



CITY OF LANCASTER

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2017



City of Lancaster, Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended

September 30, 2017

City of Lancaster, Texas
Comprehensive Annual Financial Report
Year Ended September 30, 2017
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To the Honorable Mayor, Members of City Council, and Citizens of the City of Lancaster, Texas:

We hereby issue the comprehensive annual financial report of the City of Lancaster, Texas (the City) for the fiscal year ended September 30, 2017. State law requires that every municipality publish within six months of the close of each year a complete set of audited financial statements, to include the auditor's opinion on the statements, and this report fulfills that requirement.

This report consists of City management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in the report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by BKD, LLP, independent auditors. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified (clean) opinion that the City's financial statements for the fiscal year ended September 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile

Located in Southwest Dallas County, the City of Lancaster is situated just minutes from downtown Dallas. Adjacent to I-35 on its western border and I-20 on its northern boundary, the City covers approximately 33.13 square miles, and serves an estimated 2017 population of 38,361. The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, and is a home-rule city operating under a Council/Manager form of government. The Council is comprised of the Mayor and six Council members, who enact local legislation, adopt budgets, determine policies, and appoint the City secretary, City attorney and Judge of the municipal court. The City Manager, appointed by City Council, is the chief administrative officer for the City and is responsible for the daily management of the City. Major services provided under general government and enterprise functions are: public safety (police and fire protection), emergency ambulance services, construction and maintenance of streets, water and sewer services, parks and recreation, library services and general administrative services.

Accounting System and Budgetary Control

One of the objectives of the City's financial accounting system is to provide adequate internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred.

Accounting records for the City's enterprise activities are maintained on the accrual basis.

The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net position and statement of activities.

Budgetary Controls – The budgetary process begins each year with the preparation of both current and proposed revenue estimates by the City's administrative and financial management staff and expenditure estimates provided by each City department. Budgets are reviewed by the administrative and management staff which consists of the City Manager's office, and Department Managers. The City Manager makes final decisions and submits a recommended budget to the City Council. The proposed budget is reviewed by the City Council, a process which includes a Charter-mandated public hearing, in addition to work sessions which are open to the public. The City Charter requires adoption of the City budget at least 10 days prior to the beginning of the fiscal year.

The objective of the budgetary controls maintained by the City is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Activities of the general fund, water and sewer fund, and all other funds are included in the annual budget. The level of budgetary control (that is,

the level at which expenditures cannot legally exceed the appropriated amounts) is established by departments within the individual fund. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Monthly departmental expenditure reports are generated by an automated accounting system and provide expenditure totals and encumbrances at the line-item level for the most recently completed month as well as the year-to-date total, and an actual versus budgeted rate of expenditure. Major expenditure requests are approved by the City Manager prior to the encumbrance of funds.

Relevant Financial Policies

The City has established a policy to have a balanced budget and to maintain a reserve account. In fiscal year 2017, the General Fund accomplished this by having a fund balance of \$ 9,067,940 which exceeds reserve requirements of 12% of the General Operating Budget.

The City also has a long range planning policy to identify major issues when developing its fiscal year budget. A five-year budget analysis of all City funds is developed to provide an understanding of the long term impact of budget decisions. The fiscal year 2017 budget was prepared along with a planning budget for fiscal year 2018-21.

Cash management policies and practices: The City's current bank depository contract is with JP Morgan Chase and will be in effect through 2017. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's investment strategies include using cash flow analysis to purchase securities; however, cash temporarily idle during the year was invested in three public funds investment pools – TexPool, Logic and Texas Class. This practice lessens the impact which rising interest rates have on the valuation changes of the portfolio. Investments in the deferred compensation plans are held by the third-party plan administrators. The investment policy is annually updated and approved by the Council in compliance with the Texas Public Funds Investment Act.

