool and LOGIC shares. TexPool and LOGIC are rated as an 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.

**Credit Risk**

In compliance with the City's Investment Policy as of September 30, 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:

	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Weighted- Average Maturity (Years)</b>
<b>Primary Government</b>			
Texpool	\$ 11,738,832	\$ 11,738,832	0.003
LOGIC	<u>18,865,134</u>	<u>18,865,134</u>	0.003
Total primary government	<u>30,603,966</u>	<u>30,603,966</u>	
<b>Component Units</b>			
Texpool	1,016,261	1,016,261	0.003
LOGIC	<u>1,633,204</u>	<u>1,633,204</u>	0.003
Total component units	<u>2,649,465</u>	<u>2,649,465</u>	
Total	<u><u>\$ 33,253,431</u></u>	<u><u>\$ 33,253,431</u></u>	

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**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, 2011, were 97.0% 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, 2011, the City had a tax rate of \$.8675 per \$100.00 assessed valuation, of which \$.6502 was allocated for general government and \$.2173 was allocated for the payment of principal and interest on general obligation debt.

In Texas, county-wide 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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Note 4: Interfund Transactions**

At September 30, 2011, interfund balances and transactions, excluding discretely presented component units were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 1,535,236	\$ -
HUD Fund	-	62,000
Capital Projects Fund	-	2,100,343
Nonmajor Governmental Funds	-	42,000
Water and Sewer Fund	-	1,424,236
Airport Fund	2,100,343	7,000
	\$ 3,635,579	\$ 3,635,579

The interfund transfer to the General Fund from the HUD Fund, Nonmajor Governmental Funds, Water and Sewer Funds and Airport Fund is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer from the Capital Projects fund to the Airport Fund is for transfer of bond proceeds.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Note 5: Fixed Assets**

***Governmental Funds***

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 12,337,857	\$ 876,411	\$ -	\$ 13,214,268
Construction in progress	<u>3,779,844</u>	<u>2,142,365</u>	<u>-</u>	<u>5,922,209</u>
Total capital assets not being depreciated	<u>16,117,701</u>	<u>3,018,776</u>	<u>-</u>	<u>19,136,477</u>
Capital assets being depreciated				
Buildings	24,487,196	-	-	24,487,196
Improvements	92,839,898	1,188,248	-	94,028,146
Equipment and furniture	<u>15,425,946</u>	<u>186,569</u>	<u>-</u>	<u>15,612,515</u>
Total capital assets being depreciated	132,753,040	1,374,817	-	134,127,857
Less accumulated depreciation	<u>49,462,755</u>	<u>3,856,572</u>	<u>-</u>	<u>53,319,327</u>
Total capital assets being depreciated, net	<u>83,290,285</u>	<u>(2,481,755)</u>	<u>-</u>	<u>80,808,530</u>
Governmental activities capital assets, net	<u>\$ 99,407,986</u>	<u>\$ 537,021</u>	<u>\$ -</u>	<u>\$ 99,945,007</u>

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

General and administrative	\$ 548,629
Public safety	1,058,547
Public works	2,109,739
Community development and recreation	<u>139,657</u>
Total depreciation expense – governmental activities	<u>\$ 3,856,572</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Enterprise Funds**

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Land	\$ 4,879,781	\$ -	\$ -	\$ 4,879,781
Construction in progress	4,562,766	196,392	-	4,759,158
	<u>9,442,547</u>	<u>196,392</u>	<u>-</u>	<u>9,638,939</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Plants and buildings	4,941,048	9,388	-	4,950,436
Improvements	55,664,932	-	-	55,664,932
Runways and taxiways	3,410,079	12,485	-	3,422,564
Other structures	951,622	-	-	951,622
Machinery and equipment	2,803,307	-	-	2,803,307
	<u>67,770,988</u>	<u>21,873</u>	<u>-</u>	<u>67,792,861</u>
Total capital assets being depreciated				
Less accumulated depreciation	29,527,975	1,555,478	-	31,083,453
Total capital assets being depreciated, net	<u>38,243,013</u>	<u>(1,533,605)</u>	<u>-</u>	<u>36,709,408</u>
Business-type activities capital assets, net	<u>\$ 47,685,560</u>	<u>\$ (1,337,213)</u>	<u>\$ -</u>	<u>\$ 46,348,347</u>

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

Water and sewer	\$ 1,436,110
Airport	40,419
Golf	78,949
	<u>1,555,478</u>
Total depreciation expense – business-type activities	<u>\$ 1,555,478</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
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***Discretely Presented Component Units***

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

	<b>Balance September 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
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:

