

CITY OF LANCASTER, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2010**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster (the City) as of and for the year ended September 30, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administration. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position, where applicable, cash flows and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2011, 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.

City of Lancaster
August 16, 2011

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The accompanying management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules on pages 3 through 11 and 47, 48,49, and 51, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
August 16, 2011

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. 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 2010, resulting in \$104,642,340 of net assets. Net assets associated with governmental activities are approximately \$58 million, or 56% of the total net assets of the City. Net assets associated with business-type activities are approximately \$47 million, or 44% of the total net assets of the City. The largest portion of net assets consists of invested in capital assets, net of related debt, which is approximately \$90 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$8 million, or 8% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$6 million, or 10% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$2 million, or 4% of total net assets for business-type activities.
- As of the close of fiscal year 2010, the City of Lancaster's governmental funds reported a combined ending fund balance of \$25,735,296 an increase of \$27,969,592 from the prior year. A significant portion of the increase is in the capital projects fund. Bonds of \$34,995,000 were sold in fiscal year 2010 to pay for construction.
- At the end of the current fiscal year, total fund balance for the general fund was \$3,757,580. This represents approximately 18% of general fund expenditures which is more than the 15% required by the City's adopted fund balance policy. Of this amount, 95.40% is available for spending at the government's discretion (unreserved fund balance).
- The City's total capital assets net of accumulated depreciation increased by approximately \$9 million which is primarily attributed to additions to the construction of City buildings and improvements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

The government-wide financial statements can be found on pages 12 through 14 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010

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

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

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

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

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

The proprietary fund financial statements can be found on pages 19 through 21 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 22 through 46 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2010, the City of Lancaster assets exceeded its liabilities by \$104,642,340.

The largest portion of the City's net assets, 86%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 6%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$7,997,135 or 8%, 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 2010	Business-type Activities 2010	Total 2010	Governmental Activities 2009	Business-type Activities 2009	Total 2009
Current and Other Assets	\$ 43,316,779	\$ 10,048,366	\$ 53,365,145	\$ 15,805,224	\$ 15,779,059	\$ 31,584,283
Capital Assets	99,407,986	47,685,560	147,093,546	94,214,821	43,713,430	137,928,251
Total Assets	<u>\$ 142,724,765</u>	<u>\$ 57,733,926</u>	<u>\$ 200,458,691</u>	<u>\$ 110,020,045</u>	<u>\$ 59,492,489</u>	<u>\$ 169,512,534</u>
Long-Term Liabilities	\$ 80,566,819	9,468,374	\$ 90,035,193	\$ 45,441,312	\$ 10,541,373	\$ 55,982,685
Other Liabilities	4,054,757	1,726,401	5,781,158	3,314,768	1,641,803	4,956,571
Total Liabilities	<u>\$ 84,621,576</u>	<u>\$ 11,194,775</u>	<u>\$ 95,816,351</u>	<u>\$ 48,756,080</u>	<u>\$ 12,183,176</u>	<u>\$ 60,939,256</u>
Net Assets:						
Invested in Capital assets, net of Related Debt	\$ 51,819,877	\$ 38,435,110	\$ 90,254,987	\$ 40,366,067	\$ 33,653,811	\$ 74,019,878
Restricted	222,762	6,167,456	6,390,218	620,279	6,059,825	6,680,104
Unrestricted	6,060,550	1,936,585	7,997,135	20,277,619	7,595,677	27,873,296
Total Net Assets	<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>	<u>\$ 61,263,965</u>	<u>\$ 47,309,313</u>	<u>\$ 108,573,278</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

Analysis of City's Operations The following table provides a summary of the City's operations for the year ended September 30, 2010. Overall, the City had a decrease in net assets of \$3,930,938.

	Governmental Activities 2010	Business-type Activities 2010	Total 2010	Governmental Activities 2009	Business-type Activities 2009	Total 2009
REVENUES:						
Program Revenues:						
Charges for Services	\$ 3,198,615	\$ 13,372,728	\$ 16,571,343	\$ 3,229,244	\$ 12,957,175	\$ 16,186,419
Operating Grant & Contribution	8,817,871	382,600	9,200,471	8,424,486	30,695	8,455,181
Capital Grants & Contributions	1,866,380	565,364	2,431,744	1,384,895	530,710	1,915,605
General Revenue						
Taxes & Fees	18,566,343	-	18,566,343	19,277,229	-	19,277,229
Others	1,410,397	40,060	1,450,457	1,537,715	52,271	1,589,986
Total Revenues	33,859,606	14,360,752	48,220,358	33,853,569	13,570,851	47,424,420
Program Expenses						
General Government	4,603,846	-	4,603,846	3,689,422	-	3,689,422
Public Safety	14,829,005	-	14,829,005	14,487,896	-	14,487,896
Public Works	5,678,976	-	5,678,976	4,902,806	-	4,902,806
Community Development and Recreation	1,317,628	-	1,317,628	1,506,422	-	1,506,422
Social and Welfare	8,599,376	-	8,599,376	8,496,435	-	8,496,435
Interest and Fiscal Charges	2,880,768	-	2,880,768	2,053,606	-	2,053,606
Water & Sewer	-	10,082,971	10,082,971	-	9,621,112	9,621,112
Refuse	-	1,769,530	1,769,530	-	135,276	135,276
Airport	-	810,211	810,211	-	1,247,727	1,247,727
Golf Course	-	86,966	86,966	-	923,923	923,923
Total Expenses	37,909,599	12,749,678	50,659,277	35,136,587	11,928,038	47,064,625
Increase (decrease in net assets before transfers)						
	(4,049,993)	1,611,074	(2,438,919)	(1,283,018)	1,642,813	359,795
Transfers	2,381,236	(2,381,236)	-	1,327,236	(1,327,236)	-
Change in Net Assets	(1,668,757)	(770,162)	(2,438,919)	44,218	315,577	359,795
Net Assets - Beginning	61,263,965	47,309,313	108,573,278	61,219,747	46,993,736	108,213,483
Prior Period Adjustment	(1,492,019)	-	(1,492,019)	-	-	-
Net Assets - Beginning, as Restated	59,771,946	47,309,313	107,081,259	61,219,747	46,993,736	108,213,483
Net Assets - Ending	\$ 58,103,189	\$ 46,539,151	\$ 104,642,340	\$ 61,263,965	\$ 47,309,313	\$ 108,573,278

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

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 \$25,735,296, an increase of \$27,969,592 from the prior year. This amount includes fund balance reserved for debt service of \$1,081,805 and reserved for inventory and prepaid items of \$690,548. The net unreserved fund balance was \$23,796,351, an increase of \$26,784,821 from prior year. The majority of this increase was due to the sale of bonds in fiscal year 2010 to pay for construction.

In the General Fund, the original budget projected a \$44,241 increase in fund balance this fiscal year, however the actual decrease was \$150,748. The largest area of decrease was in building permit fees which is related to the national housing crisis and recession.

The HUD Fund has a total fund balance of \$960,264 an increase of \$76,186 from the prior year. The budget includes a planned reduction in housing assistance based on a decrease in revenues from HUD due to overall economic conditions.

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 \$1,936,585. The total decrease in net assets was \$0.8 million from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amount to \$147,093,546 (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	
	2009	2010	2009	2010	2009	2010
Land	\$ 11,999,383	\$ 12,337,857	\$ 3,596,261	\$ 4,879,781	\$ 15,595,644	\$ 17,217,638
Buildings	22,769,952	24,487,196	4,867,634	4,941,048	27,637,586	29,428,244
Equipment	14,608,568	15,425,946	2,658,003	2,803,307	17,266,571	18,229,253
Construction in Progress	4,037,011	3,779,844	1,945,797	4,562,766	5,982,808	8,342,610
Other Structures	-	-	936,717	951,622	936,717	951,622
Improvements	1,660,169	1,660,169	54,967,088	55,664,932	56,627,257	57,325,101
Streets and Bridges	77,346,463	83,860,110	-	-	77,346,463	83,860,110
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways & Taxiways	-	-	2,796,087	3,410,079	2,796,087	3,410,079
Accumulated Depreciation	(45,526,344)	(49,462,755)	(28,054,157)	(29,527,975)	(73,580,501)	(78,990,730)
Total	\$ 94,214,821	\$ 99,407,986	\$ 43,713,430	\$ 47,685,560	\$ 137,928,251	\$ 147,093,546

Long-term Debt At the end of the current fiscal year, the City had total bonds outstanding of \$86,455,002. Of this amount \$86,005,002 is tax supported debt. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

	Governmental Activities		Business-Type Activities		Totals	
	2009	2010	2009	2010	2009	2010
General Obligation Bonds	\$ 30,181,531	\$ 52,441,531	\$ 6,153,471	\$ 5,648,471	\$ 36,335,002	\$ 58,090,002
Certificates of Obligation	13,710,000	25,345,000	2,770,000	2,570,000	16,480,000	27,915,000
Notes payable	-	-	417,356	152,560	417,356	152,560
Revenue Bonds	-	-	530,000	450,000	530,000	450,000
Capital Leases	715,197	498,961	452,545	447,600	1,167,742	946,561
Total	\$ 44,606,728	\$ 78,285,492	\$ 10,323,372	\$ 9,268,631	\$ 54,930,100	\$ 87,554,123

The City's total long-term debt increased by \$32,624,023, during the current fiscal year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

Long-term Debt - continued

- The City issued \$22,995,000 General Obligation Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment) and \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds – Direct Payment) on March 15, 2010 and payable on February 15 and August 15 of each year, commencing on February 15, 2011, until maturity or prior redemption.