Pension and other post-employment benefit: The City participates in the Texas Municipal Retirement System (TMRS), an agency authorized by the State of Texas. Employees of the City contribute a fixed percentage of their gross pay, currently 7% in 2017. TMRS participants are immediately vested in those funds they contribute plus allocated interest. Participants are vested in employer contributions after five years of credited participation. If participants withdraw from TMRS prior to five years of credited participation, they may withdraw from TMRS those funds they contributed plus interest earnings. The City also offers the retiree an opportunity to enroll in postretirement health and dental care benefits for them and their dependents by which the retiree pays the cost. As of the current fiscal year, there were 14 retired employees receiving these benefits. Additional information on the City's pension arrangements and post-employment benefits can be found in the notes to the basic financial statements.

Local Economy

Lancaster's growing economy continues to be greatly influenced by the attraction of the logistics industry to the community. Lancaster's premier industrial park, CSHV 20/35, has experienced the location of many well-known national corporations like United Natural Foods, Inc., Quaker PepsiCo, Johnstone Supply Inc., Mars Petcare Inc., BMW, and Fisher Paykel. The interest of the development industry that specializes in logistics is strong had led to the additional industrial parks such as Southpointe 20/35, Park 20, and MidPoint Logistics Center and recently a new player in Lancaster's industrial development. Corporations such as AT&T Corporation, Oncor Electric Delivery, Swift Transportation Inc., Mobis Parts America, Pappas Timber Products, LLC, and Wayfair have located to Lancaster for its accessibility and strategic location. New industrial development in Lancaster is expected to continue.

The City's unemployment rate for 2017 was an average of 6.4%, which is slightly above the average unemployment rate for Dallas County of 3.5% for 2017. The City of Lancaster benefits from its proximity to the Dallas-Fort-Worth Motorplex and major transportation corridors with its location fifteen (15) miles south of Dallas. Lancaster is a part of the Best Southwest area, which includes Lancaster, Cedar Hill, DeSoto, and Duncanville. The close proximity to job opportunities in Dallas, Fort Worth and the Mid-Cities continues to contribute to growth in the City. Its estimated population of 38,361 has grown a notable over 45% since 2000, with a corresponding increase in the number of households during the same time. There is room for further development within the City's 33.13 square miles, since the City is only 43%-47% built out.

In fiscal year 2017, The City experienced an increase in taxable assessed valuation and a slight increase in residential values, much like other cities in the Dallas-Fort Worth area. The City also experienced an increase in building permits as well as a slight increase in sales tax for fiscal year 2017, and anticipates a similar increase for 2018.

Long-term Financial Planning

The City has a long-range financial plan and has prudent fiscal policies and processes in place. It has met or exceeded all fund reserve goals, has funds available to address the needs of the community, and responsibly manages its debt. The community continues to move toward a more competitive tax rate.

Unrestricted fund balance in the general fund at year-end was 35 percent of total general fund revenues. This amount was above the policy guidelines set by the Council for budgetary and planning purposes. The year-end amount is above the minimum target set by the policy guidelines due to a net change in fund balance in the amount of \$2,093,030 for the year ended September 30, 2017.

Rising costs have been a challenge to the City; however, conservative revenue estimates and efforts to reduce expenditures have contributed to the City's strong financial position. Overall, revenues for the City have remained fairly stable, and we have incorporated several strategies to decrease the expenses over the next several years. The City is projecting a significant increase in property tax revenues and sales tax revenues also continue to increase allowing us to effectively meet operational objectives and comply with current fiscal policies.

The City has historically maintained solid General Fund balances, and continues to respond proactively to the volatile economy by implementing budget cuts sufficient to offset the revenue loss and does not expect to utilize reserves for recurring operating expenditures.

The City is also utilizing extensive planning and maintaining tight budgetary measures to balance its operations. With Economic Development a major priority, sales tax receipts are expected to continue to increase as the City continues to provide incentives for business operations that come to the City.

Because of the City's proximity to Interstate 35 East and Interstate 20, businesses are recognizing Lancaster as one of the region's hot spots for growth, and the City is committed to supporting new and expanding companies.

Major Initiatives

Annually, the City Council has adopted goals aimed at guiding Lancaster's future growth and development. For fiscal year 2017-2018, included initiatives are:

- Quality Development;
- Sound Infrastructure;
- Professional and committed workforce;
- Health, safe and vibrant neighborhoods;
- Civic engagement; and
- Financially Sound City government.