	<b>Balance September 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
Lancaster Recreational Development Corporation Capital assets not being depreciated				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	430,746	12,302	-	443,048
Total capital assets being depreciated	20,193,915	12,302	-	20,206,217
Less accumulated depreciation	<u>7,277,187</u>	<u>767,802</u>	<u>-</u>	<u>8,044,989</u>
Total capital assets being depreciated, net	<u>12,916,728</u>	<u>(755,500)</u>	<u>-</u>	<u>12,161,228</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 13,905,846</u>	<u>\$ (755,500)</u>	<u>\$ -</u>	<u>\$ 13,150,346</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Note 6: Long-term Liabilities**

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

	Balance September 30, 2010	Additions	Retirements	Balance September 30, 2011	Due Within One-Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 52,441,531	\$ -	\$ (825,000)	\$ 51,616,531	\$ 1,345,000
Certificates of obligation	25,345,000	-	(380,000)	24,965,000	695,000
Premiums on bond debt	291,946	-	(30,519)	261,427	-
Deferred loss on refunding	(767,813)	-	55,664	(712,149)	-
Compensated absences	2,733,874	-	(162,121)	2,571,753	845,122
OPEB liability	23,320	23,771	-	47,091	-
Capital leases	498,961	-	(229,986)	268,975	150,534
Total governmental activities	<u>80,566,819</u>	<u>23,771</u>	<u>(1,571,962)</u>	<u>79,018,628</u>	<u>3,035,656</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 5,648,471	\$ -	\$ (535,000)	\$ 5,113,471	\$ 555,000
Notes payable	152,560	-	(80,008)	72,552	18,588
Certificates of obligation	2,570,000	-	(210,000)	2,360,000	220,000
Premiums on bond debt	210,270	-	(26,006)	184,264	-
Deferred loss on refunding	(75,891)	-	8,838	(67,053)	-
Revenue bonds	450,000	-	(80,000)	370,000	85,000
Compensated absences	65,364	-	(14,542)	50,822	13,275
Capital leases	447,600	-	(447,600)	-	-
Total business-type activities	<u>\$ 9,468,374</u>	<u>\$ -</u>	<u>\$ (1,384,318)</u>	<u>\$ 8,084,056</u>	<u>\$ 891,863</u>
<b>Discretely Presented</b>					
Component units					
Notes payable to primary government	<u>\$ 12,405,000</u>	<u>\$ -</u>	<u>\$ (630,000)</u>	<u>11,775,000</u>	<u>\$ 650,000</u>
Total discretely presented component units	<u>\$ 12,405,000</u>	<u>\$ -</u>	<u>\$ (630,000)</u>	<u>\$ 11,775,000</u>	<u>\$ 650,000</u>

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, Texas**  
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**September 30, 2011**

General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2011, consist of the following:

	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>
<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%	\$ 11,341,531	\$ 371,191	\$ 77,280	\$ 11,790,002
\$24,300,000 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% – 5.00%	17,280,000	4,605,000	60,000	21,945,000
\$22,995,000 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	<u>22,995,000</u>	<u>-</u>	<u>-</u>	<u>22,995,000</u>
	<u>\$ 51,616,531</u>	<u>\$ 4,976,191</u>	<u>\$ 137,280</u>	<u>\$ 56,730,002</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>\$ 370,000</u>	<u>\$ -</u>	<u>\$ 370,000</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%	\$ 2,260,000	\$ -	\$ -	\$ 2,260,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% – 4.375%	10,705,000	2,360,000	-	13,065,000
\$12,000,000 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	<u>12,000,000</u>	<u>-</u>	<u>-</u>	<u>12,000,000</u>
	<u>\$ 24,965,000</u>	<u>\$ 2,360,000</u>	<u>\$ -</u>	<u>\$ 27,325,000</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>	<b>Discretely Presented Component Units</b>
<u>Note Payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% – 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 9,120,000
\$3,035,000 note payable, due in annual installments through February 15, 2032; 4.00% – 4.375%	-	-	-	-	2,655,000
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	-	72,552	72,552	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,552</u>	<u>\$ 72,552</u>	<u>\$ 11,775,000</u>
<u>Capital Leases</u>					
\$500,000 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	\$ 76,575	\$ -	\$ -	\$ 76,575	\$ -
\$260,128 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	6,405	-	-	6,405	-
\$265,987 Lease Purchase Agreement due in annual installments through September 30, 2015; 5.00%	185,995	-	-	185,995	-
	<u>\$ 268,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,975</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.