Proceeds from the sale of the Bonds will be used for (i) constructing and equipping permanent public improvements, and (ii) to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for: (a) improvements to the Lancaster Municipal airport; (b) acquisition of land at the south end of the runway for the expansion of the Lancaster Municipal Airport; (c) City-wide park design, renovations, improvements and equipping of such parks; (d) City-wide hike and bike trail design and construction, and equipping of such trails; (e) City-wide sidewalk design and construction; (f) Design, construction and the equipping thereof of a retaining wall in the Westwood neighborhood, including drainage improvements incidental thereto; (g) Design of the Nokomis Road Bridge at Ten Mile Creek; (h) Street and alley design, improvements and the equipping thereof, including drainage improvements incidental thereto; (i) Acquisition of the right-of-way for Longhorn Drive to extend it to the I-20 Service Road; (j) Design, renovation and improvements to Historic Town Square and the Municipal Court, including the beautification, improvements, landscaping, the addition of sidewalks and parking lots, infrastructure improvements, and the equipping thereof; (k) Purchase of police cars and fleet trucks; and (l) payment for professional services rendered in connection with the above listed projects.

The City has designated all of each series of the Bonds and Certificates as “Build America Bonds” under and pursuant to the Federal American Recovery and Reinvestment Act of 2009, and in accordance with the guidance included in the Internal Revenue Service’s Notice 2009-26, effective as of April 3, 2009, and has irrevocably elected to receive directly from the United States Department of the Treasury direct subsidy payments equal to 35% of the interest payable by the City.

Economic Factor and Next Year’s Budgets and Rates

In the fiscal year 2011 budget, general fund revenues are budgeted to decrease by 4.0% from the 2010 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 20% of budgeted revenues.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2010**

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, TX 75146, email shaynes@lancaster-tx.com.

BASIC FINANCIAL STATEMENTS

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
ASSETS					
Cash and cash equivalents	\$ 25,583,636	\$ 7,228,469	\$ 32,812,105	\$ 2,339,745	\$ 25,422
Receivables (net of allowance)					
Notes	12,405,000	-	12,405,000	-	-
Delinquent taxes	1,181,333	-	1,181,333	-	-
Accounts	1,045,301	1,737,883	2,783,184	-	26
Sales tax	781,294	-	781,294	149,996	312,518
Fines	113,580	-	113,580	-	-
Due from other governments	13,092	-	13,092	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid items	686,637	-	686,637	-	-
Inventory	3,911	46,175	50,086	-	-
Debt issuance costs	974,242	282,282	1,256,524	-	-
Restricted assets:					
Cash and cash equivalents	-	753,557	753,557	-	-
Capital assets:					
Land and construction in progress	16,117,701	9,442,547	25,560,248	100,378	989,118
Other capital assets, net of accumulated depreciation	83,290,285	38,243,013	121,533,298	-	12,916,728
Total assets	142,724,765	57,733,926	200,458,691	2,590,119	14,243,812
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts and contracts payable	1,714,549	640,613	2,355,162	4,657	45,634
Accrued liabilities	699,862	278,597	978,459	7,549	78,250
Accrued interest	1,099,766	53,634	1,153,400	14,381	50,398
Due to primary government	-	-	-	-	528,753
Deposits	75,580	753,557	829,137	-	-
Deferred Revenue	465,000	-	465,000	-	-
Noncurrent liabilities:					
Due within one year	1,892,380	1,374,571	3,266,951	115,000	515,000
Due in more than one year	78,674,439	8,093,803	86,768,242	2,655,000	9,120,000
Total Liabilities	84,621,576	11,194,775	95,816,351	2,796,587	10,338,035
Net Assets:					
Invested in capital assets, net of related debt	51,819,877	38,435,110	90,254,987	100,378	4,270,846
Restricted for debt service	222,762	731,987	954,749	-	-
Restricted for capital	-	5,435,469	5,435,469	-	-
Unrestricted	6,060,550	1,936,585	7,997,135	(306,846)	(365,069)
Total Net Assets	\$ 58,103,189	\$ 46,539,151	\$ 104,642,340	\$ (206,468)	\$ 3,905,777

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

**CITY OF LANCASTER
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2010**

Functions/Programs	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 4,603,846	\$ -	\$ -	\$ -
Public safety	14,829,005	1,759,747	-	59,316
Public works	5,678,976	920,361	-	898,883
Community development and recreation	1,317,628	518,507	3,234	908,181
Social and welfare	8,599,376	-	8,814,637	-
Interest and fiscal charges	2,880,768	-	-	-
Total governmental activities	<u>37,909,599</u>	<u>3,198,615</u>	<u>8,817,871</u>	<u>1,866,380</u>
Business-type activities:				
Water and sewer	10,082,971	10,924,161	-	565,364
Refuse	1,769,530	1,799,068	-	-
Airport	810,211	576,949	382,600	-
Golf course	86,966	72,550	-	-
Total business-type activities	<u>12,749,678</u>	<u>13,372,728</u>	<u>382,600</u>	<u>565,364</u>
Total primary government	<u>\$ 50,659,277</u>	<u>\$ 16,571,343</u>	<u>\$ 9,200,471</u>	<u>\$ 2,431,744</u>
Component Units:				
Lancaster Economic Development Corporation	\$ 411,082	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	2,988,063	480,677	22,996	-
	<u>\$ 3,399,145</u>	<u>\$ 480,677</u>	<u>\$ 22,996</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

PRIOR PERIOD ADJUSTMENT

NET ASSETS (DEFICIT), end of year

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

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

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
\$ (4,603,846)	\$ -	\$ (4,603,846)	\$ -	\$ -
(13,009,942)	-	(13,009,942)	-	-
(3,859,732)	-	(3,859,732)	-	-
112,294	-	112,294	-	-
215,261	-	215,261	-	-
(2,880,768)	-	(2,880,768)	-	-
<u>(24,026,733)</u>	<u>-</u>	<u>(24,026,733)</u>	<u>-</u>	<u>-</u>
-	1,406,554	1,406,554	-	-
-	29,538	29,538	-	-
-	149,338	149,338	-	-
-	(14,416)	(14,416)	-	-
-	1,571,014	1,571,014	-	-
<u>\$ (24,026,733)</u>	<u>\$ 1,571,014</u>	<u>\$ (22,455,719)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (411,082)	\$ -
-	-	-	-	(2,484,390)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (411,082)</u>	<u>\$ (2,484,390)</u>
12,194,286	-	12,194,286	-	-
4,532,556	-	4,532,556	906,511	1,814,922
1,722,966	-	1,722,966	-	-
116,535	-	116,535	-	-
36,118	15,963	52,081	2,973	7
1,374,279	24,097	1,398,376	-	8,536
2,381,236	(2,381,236)	-	-	-
<u>22,357,976</u>	<u>(2,341,176)</u>	<u>20,016,800</u>	<u>909,484</u>	<u>1,823,465</u>
(1,668,757)	(770,162)	(2,438,919)	498,402	(660,925)
61,263,965	47,309,313	108,573,278	(704,870)	4,566,702
<u>(1,492,019)</u>	<u>-</u>	<u>(1,492,019)</u>	<u>-</u>	<u>-</u>
<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>	<u>\$ (206,468)</u>	<u>\$ 3,905,777</u>