Acknowledgements

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the City's staff. In particular, we would like to recognize and express our heartfelt appreciation to all members of the Finance Department, who all worked diligently to assist and contribute to the preparation of this report. The Mayor and the City Council are to be commended for their willingness to participate in the strategic planning process for financial operations, and for their commitment to maintaining the highest standards of professionalism in the management of the City of Lancaster's finances.

Respectfully submitted,


Opal Mauldin-Jones
City Manager




Baron A. Sauls
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Lancaster
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

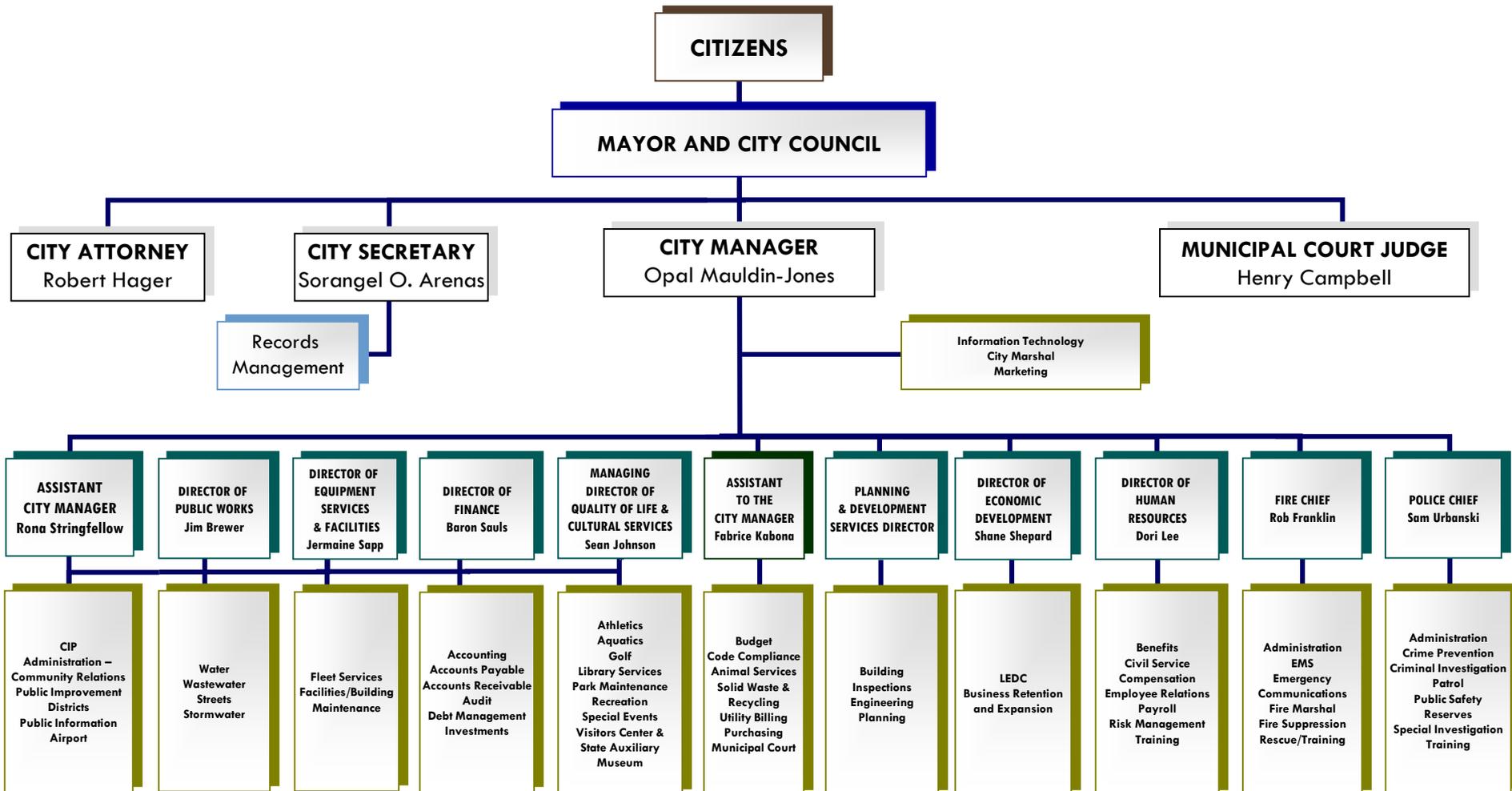
September 30, 2016

Christopher P. Morill

Executive Director/CEO

City of Lancaster

Organizational Chart



City of Lancaster, Texas
List of Principal Officers

City Council

Marcus E. Knight	Mayor	Term Expires May 2018
Carol Strain-Burk.....	Mayor Pro Tem, District 1	Term Expires May 2019
Stanley Jaglowski	Council Member, District 2.....	Term Expires May 2020
Marco Mejia.....	Council Member, District 3.....	Term Expires May 2019
Spencer Hervey, Jr.	Council Member, District 4.....	Term Expires May 2020
Clyde Hairston.....	Council Member, District 5.....	Term Expires May 2019
Nina Morris.....	Dep. Mayor Pro Tem, District 6	Term Expires May 2020

City of Lancaster, Texas
Department Directors

City Executive Staff

Opal Mauldin-Jones	City Manager
Rona Stringfellow	Assistant City Manager
Fabrice Kabona	Assistant to the City Manager
Sorangel O. Arenas	City Secretary
Baron Sauls	Director of Finance
Dori Lee	Director of Human Resources
Shane Shepard	Director of Economic Development
Jermaine Sapp	Director of Equipment Services & Facilities
Jim Brewer	Director of Public Works
Rob Franklin	Fire Chief
Sam Urbanski	Police Chief
Sean Johnson	Managing Director of Quality of Life & Cultural Services

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lancaster, Texas (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position, where applicable, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and other post-employment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund statements and the introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor and
Members of the City Council
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The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 28, 2018, on our consideration of the City's internal control over financial reporting and on 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 28, 2018

City of Lancaster, Texas

Management's Discussion and Analysis (Unaudited)

September 30, 2017

Introduction