As of September 30, 2011, property and equipment under capital leases is carried at \$1,386,705, with \$235,267 in accumulated depreciation.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

The annual requirements to amortize the long-term debt as of September 30, 2011, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 1,345,000	\$ 2,596,907	\$ 3,941,907	\$ 555,000	\$ 230,635	\$ 785,635
2013	1,440,000	2,552,652	3,992,652	580,000	207,935	787,935
2014	1,530,000	2,498,418	4,028,418	605,000	181,210	786,210
2015	1,610,000	2,435,031	4,045,031	640,000	150,085	790,085
2016	1,745,000	2,364,272	4,109,272	775,000	114,710	889,710
2017 – 2021	10,899,200	10,477,473	21,376,673	1,770,800	148,506	1,919,306
2022 – 2026	11,522,331	7,675,776	19,198,107	187,671	12,984	200,655
2027 – 2031	10,080,000	5,007,857	15,087,857	-	-	-
2032 – 2036	6,485,000	2,515,020	9,000,020	-	-	-
2037 – 2040	4,960,000	664,876	5,624,876	-	-	-
Total	<u>\$ 51,616,531</u>	<u>\$ 38,788,284</u>	<u>\$ 90,404,815</u>	<u>\$ 5,113,471</u>	<u>\$ 1,046,063</u>	<u>\$ 6,159,534</u>

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 695,000	\$ 1,243,736	\$ 1,938,736	\$ 220,000	\$ 93,106	\$ 313,106
2013	735,000	1,219,485	1,954,485	230,000	84,106	314,106
2014	780,000	1,192,183	1,972,183	240,000	74,706	314,706
2015	865,000	1,161,120	2,026,120	100,000	67,906	167,906
2016	890,000	1,126,663	2,016,663	105,000	63,806	168,806
2017 – 2021	4,985,000	5,027,115	10,012,115	580,000	251,828	831,828
2022 – 2026	5,345,000	3,799,576	9,144,576	720,000	146,841	866,841
2027 – 2031	4,840,000	2,503,277	7,343,277	165,000	3,609	168,609
2032 – 2036	3,235,000	1,313,192	4,548,192	-	-	-
2037 – 2040	2,595,000	347,453	2,942,453	-	-	-
Total	<u>\$ 24,965,000</u>	<u>\$ 18,933,798</u>	<u>\$ 43,898,798</u>	<u>\$ 2,360,000</u>	<u>\$ 785,909</u>	<u>\$ 3,145,909</u>

Note Payable						
Fiscal Year	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
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	13,279	97	13,376	740,000	405,147	1,145,147
2016	-	-	-	770,000	374,935	1,144,935
2017 – 2021	-	-	-	4,405,000	1,346,959	5,751,959
2022 – 2026	-	-	-	3,585,000	338,469	3,923,469
2027 – 2030	-	-	-	225,000	4,922	229,922
Total	<u>\$ 72,552</u>	<u>\$ 7,568</u>	<u>\$ 80,120</u>	<u>\$ 11,775,000</u>	<u>\$ 3,847,777</u>	<u>\$ 15,622,777</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

<b>Revenue Bonds</b>			
<b>Fiscal Year</b>	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 85,000	\$ 20,455	\$ 105,455
2013	90,000	15,823	105,823
2014	95,000	10,872	105,872
2015	<u>100,000</u>	<u>5,600</u>	<u>105,600</u>
Total	<u>\$ 370,000</u>	<u>\$ 52,750</u>	<u>\$ 422,750</u>

<b>Capital Leases</b>			
<b>Fiscal Year</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 150,534	\$ 5,864	\$ 156,398
2013	43,730	549	44,279
2014	43,912	367	44,279
2015	30,799	184	30,983
2016 – 2020	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 268,975</u>	<u>\$ 6,964</u>	<u>\$ 275,939</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), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to Texas Municipal Retirement System (TMRS), P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

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

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
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, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective for the rates beginning January 2010).

**Annual Pension Cost**

Contributions by the City were \$1,866,885, or 13.49% of the covered payroll of \$13,835,321 as required by the actuarial valuation. The total fiscal year 2011 payroll was \$13,229,747.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

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

	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<u>Actuarial Information</u>			
Actuarial cost method	Project Unit Credit	Project Unit Credit	Project Unit Credit
Amortization method	Level %	Level %	Level %
Amortization period	27.2 years-closed period	28 years-closed period	29 years-closed period
Asset valuation method	10-year smoothed market	10-year smoothed market	Amortized cost
Assumption			
Investment return	7.0%	7.5%	7.5%
Projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost of living adjustment	2.1%	2.1%	2.1%
City specific assumptions			
Payroll growth assumption	3.00%	3.00%	3.00%
Withdrawal rates for male/female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High