**CITY OF LANCASTER
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

ASSETS	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,235,147	\$ 1,027,265	\$ 20,062,609	\$ 1,054,451	\$ 204,164	\$ 25,583,636
Receivables (net of allowance for uncollectibles):						
Notes	-	-	-	12,405,000	-	12,405,000
Delinquent taxes	906,504	-	-	268,077	6,752	1,181,333
Accounts	456,952	-	382,600	-	205,749	1,045,301
Sales tax	781,294	-	-	-	-	781,294
Fines	113,580	-	-	-	-	113,580
Due from:						
Other funds	-	-	-	-	38,051	38,051
Other governments	13,092	-	-	-	-	13,092
Component unit	528,753	-	-	-	-	528,753
Inventory, at cost	3,911	-	-	-	-	3,911
Prepaid items	2,411	-	-	-	684,226	686,637
TOTAL ASSETS	\$ 6,041,644	\$ 1,027,265	\$ 20,445,209	\$ 13,727,528	\$ 1,138,942	\$ 42,380,588
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and contracts payable	\$ 620,040	\$ 10,627	\$ 1,017,047	\$ -	\$ 66,835	\$ 1,714,549
Accrued liabilities	588,849	56,374	-	-	54,639	699,862
Deposits	75,580	-	-	-	-	75,580
Due to:						
Other funds	-	-	-	-	38,051	38,051
Deferred revenue	999,595	-	-	12,645,723	471,932	14,117,250
Total liabilities	2,284,064	67,001	1,017,047	12,645,723	631,457	16,645,292
Fund balances:						
Reserved for:						
Debt service	-	-	-	1,081,805	-	1,081,805
Inventory and prepaid items	6,322	-	-	-	684,226	690,548
Court technology	35,871	-	-	-	-	35,871
Westood wall	30,000	-	-	-	-	30,000
Unreserved, designated reported in:						
General fund	100,721	-	-	-	-	100,721
Unreserved and undesignated	3,584,666	960,264	19,428,162	-	(176,741)	23,796,351
Total fund balances	3,757,580	960,264	19,428,162	1,081,805	507,485	25,735,296
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,041,644	\$ 1,027,265	\$ 20,445,209	\$ 13,727,528	\$ 1,138,942	\$ 42,380,588

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

**CITY OF LANCASTER
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2010**

Total fund balance-governmental funds	\$ 25,735,296
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and are capitalized and amortized over the life of the debt in the government-wide statements.	974,242
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.	99,407,986
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.	(1,099,766)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	1,247,250
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.	12,405,000
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	(52,441,531)
Certificates of obligation bonds	(25,345,000)
OPEB liability	(23,320)
Premium payable	(291,946)
Capital lease	(498,961)
Compensated absences	(2,733,874)
Deferred loss on refunding	767,813
Total net assets - governmental activities	\$ 58,103,189

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

CITY OF LANCASTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes and fees	\$ 16,014,357	\$ -	\$ -	\$ 2,555,547	\$ 1,068,475	\$ 19,638,379
Licenses and permits	502,940	-	-	-	305,005	807,945
Intergovernmental	295,736	8,733,102	608,681	1,133,866	299,500	11,070,885
Charges for services	516,420	-	-	-	-	516,420
Fines and forfeits	839,868	-	67,029	-	-	906,897
Interest	7,073	1,679	24,582	2,061	723	36,118
Miscellaneous	604,188	81,575	-	10,102	31,597	727,462
Total revenues	18,780,582	8,816,356	700,292	3,701,576	1,705,300	33,704,106
EXPENDITURES:						
Current:						
General government	3,332,021	-	-	-	-	3,332,021
Public safety	13,416,346	-	339	-	589,743	14,006,428
Public works	3,243,523	-	-	-	761,607	4,005,130
Community development and recreation	1,010,385	-	-	-	176,302	1,186,687
Social and welfare	-	8,599,376	-	-	-	8,599,376
Capital outlay	360,037	78,794	7,337,728	-	449,993	8,226,552
Debt service:						
Principal retirement	54,254	-	-	1,291,236	25,000	1,370,490
Interest and fiscal charges	-	-	443,781	1,915,247	25,038	2,384,066
Total expenditures	21,416,566	8,678,170	7,781,848	3,206,483	2,027,683	43,110,750
Excess (deficiency) of revenues over (under) expenditures	(2,635,984)	138,186	(7,081,556)	495,093	(322,383)	(9,406,644)
Other financing sources (uses):						
Operating transfers in	2,485,236	-	-	-	-	2,485,236
Operating transfers out	-	(62,000)	-	-	(42,000)	(104,000)
Bonds issued	-	-	34,995,000	-	-	34,995,000
Total other financing sources (uses)	2,485,236	(62,000)	34,995,000	-	(42,000)	37,376,236
Net change in fund balances	(150,748)	76,186	27,913,444	495,093	(364,383)	27,969,592
Fund balances, beginning of year	3,908,328	884,078	(8,485,282)	586,712	871,868	(2,234,296)
Fund balances, end of year	<u>\$ 3,757,580</u>	<u>\$ 960,264</u>	<u>\$ 19,428,162</u>	<u>\$ 1,081,805</u>	<u>\$ 507,485</u>	<u>\$ 25,735,296</u>

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

**CITY OF LANCASTER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - total governmental funds		\$ 27,969,592
<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>		8,230,693
<p>Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.</p>		898,883
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>		(3,936,411)
<p>Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:</p>		
General and certificates of obligation bonds	\$ 1,100,000	
Capital leases	<u>216,236</u>	1,316,236
<p>The issuance of long term debt, such as bonds and capital leases, are shown as "Other Sources" and "Other Uses" in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:</p>		
Issuance of Bonds	\$ (34,995,000)	
Bond Issuance Costs	443,781	
Amortization of issuance costs	(38,787)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>13,605</u>	(34,632,065)
<p>Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>		87,335
<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>		(859,637)
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.</p>		<u>(743,383)</u>
Change in net assets of governmental activities		<u>\$ (1,668,757)</u>

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

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010**

ASSETS	Water and Sewer	Non-major Enterprise Funds	Total Proprietary Funds
Current assets:			
Cash and cash equivalents	\$ 6,980,140	\$ 248,329	\$ 7,228,469
Receivables (net of allowance for uncollectibles):			
Accounts	844,700	130,259	974,959
Unbilled	675,718	87,206	762,924
Due from other funds	2,851,393	-	2,851,393
Inventory	-	46,175	46,175
Total current assets	11,351,951	511,969	11,863,920
Restricted assets:			
Cash	753,557	-	753,557
Deferred bond issuance costs	279,183	3,099	282,282
Capital assets:			
Non-depreciable	4,648,327	4,794,220	9,442,547
Depreciable (net of accumulated depreciation)	34,546,311	3,696,702	38,243,013
TOTAL ASSETS	51,579,329	9,005,990	60,585,319
LIABILITIES			
Current liabilities:			
Accounts and contracts payable	352,416	288,197	640,613
Accrued liabilities	248,427	30,170	278,597
Accrued interest	51,385	2,249	53,634
Due to other funds	-	2,851,393	2,851,393
Deposits	753,557	-	753,557
Total current liabilities	1,405,785	3,172,009	4,577,794
Non-current liabilities:			
Due within one year	1,282,910	91,661	1,374,571
Due in more than one year	7,877,937	215,866	8,093,803
Total non-current liabilities	9,160,847	307,527	9,468,374
TOTAL LIABILITIES	10,566,632	3,479,536	14,046,168
NET ASSETS			
Invested in capital assets, net of related debt	30,092,306	8,342,804	38,435,110
Restricted for debt service	731,987	-	731,987
Restricted for capital	5,435,469	-	5,435,469
Unrestricted	4,752,935	(2,816,350)	1,936,585
TOTAL NET ASSETS	\$ 41,012,697	\$ 5,526,454	\$ 46,539,151