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City of Lancaster, Texas (the City) for the fiscal year ended September 30, 2017. 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 and deferred outflows of resources of the City exceeded its liabilities at the end of fiscal year 2017, resulting in \$117,302,357 of net position. Net position associated with governmental activities is approximately \$47 million, or 40% of the total net position of the City. Net position associated with business-type activities is approximately \$71 million, or 60% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is approximately \$92 million.
- Unrestricted net position, which may be used to meet the City's future obligations, consists of approximately \$21 million, or 18% of the City's total net position. Unrestricted net position for governmental activities is approximately \$(6) million, or -13% of total net position for governmental activities. Unrestricted net position for business-type activities is approximately \$27 million or 38% of total net position for business-type activities.
- As of the close of fiscal year 2017, the City's Governmental Funds reported a combined ending fund balance of \$23,006,965, a decrease of \$4,837,397 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$9,067,940. This represents approximately 36% of General Fund expenditures.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains required and 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's finances, in a manner similar to private-sector business.

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

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

The statement of activities presents information showing how the City's net position 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.

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

Governmental Funds – The majority of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps 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 accompanying Statement of Net Position and the Statement of Activities) and Governmental Funds, are detailed in a reconciliation following the fund financial statements.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Information is presented separately in the accompanying Governmental Funds balance sheet and in the accompanying Governmental Funds statement of revenues, expenditures and changes in fund balances for the General 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 accompanying Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Funds (a component of Proprietary Funds) are identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for Proprietary Funds.

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

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.