	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<u>Schedule of Funding Information</u>			
Actuarial valuation date			
Actuarial value of assets	\$ 43,023,260	\$ 29,362,600	\$ 26,431,828
Actuarial accrued liability	\$ 58,639,756	\$ 45,558,535	\$ 42,814,837
Unfunded (over funded) Actuarial Accrued Liability (UAAL)	\$ 15,616,496	\$ 16,195,935	\$ 1,683,009
Funded ratio	73.4%	64.5%	61.7%
Annual covered payroll	\$ 13,835,321	\$ 14,525,485	\$ 14,507,867
UAAL as a percentage of covered payroll	112.9%	111.5%	112.9%

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

The City's net pension obligation (NPO) for TMRS at December 31, 2010, 2009 and 2008, is calculated as follows:

<b>Actuarial valuation date</b>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
NPO, beginning of year	\$ -	\$ -	\$ -
Annual pension cost	1,866,885	1,764,806	1,727,903
Annual required contribution (ARC)	(1,866,885)	(1,764,806)	(1,727,903)
Contributions made	-	-	-
NPO, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Supplemental Death Benefit Fund**

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the TMRS known as the Supplemental Death Benefits fund (SDBF). 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.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit" or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. This rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree life insurance during employees' entire careers.

The City's contributions to SDBF for the fiscal years ended September 30, 2011, 2010 and 2009, were \$19,908, \$25,157 and \$73,918, respectively, which equaled the required contributions each year.

**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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

***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 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

As of September 30, 2011, membership consisted of:

Retirees and beneficiaries receiving benefits	18
Active employees	217
 Total	 <u><u>235</u></u>

***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 HMO medical benefits contribute \$412 per month for retiree-only coverage, \$824 per month for retiree and spouse and \$1,402 per month for retiree and family. Members receiving PPO medical benefits contribute \$456 per month for retiree-only coverage, \$1,005 per month for retiree and spouse and \$1,554 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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**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 30 years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2011:

Annual required contribution	\$ 91,425
Interest on prior year net OPEB obligation	1,049
Adjustment to annual required contribution	(972)
Annual OPEB cost	<u>91,502</u>
Contributions made	<u>(67,731)</u>
Increase in net OPEB obligation	23,771
Net obligation, beginning of year	<u>23,320</u>
Net obligation, end of year	<u><u>\$ 47,091</u></u>
Percentage of OPEB costs contributed	144%

**Funded Status and Funding Progress**

The funded status of the plan as of actuarial measurement date of December 31, 2010, was as follows:

Actuarial accrued liability	\$ 1,138,842
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u><u>\$ 1,138,842</u></u>
Funded ratio	0.00%
Covered payroll	\$ 13,835,321
Unfunded actuarial accrued liability as a percentage of covered payroll	8.2%

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

***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, 2010, 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 9.0% initially, reduced by decrements to an ultimate rate of 4.5% after 10 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 (the 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.

***Trinity River Authority of Texas***

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA 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, 2011, was \$3,618,730 for the Ten Mile Creek Regional Wastewater System and \$78,550 for the Red Oak Creek Regional Wastewater System. 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, 2011.

***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 if 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, 2011, may be impaired.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

***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: 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>Excess of Expenditures Over Appropriations</u>
HUD Fund	\$ 287,894

**Note 11: Subsequent Events**

On December 3, 2004, the City of Lancaster entered into an Incentive Infrastructure Agreement with Argent Development, L.P., which was then passed to Prologis. The project involved extending Daniieldale Road from Houston School Road to IH 20 around the parameters of the Prologis Park. Prologis agreed to initially finance the costs of this project. Upon completion of the project, the final costs were approximately \$5.6 million. The agreement is under renegotiations and will be presented to Council for approval in the spring of 2012. Once the agreement is approved, the City will begin to make payments over the next 10 years using tax rebates.

Subsequent events have been evaluated through March 27, 2012, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Funding Progress for Participation in Texas**  
**Municipal Retirement System**  
**September 30, 2011**

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]
12/31/2008	\$ 26,431,828	\$ 42,814,837	61.7%	\$ 16,383,009	\$ 14,507,867	112.9%
12/31/2009	\$ 29,362,600	\$ 45,558,535	64.5%	\$ 16,195,935	\$ 13,887,238	116.6%
12/31/2010	\$ 43,023,260	\$ 58,639,756	73.4%	\$ 15,616,496	\$ 13,835,321	112.9%

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Employees' Other Post Employment Benefits Plan**  
**Analysis of Funding Progress**  
**(Unaudited)**  
**September 30, 2011**

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]
2009	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 14,507,867	3.4%
2010	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 13,887,238	3.6%
2011	\$ -	\$ 1,138,842	0.0%	\$ 1,138,842	\$ 13,835,321	8.2%