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

**CITY OF LANCASTER
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 10,676,700	\$ 2,448,567	\$ 13,125,267
Intergovernmental	-	382,600	382,600
Miscellaneous	139,830	-	139,830
Total operating revenues	<u>10,816,530</u>	<u>2,831,167</u>	<u>13,647,697</u>
OPERATING EXPENSES:			
Personnel services	1,244,262	216,747	1,461,009
Maintenance	411,567	157,673	569,240
Purchase of water	2,197,353	-	2,197,353
Materials and supplies	70,754	298,892	369,646
Heat, light and power	147,403	33,215	180,618
Depreciation	1,384,054	89,764	1,473,818
Benefit payments	395,544	56,325	451,869
Sewage treatment	3,520,703	-	3,520,703
Special services	301,678	1,760,565	2,062,243
Equipment rental	6,071	29,726	35,797
Total operating expenses	<u>9,679,389</u>	<u>2,642,907</u>	<u>12,322,296</u>
OPERATING INCOME	<u>1,137,141</u>	<u>188,260</u>	<u>1,325,401</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	15,607	356	15,963
Interest and fiscal charges	(403,582)	(23,800)	(427,382)
Impact fee revenue	107,631	-	107,631
Other nonoperating revenue	-	24,097	24,097
Total nonoperating revenues (expenses)	<u>(280,344)</u>	<u>653</u>	<u>(279,691)</u>
INCOME BEFORE TRANSFERS	<u>856,797</u>	<u>188,913</u>	<u>1,045,710</u>
CONTRIBUTIONS AND TRANSFERS:			
Capital contributions	565,364	-	565,364
Operating transfers out	(2,374,236)	(7,000)	(2,381,236)
Total contributions and transfers	<u>(1,808,872)</u>	<u>(7,000)</u>	<u>(1,815,872)</u>
CHANGE IN NET ASSETS	(952,075)	181,913	(770,162)
NET ASSETS, BEGINNING OF YEAR	<u>41,964,772</u>	<u>5,344,541</u>	<u>47,309,313</u>
NET ASSETS, END OF YEAR	<u>\$ 41,012,697</u>	<u>\$ 5,526,454</u>	<u>\$ 46,539,151</u>

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

**CITY OF LANCASTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	Water and Sewer Fund	Non-major Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 10,741,960	\$ 2,805,982	\$ 13,547,942
Receipts from other funds	5,005,178	2,046,817	7,051,995
Payments to employees	(1,644,718)	(267,174)	(1,911,892)
Payments to suppliers	(6,656,352)	(2,234,571)	(8,890,923)
Net cash provided by operating activities	<u>7,446,068</u>	<u>2,351,054</u>	<u>9,797,122</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,814,013)	(2,066,571)	(4,880,584)
Principal payments on debt	(775,000)	(274,796)	(1,049,796)
Interest payments on debt	(405,546)	(23,830)	(429,376)
Payments on capital leases	(4,945)	-	(4,945)
Impact fees collected	107,631	-	107,631
Net cash used in capital and related financing activities	<u>(3,891,873)</u>	<u>(2,365,197)</u>	<u>(6,257,070)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers out to other funds	(2,374,236)	(7,000)	(2,381,236)
Proceeds from other nonoperating revenue	-	24,097	24,097
Net cash provided by (used in) noncapital financing activities	<u>(2,374,236)</u>	<u>17,097</u>	<u>(2,357,139)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	15,607	356	15,963
Net increase in cash and cash equivalents	1,195,566	3,310	1,198,876
Cash and cash equivalents, beginning of year	6,538,131	245,019	6,783,150
Cash and cash equivalents, end of year	<u>\$ 7,733,697</u>	<u>\$ 248,329</u>	<u>\$ 7,982,026</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Unrestricted cash and cash equivalents	\$ 6,980,140	\$ 248,329	\$ 7,228,469
Restricted cash and cash equivalents	753,557	-	753,557
Total cash and cash equivalents	<u>\$ 7,733,697</u>	<u>\$ 248,329</u>	<u>\$ 7,982,026</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 1,137,141	\$ 188,260	\$ 1,325,401
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,384,054	89,350	1,473,404
Provision for bad debts	141,992	-	141,992
Change in assets and liabilities:			
Accounts receivable	(269,669)	(25,185)	(294,854)
Due to/ from other funds	5,005,178	2,046,817	7,051,995
Prepays	-	10,534	10,534
Accounts and contracts payable	(697)	18,502	17,805
Accrued liabilities	(126)	16,977	16,851
Deposits	53,107	-	53,107
Compensated absences	(4,912)	5,799	887
Net cash provided by operating activities	<u>\$ 7,446,068</u>	<u>\$ 2,351,054</u>	<u>\$ 9,797,122</u>

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Presentation

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Presentation – Continued

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

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

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

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

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

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

C. Measurement Focus

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

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

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus – Continued

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Cash Flows Statement

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

F. Investments

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

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

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

G. Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2010 were \$229,749 for uncollectible taxes, \$961,877 for water and sewer billings, \$75,730 for court fees and fines, and \$665,800 for ambulance fees is reflected in the financial statements.

H. Inventory

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

I. Prepaid Items

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. Interfund Receivables and Payables

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

K. Transactions Between Funds

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

L. Capital Assets

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

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

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

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The liability for unused vested vacation leave as of September 30, 2010, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the proprietary funds. The amount to be paid from current available financial resources is not considered significant.

NOTE 2. CASH AND INVESTMENTS

At year-end, the carrying amount of the City's bank deposits was \$1,749,250 (composed of \$1,574,210 related to the primary government and \$175,040 related to discretely presented component units) and the bank balances were \$2,094,161. The bank balances on September 30, 2010 were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements and municipal pools. During the year ended September 30, 2010, the City did not own any types of securities other than those permitted by the statute.

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

During the year ended September 30, 2010 the City invested in Texpool and LOGIC funds. Texpool is an investment fund authorized by the Texas Legislature and administered by the Texas State Treasury. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly the fair value of the position in TexPool is the same as the value of TexPool shares. Texpool is rated as a AAA money market fund by Standard and Poor's and Moody's.

Interest Rate Risk

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

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Credit Risk

In compliance with the City’s Investment Policy as of September 30, 2010, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, broker/dealers, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities are minimized.

Investments at year end are shown below:

	<u>Carrying amount</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>
Primary Government			
Texpool	\$ 12,946,363	\$ 12,946,363	0.003
LOGIC	19,045,089	19,045,089	0.003
Total Primary Government	<u>31,991,452</u>	<u>31,991,452</u>	
Component Units			
Texpool	1,540,145	1,540,145	0.003
LOGIC	649,982	649,982	0.003
Total Component Units	<u>2,190,127</u>	<u>2,190,127</u>	
Total	<u>\$ 34,181,579</u>	<u>\$ 34,181,579</u>	

NOTE 3. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Tax collections for the year ended September 30, 2010, 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, 2010, the City had a tax rate of \$.7775 per \$100 assessed valuation, of which \$.6441 was allocated for general government and \$.1334 was allocated for the payment of principal and interest on general obligation debt.

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

NOTE 3. PROPERTY TAXES – CONTINUED

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

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

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

NOTE 4. INTERFUND TRANSACTIONS

At September 30, 2010, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund	\$ -	\$ -	\$ 2,485,236	\$ -
HUD Fund	-	-	-	62,000
Capital Projects Fund	-	-	-	-
Non-major Governmental Funds	38,051	38,051	-	42,000
Water and Sewer Fund	2,851,393	-	-	2,374,236
Non-major Enterprise Funds	-	2,851,393	-	7,000
	<u>\$ 2,889,444</u>	<u>\$ 2,889,444</u>	<u>\$ 2,485,236</u>	<u>\$ 2,485,236</u>

The Water and Sewer Fund and Non-major Governmental Funds interfund receivables are a temporary cash overdraft for a Non-major Enterprise fund and Non-major Governmental Fund. The interfund transfer to the General Fund from the HUD Fund, Non-major Governmental Funds, Water and Sewer Funds, and Non-major Enterprise Funds is for indirect services provided by central service departments accounted for in the General Fund.

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

NOTE 5. FIXED ASSETS

Governmental Funds

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2009	Increases	Decreases	Transfers	Balance September 30, 2010
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 11,999,383	\$ 338,474	\$ -	\$ -	\$ 12,337,857
Construction in progress	4,037,011	2,747,596	-	(3,004,763)	3,779,844
Total capital assets not being depreciated	<u>16,036,394</u>	<u>3,086,070</u>	<u>-</u>	<u>(3,004,763)</u>	<u>16,117,701</u>
Capital assets being depreciated:					
Buildings	22,769,952	-	-	1,717,244	24,487,196
Improvements	86,326,251	5,226,128	-	1,287,519	92,839,898
Equipment and furniture	14,608,568	817,378	-	-	15,425,946
Total capital assets being depreciated	<u>123,704,771</u>	<u>6,043,506</u>	<u>-</u>	<u>3,004,763</u>	<u>132,753,040</u>
Less accumulated depreciation	<u>45,526,344</u>	<u>3,936,411</u>	<u>-</u>	<u>-</u>	<u>49,462,755</u>
Total capital assets being depreciated, net	<u>78,178,427</u>	<u>2,107,095</u>	<u>-</u>	<u>3,004,763</u>	<u>83,290,285</u>
Governmental activities capital assets, net	<u>\$ 94,214,821</u>	<u>\$ 5,193,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,407,986</u>