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, Enterprise Funds and component units fund financial statements follow the section of required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2017, City assets and deferred outflows of resources exceeded its liabilities and deferred inflows resulting in \$117,302,357 of net position.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Statement of Net Position for Governmental and Business-type Activities

	Governmental Activities 2017	Business-type Activities 2017	Total 2017	Governmental Activities 2016	Business-type Activities 2016	Total 2016
Current and other assets	\$ 35,725,652	\$ 34,346,643	\$ 70,072,295	\$ 40,373,516	\$ 30,990,099	\$ 71,363,615
Capital assets	101,178,876	48,357,144	149,536,020	97,269,901	48,531,739	145,801,640
Total assets	<u>136,904,528</u>	<u>82,703,787</u>	<u>219,608,315</u>	<u>137,643,417</u>	<u>79,521,838</u>	<u>217,165,255</u>
Deferred outflows of resources	5,563,986	623,656	6,187,642	6,693,077	619,139	7,312,216
Long-term liabilities	87,684,734	8,550,217	96,234,951	92,712,333	9,825,214	102,537,547
Other liabilities	7,485,788	3,929,838	11,415,626	6,136,616	3,950,898	10,087,514
Total liabilities	<u>95,170,522</u>	<u>12,480,055</u>	<u>107,650,577</u>	<u>98,848,949</u>	<u>13,776,112</u>	<u>112,625,061</u>
Deferred inflows of resources	766,706	76,317	843,023	184,133	21,042	205,175
Net position:						
Net investment in capital assets	47,966,710	43,805,254	91,771,964	40,966,495	42,715,806	83,682,301
Restricted	4,442,579	-	4,442,579	2,989,045	-	2,989,045
Unrestricted	(5,878,003)	26,965,817	21,087,814	1,347,872	23,628,017	24,975,889
Total net position	<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>	<u>\$ 45,303,412</u>	<u>\$ 66,343,823</u>	<u>\$ 111,647,235</u>

By far, the largest portion of the City's net position (78%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used 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 position (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$21,087,814 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Analysis of City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2017. Overall, the City had an increase in net position of \$5,655,122.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Revenues and Expenses for Governmental and Business-type Activities

	Governmental Activities 2017	Business-type Activities 2017	Total 2017	Governmental Activities 2016	Business-type Activities 2016	Total 2016
Revenues						
Program Revenues:						
Charges for services	\$ 4,495,333	\$ 19,562,344	\$ 24,057,677	\$ 5,649,792	\$ 18,927,898	\$ 24,577,690
Operating grant and contribution	748,338	-	748,338	894,947	-	894,947
Capital grant and contribution	-	-	-	-	3,612,835	3,612,835
General Revenues:						
Taxes and fees	28,241,385	-	28,241,385	25,390,599	-	25,390,599
Other	851,508	1,712,827	2,564,335	404,480	1,382,953	1,787,433
Total revenues	<u>34,336,564</u>	<u>21,275,171</u>	<u>55,611,735</u>	<u>32,339,818</u>	<u>23,923,686</u>	<u>56,263,504</u>
Expenses						
General government	7,327,188	-	7,327,188	7,337,257	-	7,337,257
Public safety	18,869,618	-	18,869,618	18,522,908	-	18,522,908
Public works	3,869,238	-	3,869,238	3,651,258	-	3,651,258
Community development and recreation	1,829,003	-	1,829,003	1,366,830	-	1,366,830
Interest and fiscal charges	2,935,851	-	2,935,851	3,200,431	-	3,200,431
Water and sewer	-	12,635,280	12,635,280	-	12,960,201	12,960,201
Refuse	-	1,531,088	1,531,088	-	1,470,074	1,470,074
Airport	-	842,480	842,480	-	724,101	724,101
Golf course	-	116,867	116,867	-	79,667	79,667
Total expenses	<u>34,830,898</u>	<u>15,125,715</u>	<u>49,956,613</u>	<u>34,078,684</u>	<u>15,234,043</u>	<u>49,312,727</u>
Increase (Decrease) in Net Position						
Before Transfers	(494,334)	6,149,456	5,655,122	(1,738,866)	8,689,643	6,950,777
Transfers	<u>1,722,208</u>	<u>(1,722,208)</u>	<u>-</u>	<u>(193,511)</u>	<u>193,511</u>	<u>-</u>
Change in Net Position	<u>1,227,874</u>	<u>4,427,248</u>	<u>5,655,122</u>	<u>(1,932,377)</u>	<u>8,883,154</u>	<u>6,950,777</u>
Net Position, Beginning of Year	45,303,412	66,343,823	111,647,235	47,235,789	57,460,669	104,696,458
Net Position, Ending of Year	<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>	<u>\$ 45,303,412</u>	<u>\$ 66,343,823</u>	<u>\$ 111,647,235</u>