**City of Lancaster, Texas**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**Year Ended September 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes and fees	\$ 16,236,963	\$ 16,236,963	\$ 16,590,881	\$ 353,918
Licenses and permits	449,262	449,262	459,717	10,455
Intergovernmental	275,000	275,000	413,154	138,154
Charges for services	489,804	489,804	533,411	43,607
Fines and forfeits	831,311	831,311	861,273	29,962
Interest	6,000	6,000	5,021	(979)
Miscellaneous	345,270	345,270	337,881	(7,389)
	<u>18,633,610</u>	<u>18,633,610</u>	<u>19,201,338</u>	<u>567,728</u>
Total revenues				
<b>Expenditures</b>				
Current				
General government	4,317,105	4,317,105	3,792,006	525,099
Public safety	13,167,581	13,167,581	13,215,005	(47,424)
Public works	2,140,846	2,140,846	1,916,680	224,166
Community development and recreation	716,349	716,349	811,058	(94,709)
Capital outlay	-	-	66,808	(66,808)
Principal retirement	-	-	138,184	(138,184)
	<u>20,341,881</u>	<u>20,341,881</u>	<u>19,939,741</u>	<u>402,140</u>
Total expenditures				
Deficiency of revenues under expenditures	<u>(1,708,271)</u>	<u>(1,708,271)</u>	<u>(738,403)</u>	<u>969,868</u>
Other financing sources				
Operating transfers in	<u>1,528,916</u>	<u>1,528,916</u>	<u>1,535,236</u>	<u>(6,320)</u>
Total other financing sources	<u>1,528,916</u>	<u>1,528,916</u>	<u>1,535,236</u>	<u>(6,320)</u>
<b>Net Change in Fund Balances</b>	(179,355)	(179,355)	796,833	963,548
<b>Fund Balance, Beginning of Year</b>	<u>3,757,580</u>	<u>3,757,580</u>	<u>3,757,580</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 3,578,225</u>	<u>\$ 3,578,225</u>	<u>\$ 4,554,413</u>	<u>\$ 976,188</u>

**City of Lancaster, Texas**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**HUD Fund**  
**Year Ended September 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental	\$ 8,338,458	\$ 8,338,458	\$ 8,765,448	\$ 426,990
Interest	5,757	5,757	1,351	(4,406)
Miscellaneous	48,055	48,055	75,383	27,328
Total revenues	<u>8,392,270</u>	<u>8,392,270</u>	<u>8,842,182</u>	<u>449,912</u>
<b>Expenditures</b>				
Social and welfare	8,354,901	8,354,901	8,640,215	(285,314)
Capital outlay	-	-	2,580	(2,580)
Total expenditures	<u>8,354,901</u>	<u>8,354,901</u>	<u>8,642,795</u>	<u>(287,894)</u>
Excess of revenues over expenditures	<u>37,369</u>	<u>37,369</u>	<u>199,387</u>	<u>162,018</u>
Other financing uses				
Operating transfers out	<u>(62,000)</u>	<u>(62,000)</u>	<u>(62,000)</u>	<u>-</u>
Total other financing uses	<u>(62,000)</u>	<u>(62,000)</u>	<u>(62,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(24,631)	(24,631)	137,387	162,018
<b>Fund Balance, Beginning of Year</b>	<u>960,265</u>	<u>960,265</u>	<u>960,265</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 935,634</u>	<u>\$ 935,634</u>	<u>\$ 1,097,652</u>	<u>\$ 162,018</u>

**City of Lancaster, Texas**  
**Notes to Required Supplementary Information**  
**September 30, 2011**

***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 City 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, 2011:

Fund	Excess of Expenditures Over Appropriations
HUD Fund	\$ 287,894

**Individual Fund and Nonmajor Combining  
Statements and Schedules**

**City of Lancaster, Texas**  
**Nonmajor Governmental Funds**  
**September 30, 2011**

***Special Revenue Funds***

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

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

**Public Improvement Districts Fund** – 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 Fund** – to account for revenues received from a fee charged for emergency services.