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

General and administrative	\$ 1,226,305
Public safety	893,092
Public works	1,677,339
Community development and recreation	<u>139,675</u>
Total depreciation expense - governmental activities	<u>\$ 3,936,411</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,596,261	\$ 1,283,520	\$ -	\$ 4,879,781
Construction in progress	1,945,797	2,616,969	-	4,562,766
Total capital assets not being depreciated	<u>5,542,058</u>	<u>3,900,489</u>	<u>-</u>	<u>9,442,547</u>
Capital assets being depreciated:				
Plants and buildings	4,867,634	73,414	-	4,941,048
Improvements	54,967,088	697,844	-	55,664,932
Runways and taxiways	2,796,087	613,992	-	3,410,079
Other structures	936,717	14,905	-	951,622
Machinery and equipment	2,658,003	145,304	-	2,803,307
Total capital assets being depreciated	<u>66,225,529</u>	<u>1,545,459</u>	<u>-</u>	<u>67,770,988</u>
Less accumulated depreciation	<u>28,054,157</u>	<u>1,473,818</u>	<u>-</u>	<u>29,527,975</u>
Total capital assets being depreciated, net	<u>38,171,372</u>	<u>71,641</u>	<u>-</u>	<u>38,243,013</u>
Business-type activities capital assets, net	<u>\$ 43,713,430</u>	<u>\$ 3,972,130</u>	<u>\$ -</u>	<u>\$ 47,685,560</u>

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

Water and sewer	\$ 1,384,054
Airport	22,930
Golf	<u>66,834</u>
 Total depreciation expense - business-type activities	 <u>\$ 1,473,818</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Discretely Presented Component Units

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

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Lancaster Economic Development Corporation: Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Lancaster Recreational Development Corporation: Capital assets not being depreciated:				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated:				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment amd furniture	384,299	46,447	-	430,746
Total capital assets being depreciated	20,147,468	46,447	-	20,193,915
Less accumulated depreciation	<u>6,493,925</u>	<u>783,262</u>	<u>-</u>	<u>7,277,187</u>
Total capital assets being depreciated, net	<u>13,653,543</u>	<u>(736,815)</u>	<u>-</u>	<u>12,916,728</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 14,642,661</u>	<u>\$ (736,815)</u>	<u>\$ -</u>	<u>\$ 13,905,846</u>

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

NOTE 6. LONG-TERM LIABILITIES

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

	Balance September 30, 2009	Prior Period Adjustment	Additions	Retirements	Balance September 30, 2010	Due Within One Year
Governmental activities						
General obligation bonds	\$ 30,181,531	\$ -	\$ 22,995,000	\$ (735,000)	\$ 52,441,531	\$ 825,000
Certificates of obligation	13,710,000	-	12,000,000	(365,000)	25,345,000	380,000
Premiums on bond debt	305,551	-	-	(13,605)	291,946	-
Deferred loss on refunding	(823,477)	-	-	55,664	(767,813)	-
Compensated absences	1,329,190	1,492,019	580,186	(667,521)	2,733,874	470,690
OPEB liability	23,320	-	-	-	23,320	-
Capital leases	715,197	-	-	(216,236)	498,961	216,690
Total governmental activities	\$ 45,441,312	\$ 1,492,019	\$ 35,575,186	\$ (1,941,698)	\$ 80,566,819	\$ 1,892,380
Business-type activities						
General obligation bonds	\$ 6,153,471	\$ -	\$ -	\$ (505,000)	\$ 5,648,471	\$ 535,000
Notes payable	417,356	-	-	(264,796)	152,560	80,008
Certificates of obligation	2,770,000	-	-	(200,000)	2,570,000	210,000
Premiums on bond debt	238,647	-	-	(28,377)	210,270	-
Deferred loss on refunding	(85,044)	-	-	9,153	(75,891)	-
Revenue bonds	530,000	-	-	(80,000)	450,000	80,000
Compensated absences	64,398	-	16,182	(15,216)	65,364	28,259
Capital leases	452,545	-	-	(4,945)	447,600	441,304
Total business-type activities	\$ 10,541,373	\$ -	\$ 16,182	\$ (1,089,181)	\$ 9,468,374	\$ 1,374,571
Discretely presented component units						
Notes payable to primary government	\$ 13,010,000	\$ -	\$ -	\$ (605,000)	\$ 12,405,000	\$ 630,000
Total discretely presented component units	\$ 13,010,000	\$ -	\$ -	\$ (605,000)	\$ 12,405,000	\$ 630,000

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

On March 15, 2010, the City sold \$22,995,000 General Obligation Build America Bonds and \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue, Certificates of Obligation Build America Bonds. The American Recovery and Reinvestment Act of 2009 authorized the City to issue taxable obligations to finance capital expenditures that could be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable obligations. The City will deposit the subsidy payments for the Bonds within the interest and sinking fund to be used to reduce the amount of regularly scheduled debt service payments on the Bonds.

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

General obligation bonds, revenue bonds, certificates of obligation, notes payable, and capital leases outstanding at September 30, 2010, consist of the following:

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>
<u>General Obligation Bonds</u>				
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 3.00% - 4.50%	\$ 11,856,531	\$ 371,191	\$ 77,280	\$ 12,305,002
\$24,300,000 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	17,590,000	5,130,000	70,000	22,790,000
\$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>22,995,000</u>
	<u>\$ 52,441,531</u>	<u>\$ 5,501,191</u>	<u>\$ 147,280</u>	<u>\$ 58,090,002</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>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 450,000</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%	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	10,945,000	2,570,000	-	13,515,000
\$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>12,000,000</u>
	<u>\$ 25,345,000</u>	<u>\$ 2,570,000</u>	<u>\$ -</u>	<u>\$ 27,915,000</u>

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
<u>Note payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% - 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 9,635,000
\$3,035,000 note payable, due in annual installments through February 15, 2032; 4.00% - 4.375%	-	-	-	-	2,770,000
\$812,500 note payable, due in quarterly installments through November 15, 2010; 6.5%	-	-	62,500	62,500	-
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	-	90,060	90,060	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,560</u>	<u>\$ 152,560</u>	<u>\$ 12,405,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011; 4.35% - 5.00%	\$ -	\$ 435,000	\$ -	\$ 435,000	\$ -
\$500,000 Lease Purchase Agreement, due in annual installments through January 1, 2012; 4.38%	182,877	12,600	-	195,477	-
\$260,128 Lease Purchase Agreement, due in annual installments through January 1, 2012; 4.38%	97,430	-	-	165,457	-
\$265,987 Lease Purchase Agreement, due in annual installments through September 30, 2015; 5.00%	218,654	-	-	218,654	-
	<u>\$ 498,961</u>	<u>\$ 447,600</u>	<u>\$ -</u>	<u>\$ 1,014,588</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, 2010, property and equipment under capital leases is carried at \$1,111,117, with \$283,652 in accumulated depreciation.

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

The annual requirements to amortize the long-term debt as of September 30, 2010 are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 825,000	\$ 3,032,724	\$ 3,857,724	\$ 535,000	\$ 252,435	\$ 787,435
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
2016-2020	10,180,139	10,949,010	21,129,149	2,489,862	253,485	2,743,347
2021-2025	12,231,392	8,253,768	20,485,160	243,609	22,715	266,324
2026-2030	9,635,000	5,542,413	15,177,413	-	-	-
2031-2035	7,570,000	2,935,022	10,505,022	-	-	-
2036-2040	6,075,000	1,025,060	7,100,060	-	-	-
Total	\$ 52,441,531	\$ 41,821,005	\$ 94,262,536	\$ 5,648,471	\$ 1,298,500	\$ 6,946,971

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 380,000	\$ 1,473,477	\$ 1,853,477	\$ 210,000	\$ 101,706	\$ 311,706
2012	695,000	1,243,736	1,938,736	220,000	93,106	313,106
2013	735,000	1,219,486	1,954,486	230,000	84,106	314,106
2014	780,000	1,192,184	1,972,184	240,000	74,706	314,706
2015	865,000	1,161,120	2,026,120	100,000	67,906	167,906
2016-2020	4,805,000	5,238,316	10,043,316	560,000	274,855	834,855
2021-2025	5,355,000	4,056,788	9,411,788	690,000	146,841	836,841
2026-2030	4,905,000	2,764,134	7,669,134	320,000	14,218	334,218
2031-2035	3,645,000	1,522,090	5,167,090	-	-	-
2036-2040	3,180,000	535,948	3,715,948	-	-	-
Total	\$ 25,345,000	\$ 20,407,279	\$ 45,752,279	\$ 2,570,000	\$ 857,444	\$ 3,427,444