Governmental Activities. Governmental activities increased the City's net position by \$1,227,874. Total revenue for the governmental activities (excluding transfers) increased from the previous year by \$1,996,746. General revenue had a net increase of \$3,297,814. Property tax collections increased as a result of real property reappraisals and new business and property additions which continues to grow the local economy. Program Revenues decreased as a result of a decrease in developmental services fees from new businesses.

Business-type Activities. Net position from business-type activities increased by \$4,427,248. Total revenue for the business-type activities decreased from the previous year by \$2,649,422 primarily due to a decrease in capital grants and contributions revenue.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Financial Analysis of the City'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, unassigned 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 \$23,006,965, a decrease of \$4,837,397 from the prior year. This amount includes fund balance restricted for Public Improvement Districts of \$829,346, restricted for Capital Projects of \$7,134,763, restricted for Public Works of \$2,497,565, Police Grants, Law Enforcement Purposes and Tourism of \$1,727,458. The net unassigned fund balance was \$8,815,560, an increase of \$2,012,491 from prior year. Components of the net increase of the total fund balance are:

- In the General Fund, the final budget projected a \$742,188 decrease in fund balance this fiscal year; however, the actual increase was \$2,093,030. Total revenues were \$3,695,345 over budget and total expenditures were over budget by \$774,447, for a total excess of revenues over expenditures of \$2,920,898 over the budget. Revenues increased from the budget primarily due to 9% increase in sales tax, a 5% increase in franchise tax, and an increase in ambulance fees. Expenditures increased from the budget primarily due to higher legal fees and change in legal counsel and an increase in overtime in the Fire Department.
- Capital Projects Fund recorded a net decrease in fund balance of \$8,789,801, primarily due to increase in spending for the following construction projects, Fleet Maintenance, Lancaster-Hutchins Waterline Projects, Lancaster-Hutchins Street Project, Bear Creek Restrooms, and Street Light Project Beltline.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$27,459,393 and the Airport Fund reported an unrestricted net position of \$(1,697,057).

Capital Assets

The City's capital assets for its governmental and business-type activities as of September 30, 2017, amount to \$149,536,020 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

Additional information on capital asset activity can be found in *Note 6* of this report.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2017

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 13,214,268	\$ 13,214,268	\$ 4,971,266	\$ 4,971,266	\$ 18,185,534	\$ 18,185,534
Buildings	29,473,819	24,487,196	4,950,436	4,950,436	34,424,255	29,437,632
Equipment	18,823,943	18,479,939	3,439,747	3,316,510	22,263,690	21,796,449
Construction in progress	4,378,090	9,015,471	2,355,110	1,156,566	6,733,200	10,172,037
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	1,880,885	1,697,940	65,948,085	65,830,044	67,828,970	67,527,984
Streets and bridges	107,654,999	99,045,749	-	-	107,654,999	99,045,749
Drainage	7,433,204	7,433,204	-	-	7,433,204	7,433,204
Runways and taxiways	-	-	7,663,689	7,663,689	7,663,689	7,663,689
Accumulated depreciation	(81,680,332)	(76,103,866)	(41,922,811)	(40,308,394)	(123,603,143)	(116,412,260)
Total	\$ 101,178,876	\$ 97,269,901	\$ 48,357,144	\$ 48,531,739	\$ 149,536,020	\$ 145,801,640

Long-term Debt

At the end of the current fiscal year, the City had total bonds outstanding of \$77,825,000, all being tax supported. The City also has approximately \$4,488,159 of additional debt through notes payable and capital leases.

Additional information on long-term debt activity can be found in *Note 7* of this report.