**City of Lancaster, Texas**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**September 30, 2011**

	<b>Stormwater Drainage Fund</b>	<b>Public Improvement Districts Fund</b>	<b>Police State Seized Fund</b>	<b>Police Federal Seized Fund</b>	<b>Hotel/ Motel Fund</b>	<b>Emergency 911 Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>							
Cash and cash equivalents	\$ 382,262	\$ 85,035	\$ 3,308	\$ 6,211	\$ 236,767	\$ 242,565	\$ 956,148
Receivables (net of allowance for uncollectibles)							
Delinquent taxes	-	6,060	-	-	16,138	-	22,198
Accounts receivable	176,739	-	-	-	-	8,830	185,569
Prepays	9,532	-	-	-	-	-	9,532
<b>Total assets</b>	<b>568,533</b>	<b>91,095</b>	<b>3,308</b>	<b>6,211</b>	<b>252,905</b>	<b>251,395</b>	<b>1,173,447</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts and contracts payable	42,815	279	-	42	761	7,423	51,320
Accrued liabilities	57,763	-	-	-	-	3,383	61,146
Deferred revenue	-	5,740	-	-	-	-	5,740
<b>Total liabilities</b>	<b>100,578</b>	<b>6,019</b>	<b>-</b>	<b>42</b>	<b>761</b>	<b>10,806</b>	<b>118,206</b>
<b>Fund balances</b>							
Restricted for							
Public works	467,955	-	-	-	-	-	467,955
Public improvement districts	-	85,076	-	-	-	-	85,076
Police grants	-	-	3,308	6,169	-	-	9,477
Tourism, convention centers, arts	-	-	-	-	252,144	-	252,144
Law enforcement purposes	-	-	-	-	-	240,589	240,589
<b>Total fund balances</b>	<b>467,955</b>	<b>85,076</b>	<b>3,308</b>	<b>6,169</b>	<b>252,144</b>	<b>240,589</b>	<b>1,055,241</b>
<b>Total liabilities and fund balances</b>	<b>\$ 568,533</b>	<b>\$ 91,095</b>	<b>\$ 3,308</b>	<b>\$ 6,211</b>	<b>\$ 252,905</b>	<b>\$ 251,395</b>	<b>\$ 1,173,447</b>

**City of Lancaster, Texas**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended September 30, 2011**

	Stormwater Drainage Fund	Improvement Districts Fund	State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>							
Taxes and fees	\$ 1,261,640	\$ 84,759	\$ -	\$ -	\$ 70,111	\$ -	\$ 1,416,510
Licenses and permits	-	-	-	-	-	313,746	313,746
Intergovernmental	723,851	-	-	-	-	-	723,851
Miscellaneous	392	19,955	11,031	-	15,600	-	46,978
Interest	29	40	-	29	278	48	424
<b>Total revenues</b>	<u>1,985,912</u>	<u>104,754</u>	<u>11,031</u>	<u>29</u>	<u>85,989</u>	<u>313,794</u>	<u>2,501,509</u>
<b>Expenditures</b>							
Current							
Public safety	-	-	1,865	14,462	-	43,790	60,117
Public works	806,038	-	-	-	-	-	806,038
Community development and recreation	-	43,460	-	-	54,388	-	97,848
Capital outlay	877,211	-	-	-	-	10,800	888,011
Debt service							
Principal retirement	25,000	-	-	-	-	-	25,000
Interest and fiscal charges	34,738	-	-	-	-	-	34,738
<b>Total expenditures</b>	<u>1,742,987</u>	<u>43,460</u>	<u>1,865</u>	<u>14,462</u>	<u>54,388</u>	<u>54,590</u>	<u>1,911,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>242,925</u>	<u>61,294</u>	<u>9,166</u>	<u>(14,433)</u>	<u>31,601</u>	<u>259,204</u>	<u>589,757</u>
<b>Other Financing Uses</b>							
Operating transfers out	(42,000)	-	-	-	-	-	(42,000)
<b>Total other financing uses</b>	<u>(42,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,000)</u>
<b>Net Change in Fund Balances</b>	200,925	61,294	9,166	(14,433)	31,601	259,204	547,757
<b>Fund Balances (Deficits), Beginning of Year</b>	<u>267,030</u>	<u>23,782</u>	<u>(5,858)</u>	<u>20,602</u>	<u>220,543</u>	<u>(18,615)</u>	<u>507,484</u>
<b>Fund Balances, End of Year</b>	<u>\$ 467,955</u>	<u>\$ 85,076</u>	<u>\$ 3,308</u>	<u>\$ 6,169</u>	<u>\$ 252,144</u>	<u>\$ 240,589</u>	<u>\$ 1,055,241</u>

**City of Lancaster, Texas**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**Stormwater Drainage Fund**  
**Year Ended September 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes and fees	\$ 1,250,000	\$ 1,250,000	\$ 1,261,640	\$ 11,640
Intergovernmental	-	-	723,851	723,851
Interest	-	-	29	29
Miscellaneous	-	-	392	392
	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,985,912</u>	<u>735,912</u>
<b>Expenditures</b>				
Current				
Public works	1,409,980	1,409,980	806,038	603,942
Capital outlay	-	-	877,211	(877,211)
Debt service				
Principal retirement	-	-	25,000	(25,000)
Interest and fiscal charges	50,013	50,013	34,738	15,275
	<u>1,459,993</u>	<u>1,459,993</u>	<u>1,742,987</u>	<u>(282,994)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(209,993)</u>	<u>(209,993)</u>	<u>242,925</u>	<u>452,918</u>
<b>Other financing uses</b>				
Operating transfers out	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Total other financing sources	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(251,993)	(251,993)	200,925	452,918
<b>Fund Balance, Beginning of Year</b>	<u>267,030</u>	<u>267,030</u>	<u>267,030</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 15,037</u>	<u>\$ 15,037</u>	<u>\$ 467,955</u>	<u>\$ 452,918</u>