Note Payable						
Fiscal Year	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 80,008	\$ 5,678	\$ 85,686	\$ 630,000	\$ 507,049	\$ 1,137,049
2012	18,588	3,660	22,248	650,000	484,190	1,134,190
2013	19,734	2,514	22,248	685,000	459,795	1,144,795
2014	20,951	1,297	22,248	715,000	433,360	1,148,360
2015	13,279	97	13,376	740,000	405,147	1,145,147
2016-2020	-	-	-	4,215,000	1,530,987	5,745,987
2021-2025	-	-	-	4,330,000	514,830	4,844,830
2026-2030	-	-	-	440,000	19,469	459,469
	\$ 152,560	\$ 13,246	\$ 165,806	\$ 12,405,000	\$ 4,354,827	\$ 16,759,827

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

Revenue Bonds			
Fiscal Year	Business-type Activities		
	Principal	Interest	Total
2011	\$ 80,000	\$ 24,775	\$ 104,775
2012	85,000	20,455	105,455
2013	90,000	15,823	105,823
2014	95,000	10,872	105,872
2015	100,000	5,600	105,600
Total	<u>\$ 450,000</u>	<u>\$ 77,525</u>	<u>\$ 527,525</u>

Fiscal Year	Governmental Activities			Business-type Activities		
	Capital Leases					
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 216,690	\$ 20,294	\$ 236,984	\$ 441,304	\$ 22,364	\$ 463,668
2012	150,534	5,864	156,398	6,296	277	6,573
2013	43,730	549	44,279	-	-	-
2014	43,912	367	44,279	-	-	-
2015	44,095	184	44,279	-	-	-
2016-2020	-	-	-	-	-	-
Total	<u>\$ 498,961</u>	<u>\$ 27,258</u>	<u>\$ 526,219</u>	<u>\$ 447,600</u>	<u>\$ 22,641</u>	<u>\$ 470,241</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 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.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Plan Description – Continued

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:

	12/31/09	12/31/08
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 70% of CPI	100% Repeating Transfers 70% of CPI
Annuity increase (to retirees)	Repeating	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).

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Annual Pension Cost

Contributions by the City were \$1,764,806, or 12.15% of the covered payroll of \$14,525,485 as required by the actuarial valuation. The total fiscal year 2010 payroll was \$13,565,513.

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

<u>Actuarial Information</u>	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
	Project Unit	Project Unit	Project Unit
Actuarial cost method	Credit	Credit	Credit
Amortization method	Level %	Level %	Level %
Amortization period	28 years-closed period	29 years-closed period	30 years-closed period
Asset valuation method	10-year smoothed market	Amortized cost	Amortized cost
Assumptions			
Investment return	7.5%	7.5%	7.0%
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	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High
 <u>Schedule of Funding Information</u>			
Actuarial valuation date	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
Actuarial Value of Assets	\$ 29,362,600	\$ 26,431,828	\$ 26,735,438
Actuarial Accrued Liability	\$ 45,558,535	\$ 42,814,837	\$ 42,017,867
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 16,195,935	\$ 16,383,009	\$ 15,282,429
Funded ratio	64.5%	61.7%	63.6%
Annual Covered Payroll	\$ 14,525,485	\$ 14,507,867	\$ 13,260,730
UAAL as a Percentage of Covered Payroll	111.5%	112.9%	115.2%

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Annual Pension Cost – Continued

The City’s net pension obligation (NPO) for TMRS at December 31, 2009, 2008 and 2007 is calculated as follows:

	December 31,		
	2009	2008	2007
Actuarial valuation date:			
NPO, beginning of the year	\$ -	\$ -	\$ -
Annual pension cost:			
Annual required contribution (ARC)	1,764,806	1,727,903	1,481,222
Contributions Made	(1,764,806)	(1,727,903)	(1,481,222)
NPO, end of the year	\$ -	\$ -	\$ -

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 postemployment 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, 2010, 2009 and 2008, were \$25,157, \$73,918, and \$111,113, respectively, which equaled the required contributions each year.

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

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

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

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

As of September 30, 2010, membership consisted of:

Retirees and beneficiaries receiving benefits	7
Active employees	275
Total	282

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
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

Annual OPEB Costs

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2010:

	2010
Annual required contribution	\$ 68,395
Interest on prior year Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	68,395
Contributions made	(68,395)
Increase in net OPEB obligation	-
Net Obligation - beginning of year	23,320
Net Obligation - end of year	\$ 23,320
Percentage of OPEB costs contributed	100.00%

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2009 was as follows:

Actuarial accrued liability	\$ 498,266
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 498,266
Funded ratio	0.0%
Covered payroll	14,525,485
Unfunded actuarial accrued liability as a percentage of covered payroll	3.43%

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

NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED

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, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. The rate of inflation is assumed to be 3%.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Risk Management

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

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby the Authority finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2010 was \$3,615,468. 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, 2010.

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

NOTE 9. COMMITMENTS AND CONTINGENCIES – CONTINUED

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2010 may be impaired.

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

Other Contingencies

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

NOTE 10. RESERVATIONS AND DESIGNATIONS OF FUND BALANCE / RETAINED EARNINGS

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Amounts are designated within the General Fund's unreserved fund balance as the City Council has designated current revenues for future period expenditures of Bear Creek Park.

Reserves of retained earnings consist of resources accumulated for the retirement of debt (reserve for debt service) and the unexpended portion of impact fees which are restricted for water and sewer improvements (reserve for capital improvements).

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

NOTE 11. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

Fund	Excess Expenditures over Appropriations
General Fund	\$ 1,170,821
HUD Fund	580,173

NOTE 12. DEFICIT FUND BALANCES

A deficit undesignated fund balance of \$5,857 and \$18,615 exists in the Police State Seized Fund and Emergency 911 Fund, respectively. The deficit results from the unfunded expenditures approved by the City. The City plans to eliminate the deficit.

NOTE 13. SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2010 have been evaluated for possible adjustment to the financial statements or disclosure is August 16, 2011, the date these financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

NOTE 14. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made for the correction of prior year's accrued sick leave liability for the public safety department. The prior year accrual had vacation leave accrued but did not include the sick leave that the public safety department had accumulated. Upon termination of employment, the public safety department receives their accumulated sick pay and therefore a liability for the balance should be included. The adjustment increased the current year liabilities and decreased net assets on the government-wide financial statements by \$1,492,019.



Lancaster

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2010**

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]	[4]	[5]	[6]	[7]
			[1] / [2]	[3] - [1]		[3] / [5]
12/31/2007	26,735,438	42,017,867	63.6%	15,282,429	13,260,730	115.2%
12/31/2008	26,431,828	42,814,837	61.7%	16,383,009	14,507,867	112.9%
12/31/2009	29,362,600	45,558,535	64.5%	16,195,935	13,887,238	116.6%

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS PLAN
ANALYSIS OF FUNDING PROGRESS
(UNAUDITED)
SEPTEMBER 30, 2010**

Fiscal Year	Actuarial Value of Assets [1]	Actuarial Accrued Liability (AAL) [2]	Funded Ratio [3] [1] / [2]	Unfunded AAL (UAAL) [4] [2] - [1]	Covered Payroll [5]	UAAL as a percentage of Covered Payroll [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%

CITY OF LANCASTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and fees	\$ 15,425,632	\$ 15,425,632	\$ 16,014,357	\$ 588,725
Licenses and permits	463,750	463,750	502,940	39,190
Intergovernmental	339,608	339,608	295,736	(43,872)
Charges for services	584,358	584,358	516,420	(67,938)
Fines and forfeits	1,049,822	1,049,822	839,868	(209,954)
Interest	12,818	12,818	7,073	(5,745)
Miscellaneous	726,577	726,577	604,188	(122,389)
Total revenues	18,602,565	18,602,565	18,780,582	178,017
Expenditures:				
Current:				
General government	3,070,791	3,070,791	3,332,021	(261,230)
Public safety	13,636,205	13,623,124	13,416,346	206,778
Public works	2,225,275	2,225,275	3,243,523	(1,018,248)
Community development and recreation	1,162,108	1,162,108	1,010,385	151,723
Capital outlay	59,500	72,581	360,037	(287,456)
Debt service:				
Principal retirement	73,072	73,072	54,254	18,818
Interest and fiscal charges	18,794	18,794	-	18,794
Total expenditures	20,245,745	20,245,745	21,416,566	(1,170,821)
Deficiency of revenues under expenditures	(1,643,180)	(1,643,180)	(2,635,984)	(992,804)
Other financing sources:				
Operating transfers in	1,687,421	1,687,421	2,485,236	797,815
Total other financing sources	1,687,421	1,687,421	2,485,236	797,815
Net change in fund balances	44,241	44,241	(150,748)	(194,989)
Fund balances - beginning of year	3,908,328	3,908,328	3,908,328	-
Fund balances - end of year	<u>\$ 3,952,569</u>	<u>\$ 3,952,569</u>	<u>\$ 3,757,580</u>	<u>\$ (194,989)</u>