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 55,160,017	\$ 55,260,017	\$ 2,509,983	\$ 2,844,983	\$ 57,670,000	\$ 58,105,000
Certificates of obligation	14,340,000	17,360,105	5,815,000	6,644,896	20,155,000	24,005,001
Notes payable	3,716,561	4,151,493	-	-	3,716,561	4,151,493
Capital leases	771,598	940,356	-	-	771,598	940,356
Total	\$ 73,988,176	\$ 77,711,971	\$ 8,324,983	\$ 9,489,879	\$ 82,313,159	\$ 87,201,850

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

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2018 budget, General Fund revenues are budgeted to increase by 10% from the 2017 budget year. This increase is mostly attributed to an increase in property tax revenue due to an expanding business and residential sector as well as from charges of services.

Property taxes make up about 54% of budgeted revenues and sales tax make up about 21% of budgeted revenues.

Request for Information

For additional information please contact Director of Finance, Baron Sauls, at 972-218-1333 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email bsauls@lancaster-tx.com.

Basic Financial Statements

City of Lancaster, Texas
Statement of Net Position
September 30, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Assets					
Cash and cash equivalents	\$ 21,702,812	\$ 29,365,134	\$ 51,067,946	\$ 4,122,662	\$ 1,578,104
Receivables (net of allowance)					
Notes	8,010,000	-	8,010,000	-	-
Delinquent taxes	702,580	-	702,580	-	-
Accounts	1,859,596	2,092,564	3,952,160	-	26,677
Sales tax	1,084,220	-	1,084,220	216,843	433,683
Fines	867,783	-	867,783	-	-
Due from other governments	-	-	-	747,236	-
Due from component unit	528,753	-	528,753	-	-
Prepaid items	50,159	-	50,159	-	15,707
Inventory	66,339	23,244	89,583	-	-
Internal balances	853,410	(853,410)	-	-	-
Restricted assets					
Cash and cash equivalents	-	3,719,111	3,719,111	-	-
Capital assets					
Land and construction in progress	17,592,358	7,326,376	24,918,734	100,378	989,118
Other capital assets, net of accumulated depreciation	83,586,518	41,030,768	124,617,286	-	9,078,302
Total assets	<u>136,904,528</u>	<u>82,703,787</u>	<u>219,608,315</u>	<u>5,187,119</u>	<u>12,121,591</u>
Deferred Outflows of Resources					
Deferred charges on refunding	1,439,598	210,197	1,649,795	-	-
Deferred outflows on pensions - contributions	1,363,662	141,056	1,504,718	14,040	67,308
Deferred outflows on pensions - assumption changes	350,742	34,360	385,102	3,678	18,354
Deferred outflows on pensions - experience	69,682	6,936	76,618	723	3,554
Deferred outflows on pensions - difference in earnings	2,340,302	231,107	2,571,409	24,433	120,892
Total deferred outflows of resources	<u>5,563,986</u>	<u>623,656</u>	<u>6,187,642</u>	<u>42,874</u>	<u>210,108</u>
Liabilities					
Accounts payable and contracts payable	1,299,951	561,918	1,861,869	20,768	60,441
Accrued liabilities	1,406,043	168,064	1,574,107	4,426	215,030
Accrued interest	432,866	59,293	492,159	8,819	28,603
Due to primary government	-	-	-	-	528,753
Due to component unit	-	747,236	747,236	-	-
Deposits	293,433	1,125,381	1,418,814	-	-
General obligation bonds	2,690,000	940,000	3,630,000	-	-
Certificates of obligation	365,000	320,000	685,000	-	-
Notes payable	577,616	-	577,616	160,000	685,000
Compensated absences	261,735	7,946	269,681	-	-
Capital leases	159,144	-	159,144	-	-
Noncurrent liabilities					
General obligation bonds	55,049,077	1,740,705	56,789,782	-	-
Certificates of obligation	13,975,000	5,480,493	19,455,493	-	-
Notes payable	3,138,945	-	3,138,945	1,565,000	5,600,000
Compensated absences	2,355,614	71,515	2,427,129	-	-
OPEB liability	261,061	-	261,061	-	-
Capital leases	612,454	-	612,454	-	-
Net pension liability	12,292,583	1,257,504	13,550,087	133,994	637,014
Total liabilities	<u>95,170,522</u>	<u>12,480,055</u>	<u>107,650,577</u>	<u>1,893,007</u>	<u>7,754,841</u>
Deferred Inflows of Resources					
Deferred inflows on pensions - experience	766,706	76,317	843,023	7,953	39,102
Total deferred inflows of resources	<u>766,706</u>	<u>76,317</u>	<u>843,023</u>	<u>7,953</u>	<u>39,102</u>
Net Position					
Net investment in capital assets	47,966,710	43,805,254	91,771,964	100,378	3,782,420
Restricted for					
Court Security	38,013	-	38,013	-	-
Court Technology	97,869	-	97,869	-	-
Debt service	1,749,893	-	1,749,893	-	-
Public improvement districts	829,346	-	829,346	-	-
Tourism, convention centers, arts	717,922	-	717,922	-	-
Law enforcement purposes	1,009,536	-	1,009,536	-	-
Unrestricted	(5,878,003)	26,965,817	21,087,814	3,228,655	755,336
Total net position	<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>	<u>\$ 3,329,033</u>	<u>\$ 4,537,756</u>