**City of Lancaster, Texas**  
**Nonmajor Proprietary Funds**  
**September 30, 2011**

***Enterprise Funds***

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

**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**  
**Nonmajor Enterprise Funds**  
**September 30, 2011**

<b>Assets</b>	<b>Golf Course Fund</b>	<b>Refuse Fund</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 141,932	\$ -	\$ 141,932
Receivables (net of allowance for uncollectibles)			
Accounts	-	139,144	139,144
Unbilled	-	134,394	134,394
Capital assets			
Nondepreciable	349,554	-	349,554
depreciable (net of accumulated depreciation)	<u>2,132,608</u>	<u>-</u>	<u>2,132,608</u>
Total assets	<u>2,624,094</u>	<u>273,538</u>	<u>2,897,632</u>
 <b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts and contracts payable	4,834	204,381	209,215
Accrued liabilities	330	22,320	22,650
<b>Noncurrent liabilities</b>			
Due in one-year	-	218	218
Due in more than one-year	<u>-</u>	<u>654</u>	<u>654</u>
Total liabilities	<u>5,164</u>	<u>227,573</u>	<u>232,737</u>
 <b>Net Assets</b>			
Invested in capital assets, net of related debt	2,482,162	-	2,482,162
Unrestricted	<u>136,768</u>	<u>45,965</u>	<u>182,733</u>
	<u>\$ 2,618,930</u>	<u>\$ 45,965</u>	<u>\$ 2,664,895</u>

**City of Lancaster, Texas**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets**  
**Nonmajor Enterprise Funds**  
**Year Ended September 30, 2011**

	<b>Golf Course Fund</b>	<b>Refuse Fund</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Operating Revenues</b>			
Charges for services	\$ 84,542	\$ 2,124,940	\$ 2,209,482
Total operating revenues	<u>84,542</u>	<u>2,124,940</u>	<u>2,209,482</u>
<b>Operating Expenses</b>			
Personnel services	-	978	978
Maintenance	9,615	195,229	204,844
Materials and supplies	-	120	120
Heat, light and power	(4,899)	-	(4,899)
Depreciation and amortization	78,949	-	78,949
Benefit payments	-	354	354
Special services	(663)	1,995,390	1,994,727
Equipment rental	-	4,720	4,720
Total operating expenses	<u>83,002</u>	<u>2,196,791</u>	<u>2,279,793</u>
<b>Operating Income (Loss)</b>	<u>1,540</u>	<u>(71,851)</u>	<u>(70,311)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest revenue	<u>201</u>	<u>134</u>	<u>335</u>
Total nonoperating revenues (expenses)	<u>201</u>	<u>134</u>	<u>335</u>
<b>Income (Loss) Before Transfers</b>	1,741	(71,717)	(69,976)
Transfers in			-
Transfers out	<u>(7,000)</u>	<u>-</u>	<u>(7,000)</u>
<b>Change in Net Assets</b>	(5,259)	(71,717)	(76,976)
<b>Net Assets, Beginning of Year</b>	<u>2,624,189</u>	<u>117,682</u>	<u>2,741,871</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,618,930</u>	<u>\$ 45,965</u>	<u>\$ 2,664,895</u>

**City of Lancaster, Texas**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**Year Ended September 30, 2011**

	<b>Golf Course Fund</b>	<b>Refuse Fund</b>	<b>Total Nonmajor Enterprise Fund</b>
<b>Operating Activities</b>			
Receipts from customers and users	\$ 9,566	\$ 2,061,209	\$ 2,070,775
Payments to employees	-	4,876	4,876
Payments to suppliers	(4,053)	(2,169,792)	(2,173,845)
Net cash provided by (used in) operating activities	<u>5,513</u>	<u>(103,707)</u>	<u>(98,194)</u>
<b>Capital and Related Financing Activities</b>			
Acquisition and construction of fixed assets	(1,349)	-	(1,349)
Net cash used in capital and financing activities	<u>(1,349)</u>	<u>-</u>	<u>(1,349)</u>
<b>Noncapital and Related Financing Activities</b>			
Operating transfers out to other funds	(7,000)	-	(7,000)
Proceeds from other nonoperating revenue	201	135	336
Net cash provided by (used in) noncapital financing activities	<u>(6,799)</u>	<u>135</u>	<u>(6,664)</u>
<b>Decrease in Cash and Cash Equivalents</b>	(2,635)	(103,572)	(106,207)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>144,567</u>	<u>103,572</u>	<u>248,139</u>
<b>Cash and Cash Equivalents, End of year</b>	<u>\$ 141,932</u>	<u>\$ -</u>	<u>\$ 141,932</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities</b>			
Operating gain (loss)	1,540	(71,851)	(70,311)
Items not requiring (providing) cash			
Depreciation and amortization	78,949	-	78,949
Changes in			
Accounts receivable	-	(63,731)	(63,731)
Accounts payable	(74,976)	25,667	(49,309)
Accrued expenses	-	6,208	6,208
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u>\$ 5,513</u>	<u>\$ (103,707)</u>	<u>\$ (98,194)</u>