CITY OF LANCASTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
HUD FUND
YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 8,046,054	\$ 8,046,054	\$ 8,733,102	\$ 687,048
Interest	5,757	5,757	1,679	(4,078)
Miscellaneous	59,600	59,600	81,575	21,975
Total revenues	8,111,411	8,111,411	8,816,356	704,945
Expenditures:				
Social and welfare	8,037,997	8,037,997	8,599,376	(561,379)
Capital outlay	60,000	60,000	78,794	(18,794)
Total expenditures	8,097,997	8,097,997	8,678,170	(580,173)
Excess of revenues over expenditures	13,414	13,414	138,186	124,772
Other financing uses:				
Operating transfers out	(62,000)	(62,000)	(62,000)	-
Total other financing uses	(62,000)	(62,000)	(62,000)	-
Net change in fund balances	(48,586)	(48,586)	76,186	124,772
Fund balances - beginning of year	884,078	884,078	884,078	-
Fund balances - end of year	\$ 835,492	\$ 835,492	\$ 960,264	\$ 124,772

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

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

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

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had expenditures in excess of appropriations for the fiscal year ended September 30, 2010:

<u>Fund</u>	<u>Excess Expenditures over Appropriations</u>
General Fund	\$ 1,170,821
HUD Fund	580,173

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

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

SPECIAL REVENUE FUND

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

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

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

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

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

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

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

**CITY OF LANCASTER, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	<u>Stormwater Drainage Fund</u>	<u>Public Improvement Districts Fund</u>	<u>Police State Seized Fund</u>	<u>Police Federal Seized Fund</u>	<u>Hotel/ Motel Fund</u>	<u>Emergency 911 Fund</u>	<u>Total Non-major Governmental Funds</u>
ASSETS							
Cash and cash equivalents	\$ -	\$ 24,236	\$ -	\$ 21,820	\$ 158,108	\$ -	\$ 204,164
Receivables (net of allowance for uncollectibles):							
Delinquent taxes	-	6,752	-	-	-	-	6,752
Accounts receivable	154,690	-	-	-	29,370	21,689	205,749
Due from other funds	-	-	-	-	38,051	-	38,051
Prepays	684,226	-	-	-	-	-	684,226
TOTAL ASSETS	<u>\$ 838,916</u>	<u>\$ 30,988</u>	<u>\$ -</u>	<u>\$ 21,820</u>	<u>\$ 225,529</u>	<u>\$ 21,689</u>	<u>\$ 1,138,942</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts and contracts payable	\$ 45,189	\$ 773	\$ 1,706	1,218	4,986	\$ 12,963	\$ 66,835
Accrued liabilities	36,616	-	-	-	-	18,023	54,639
Due to other funds	24,582	-	4,151	-	-	9,318	38,051
Deferred revenue	465,500	6,432	-	-	-	-	471,932
Total liabilities	<u>571,887</u>	<u>7,205</u>	<u>5,857</u>	<u>1,218</u>	<u>4,986</u>	<u>40,304</u>	<u>631,457</u>
Fund balances:							
Reserved for prepaid items	684,226	-	-	-	-	-	684,226
Unreserved, undesignated	(417,197)	23,783	(5,857)	20,602	220,543	(18,615)	(176,741)
Total fund balances (deficits)	<u>267,029</u>	<u>23,783</u>	<u>(5,857)</u>	<u>20,602</u>	<u>220,543</u>	<u>(18,615)</u>	<u>507,485</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 838,916</u>	<u>\$ 30,988</u>	<u>\$ -</u>	<u>\$ 21,820</u>	<u>\$ 225,529</u>	<u>\$ 21,689</u>	<u>\$ 1,138,942</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Non-major Governmental Funds
Revenues:							
Taxes and fees	\$ 892,280	\$ 97,554	\$ -	\$ -	\$ 78,641	\$ -	\$ 1,068,475
Licenses and permits	-	-	-	-	-	305,005	305,005
Intergovernmental	299,500	-	-	-	-	-	299,500
Miscellaneous	-	-	8,503	15,435	7,659	-	31,597
Interest	143	81	4	31	276	188	723
Total revenues	<u>1,191,923</u>	<u>97,635</u>	<u>8,507</u>	<u>15,466</u>	<u>86,576</u>	<u>305,193</u>	<u>1,705,300</u>
Expenditures:							
Current:							
Public safety	-	-	28,311	7,028	-	554,404	589,743
Public works	761,607	-	-	-	-	-	761,607
Community development and recreation	-	84,734	-	-	91,568	-	176,302
Capital outlay	315,774	-	-	-	-	134,219	449,993
Debt service:							
Principal retirement	25,000	-	-	-	-	-	25,000
Interest and fiscal charges	25,038	-	-	-	-	-	25,038
Total expenditures	<u>1,127,419</u>	<u>84,734</u>	<u>28,311</u>	<u>7,028</u>	<u>91,568</u>	<u>688,623</u>	<u>2,027,683</u>
Excess (deficiency) of revenues over (under) expenditures	<u>64,504</u>	<u>12,901</u>	<u>(19,804)</u>	<u>8,438</u>	<u>(4,992)</u>	<u>(383,430)</u>	<u>(322,383)</u>
Other financing uses:							
Operating transfers out	(42,000)	-	-	-	-	-	(42,000)
Total other financing uses	<u>(42,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,000)</u>
Net change in fund balances	22,504	12,901	(19,804)	8,438	(4,992)	(383,430)	(364,383)
Fund balances, beginning of year	244,525	10,882	13,947	12,164	225,535	364,815	871,868
Fund balances (deficits), end of year	<u>\$ 267,029</u>	<u>\$ 23,783</u>	<u>\$ (5,857)</u>	<u>\$ 20,602</u>	<u>\$ 220,543</u>	<u>\$ (18,615)</u>	<u>\$ 507,485</u>

**CITY OF LANCASTER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
STORMWATER DRAINAGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and fees	\$ 895,134	\$ 895,134	\$ 892,280	\$ (2,854)
Intergovernmental	-	-	299,500	299,500
Interest	-	-	143	143
Total revenues	<u>895,134</u>	<u>895,134</u>	<u>1,191,923</u>	<u>296,789</u>
Expenditures:				
Current:				
Public works	982,788	982,788	761,607	221,181
Capital outlay	-	-	315,774	(315,774)
Debt service:				
Principal retirement	-	50,013	25,000	25,013
Interest and fiscal charges	-	-	25,038	(25,038)
Total expenditures	<u>982,788</u>	<u>1,032,801</u>	<u>1,127,419</u>	<u>(94,618)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(87,654)</u>	<u>(137,667)</u>	<u>64,504</u>	<u>202,171</u>
Other financing uses:				
Operating transfers out	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Total other financing uses	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Fund balances, beginning of year	<u>244,525</u>	<u>244,525</u>	<u>244,525</u>	<u>-</u>
Fund balances, end of year	<u>\$ 114,871</u>	<u>\$ 64,858</u>	<u>\$ 267,029</u>	<u>\$ 202,171</u>

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

ENTERPRISE FUNDS

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

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

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

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

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2010**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 190	\$ 144,567	\$ 103,572	\$ 248,329
Receivables (net of allowance for uncollectibles):				
Accounts	7,658	-	122,601	130,259
Unbilled	-	-	87,206	87,206
Inventory	46,175	-	-	46,175
Deferred bond issuance costs	3,099	-	-	3,099
Capital assets:				
Non-depreciable	4,444,666	349,554	-	4,794,220
Depreciable (net of accumulated depreciation)	<u>1,486,494</u>	<u>2,210,208</u>	<u>-</u>	<u>3,696,702</u>
TOTAL ASSETS	<u>5,988,282</u>	<u>2,704,329</u>	<u>313,379</u>	<u>9,005,990</u>
LIABILITIES				
Current liabilities:				
Accounts and contracts payable	29,673	79,810	178,714	288,197
Accrued liabilities	13,728	330	16,112	30,170
Due to other funds	2,851,393	-	-	2,851,393
Accrued interest	2,249	-	-	2,249
Noncurrent liabilities:				
Due in one year	91,443	-	218	91,661
Due in more than one year	<u>215,212</u>	<u>-</u>	<u>654</u>	<u>215,866</u>
TOTAL LIABILITIES	<u>3,203,698</u>	<u>80,140</u>	<u>195,698</u>	<u>3,479,536</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,783,042	2,559,762	-	8,342,804
Unrestricted	<u>(2,998,458)</u>	<u>64,427</u>	<u>117,681</u>	<u>(2,816,350)</u>
TOTAL NET ASSETS	<u>\$ 2,784,584</u>	<u>\$ 2,624,189</u>	<u>\$ 117,681</u>	<u>\$ 5,526,454</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Refuse Fund</u>	<u>Total Non-major Enterprise Funds</u>
OPERATING REVENUES:				
Charges for services	\$ 576,949	\$ 72,550	\$ 1,799,068	\$ 2,448,567
Intergovernmental	382,600	-	-	382,600
Total operating revenues	<u>959,549</u>	<u>72,550</u>	<u>1,799,068</u>	<u>2,831,167</u>
OPERATING EXPENSES:				
Personnel services	174,512	-	42,235	216,747
Maintenance	137,628	18,811	1,234	157,673
Materials and supplies	298,634	-	258	298,892
Heat, light, and power	32,169	1,046	-	33,215
Depreciation and amortization	22,930	66,834	-	89,764
Benefit payments	42,305	-	14,020	56,325
Special services	48,507	275	1,711,783	1,760,565
Equipment rental	29,726	-	-	29,726
Total operating expenses	<u>786,411</u>	<u>86,966</u>	<u>1,769,530</u>	<u>2,642,907</u>
OPERATING INCOME (LOSS)	<u>173,138</u>	<u>(14,416)</u>	<u>29,538</u>	<u>188,260</u>
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	-	193	163	356
Interest and fiscal charges	(23,800)	-	-	(23,800)
Other nonoperating revenue	24,097	-	-	24,097
Total nonoperating revenues	<u>297</u>	<u>193</u>	<u>163</u>	<u>653</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>173,435</u>	<u>(14,223)</u>	<u>29,701</u>	<u>188,913</u>
Transfers out	-	(7,000)	-	(7,000)
CHANGE IN NET ASSETS	<u>173,435</u>	<u>(21,223)</u>	<u>29,701</u>	<u>181,913</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,611,149</u>	<u>2,645,412</u>	<u>87,980</u>	<u>5,344,541</u>
NET ASSETS, END OF YEAR	<u>\$ 2,784,584</u>	<u>\$ 2,624,189</u>	<u>\$ 117,681</u>	<u>\$ 5,526,454</u>

**CITY OF LANCASTER, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	Airport Fund	Golf Course Fund	Refuse Fund	Total Non-major Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 953,971	\$ 72,550	\$ 1,779,461	\$ 2,805,982
Receipts from other funds	2,046,817	-	-	2,046,817
Payments to employees	(210,919)	-	(56,255)	(267,174)
Payments to suppliers	(544,224)	51,004	(1,741,351)	(2,234,571)
Net cash provided by (used in) operating activities	<u>2,245,645</u>	<u>123,554</u>	<u>(18,145)</u>	<u>2,351,054</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(1,970,926)	(95,645)	-	(2,066,571)
Principal payments on note payable	(264,796)	-	-	(264,796)
Principal payments on debt	(10,000)	-	-	(10,000)
Interest payments	(23,830)	-	-	(23,830)
Net cash used in capital and related financing activities	<u>(2,269,552)</u>	<u>(95,645)</u>	<u>-</u>	<u>(2,365,197)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers out to other funds	-	(7,000)	-	(7,000)
Proceeds from other nonoperating revenue	24,097	-	-	24,097
Net cash provided by (used in) noncapital financing activities	<u>24,097</u>	<u>(7,000)</u>	<u>-</u>	<u>17,097</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	-	193	163	356
Net cash provided by investing activities	<u>-</u>	<u>193</u>	<u>163</u>	<u>356</u>
Net increase (decrease) in cash and cash equivalents	190	21,102	(17,982)	3,310
Cash and cash equivalents, beginning of year	-	123,465	121,554	245,019
Cash and cash equivalents, end of year	<u>\$ 190</u>	<u>\$ 144,567</u>	<u>\$ 103,572</u>	<u>\$ 248,329</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating gain (loss)	\$ 173,138	\$ (14,416)	\$ 29,538	\$ 188,260
Adjustments to reconcile operating gain (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	22,516	66,834	-	89,350
Change in assets and liabilities:				
Accounts receivable	(5,578)	-	(19,607)	(25,185)
Due from other funds	2,046,817	-	-	2,046,817
Inventory	10,534	-	-	10,534
Accounts and contract payable	(11,359)	71,136	(41,275)	18,502
Accrued liabilities	3,679	-	13,298	16,977
Compensated absences	5,898	-	(99)	5,799
Net cash provided by (used in) operating activities	<u>\$ 2,245,645</u>	<u>\$ 123,554</u>	<u>\$ (18,145)</u>	<u>\$ 2,351,054</u>

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

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

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

**CITY OF LANCASTER, TEXAS
BALANCE SHEET- ECONOMIC
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2010**

ASSETS

Cash and cash equivalents	\$ 2,339,745
Sales tax receivable	<u>149,996</u>
Total assets	<u><u>\$ 2,489,741</u></u>

LIABILITIES

Accounts payable	\$ 4,657
Accrued liabilities	<u>7,549</u>
Total liabilities	<u>12,206</u>

FUND BALANCE

Unreserved and undesignated	<u>2,477,535</u>
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TOTAL FUND BALANCE	<u>2,477,535</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,489,741</u></u>
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**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS – ECONOMIC
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2010**

Total fund balance - governmental funds	\$ 2,477,535
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.	(14,381)
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>(2,770,000)</u>
Total net deficit - governmental activities	<u>\$ (206,468)</u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ECONOMIC
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

REVENUES:

Taxes and fees	\$ 906,511
Interest	2,973

Total revenues	909,484
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EXPENDITURES:

Cultural and recreation	294,382
Debt service:	
Principal retirement	110,000
Interest and fiscal charges	117,250

Total expenditures	521,632
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Excess of revenues over expenditures	387,852
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FUND BALANCE, BEGINNING OF YEAR	2,089,683
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FUND BALANCE, END OF YEAR	\$ 2,477,535
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**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AN CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES – ECONOMIC
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances- total governmental funds	\$ 387,852
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements.</p>	110,000
<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>550</u>
Change in net deficit of governmental activities	<u><u>\$ 498,402</u></u>

**CITY OF LANCASTER, TEXAS
BALANCE SHEET- RECREATIONAL
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2010**

ASSETS

Cash and certificates of deposit	\$	25,422
Receivables:		
Sales tax		312,518
Accounts		26
		26
Total assets	\$	337,966
		337,966

LIABILITIES

Accounts payable	\$	45,634
Accrued liabilities		78,250
Due to primary government		528,753
		528,753
Total liabilities		652,637
		652,637

FUND DEFICIT

Unreserved:		
Unreserved and undesignated		(314,671)
		(314,671)
Total fund deficit		(314,671)
		(314,671)

TOTAL LIABILITIES AND FUND DEFICIT	\$	337,966
		337,966

**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS – RECREATIONAL
DEVELOPMENT CORPORATION
SEPTEMBER 30, 2010**

Total fund deficit - governmental funds	\$ (314,671)
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.	13,905,846
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.	(50,398)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of a note payable.	<u>(9,635,000)</u>
Total net assets - governmental activities	<u><u>\$ 3,905,777</u></u>

**CITY OF LANCASTER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE—RECREATIONAL
DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

REVENUES:

Taxes and fees	\$ 1,814,922
Charges for services	480,677
Intergovernmental	22,996
Miscellaneous	8,536
Interest	<u>7</u>
 Total revenues	 <u>2,327,138</u>

EXPENDITURES:

Cultural and recreation	1,795,227
Capital outlay	46,447
Debt service:	
Principal retirement	495,000
Interest and fiscal charges	<u>411,616</u>
 Total expenditures	 <u>2,748,290</u>

Deficiency of revenues under expenditures	(421,152)
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FUND BALANCE, BEGINNING OF YEAR	<u>106,481</u>
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FUND DEFICIT, END OF YEAR	<u><u>\$ (314,671)</u></u>
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**CITY OF LANCASTER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES –
RECREATIONAL DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund deficit - total governmental funds	\$ (421,152)
<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>	46,447
<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>	(783,262)
<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>	495,000
<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>	2,042

Change in net assets of governmental activities	\$ (660,925)