**City of Lancaster, Texas**  
**Discretely Presented Component Units**  
**September 30, 2011**

**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, 2011**

**Assets**

Cash and cash equivalents	\$ 2,704,046
Sales tax receivable	188,305
Prepaid expenses	<u>580</u>
 Total assets	 <u>2,892,931</u>

**Liabilities**

Accounts payable	5,366
Accrued liabilities	<u>1,620</u>
 Total liabilities	 <u>6,986</u>

**Fund Balance**

Unrestricted	<u>2,885,945</u>
--------------	------------------

**Total Fund Balance**

2,885,945

**Total Liabilities and Fund Balance**

\$ 2,892,931

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**Economic Development Corporation**  
**September 30, 2011**

Total fund balance – governmental funds	\$ 2,885,945
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.	(14,094)
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>(2,655,000)</u>
Total net assets – governmental activities	<u><u>\$ 317,229</u></u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Economic Development Corporation**  
**Year Ended September 30, 2011**

<b>Revenues</b>	
Taxes and fees	\$ 944,875
Interest	<u>3,290</u>
Total revenues	<u>948,165</u>
<b>Expenditures</b>	
Cultural and recreation	312,005
Debt service	
Principal retirement	115,000
Interest and fiscal charges	<u>112,750</u>
Total expenditures	<u>539,755</u>
Excess of revenues over expenditures	408,410
<b>Fund Balance, Beginning of Year</b>	<u>2,477,535</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 2,885,945</u></u>

**City of Lancaster, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balance of Governmental Funds to the**  
**Statement of Activities**  
**Economic Development Corporation**  
**Year Ended September 30, 2011**

Net change in fund balances	\$ 408,410
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of activities are different because:</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.	115,000
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in Governmental Funds.	<hr style="width: 100%;"/> 287
Change in net assets of governmental activities	<hr style="width: 100%;"/> \$ 523,697 <hr style="width: 100%;"/>

**City of Lancaster, Texas**  
**Balance Sheet**  
**Recreational Development Corporation**  
**September 30, 2011**

**Assets**

Cash and cash equivalents	\$	537,568
Receivables		
Sales tax		362,889
Prepaid expenses		<u>7,250</u>
Total assets		907,707

**Liabilities**

Accounts payable		156,931
Accrued liabilities		73,484
Due to primary government		<u>528,753</u>
Total liabilities		<u>759,168</u>

**Fund Balance**

Unreserved and undesignated		<u>148,539</u>
<b>Total Fund Balance</b>		<u>148,539</u>
<b>Total Liabilities and Fund Balance</b>	<b>\$</b>	<b><u><u>907,707</u></u></b>

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of Governmental Funds to the**  
**Statement of Net Assets**  
**Recreational Development Corporation**  
**September 30, 2011**

Total fund balance – governmental funds	\$ 148,539
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.	13,150,346
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.	(49,287)
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. Long-term liabilities at year-end consist of a note payable.	<u>(9,120,000)</u>
Total net assets – governmental activities	<u><u>\$ 4,129,598</u></u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Recreational Development Corporation**  
**Year Ended September 30, 2011**

<b>Revenues</b>	
Taxes and fees	\$ 1,877,225
Charges for services	554,944
Intergovernmental	52,037
Miscellaneous	<u>629,418</u>
Total revenues	<u>3,113,624</u>
<b>Expenditures</b>	
Cultural and recreation	1,728,547
Capital outlay	12,302
Debt service	
Principal retirement	515,000
Interest and fiscal charges	<u>394,565</u>
Total expenditures	<u>2,650,414</u>
Excess of revenues over expenditures	463,210
<b>Fund Deficit, Beginning of Year</b>	<u>(314,671)</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 148,539</u></u>

**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**  
**Year Ended September 30, 2011**

Net change in fund balance	\$ 463,210
<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>	12,302
<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>	(767,802)
<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>	515,000
<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>1,111</u>
Change in net assets of governmental activities	<u><u>\$ 223,821</u></u>