City of Lancaster, Texas
Statement of Activities
For the Year Ended September 30, 2017

Functions/program	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Primary government									
Governmental activities:									
General government	\$ 7,327,188	\$ -	\$ -	\$ -	\$ (7,327,188)	\$ -	\$ (7,327,188)	\$ -	\$ -
Public safety	18,869,618	1,563,791	12,391	-	(17,293,436)	-	(17,293,436)	-	-
Public works	3,869,238	2,931,542	-	-	(937,696)	-	(937,696)	-	-
Community development and recreation	1,829,003	-	735,947	-	(1,093,056)	-	(1,093,056)	-	-
Interest and fiscal charges	2,935,851	-	-	-	(2,935,851)	-	(2,935,851)	-	-
Total governmental activities	<u>34,830,898</u>	<u>4,495,333</u>	<u>748,338</u>	<u>-</u>	<u>(29,587,227)</u>	<u>-</u>	<u>(29,587,227)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water and sewer	12,635,280	16,072,343	-	-	-	3,437,063	3,437,063	-	-
Refuse	1,531,088	2,695,335	-	-	-	1,164,247	1,164,247	-	-
Airport	842,480	681,037	-	-	-	(161,443)	(161,443)	-	-
Golf course	116,867	113,629	-	-	-	(3,238)	(3,238)	-	-
Total business-type activities	<u>15,125,715</u>	<u>19,562,344</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,436,629</u>	<u>4,436,629</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 49,956,613</u>	<u>\$ 24,057,677</u>	<u>\$ 748,338</u>	<u>\$ -</u>	<u>\$ (29,587,227)</u>	<u>\$ 4,436,629</u>	<u>\$ (25,150,598)</u>	<u>\$ -</u>	<u>\$ -</u>
Component units:									
Lancaster Economic Development Corporation	\$ 817,438	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (817,438)	\$ -
Lancaster Recreational Development Corporation	2,735,166	625,538	55,001	-	-	-	-	-	(2,054,627)
Total component units	<u>\$ 3,552,604</u>	<u>\$ 625,538</u>	<u>\$ 55,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (817,438)</u>	<u>\$ (2,054,627)</u>
General revenues									
Taxes									
Property taxes					\$ 18,172,866	\$ -	\$ 18,172,866	\$ -	\$ -
Sales taxes					6,168,242	-	6,168,242	1,233,648	2,467,297
Franchise taxes					2,138,384	-	2,138,384	-	-
Other local taxes					1,761,893	-	1,761,893	-	-
Interest on investments					270,073	219,076	489,149	27,666	7,772
Miscellaneous					581,435	1,493,751	2,075,186	-	42,477
Transfers					1,722,208	(1,722,208)	-	-	-
Total general revenues and transfers					<u>30,815,101</u>	<u>(9,381)</u>	<u>30,805,720</u>	<u>1,261,314</u>	<u>2,517,546</u>
Change in net position					1,227,874	4,427,248	5,655,122	443,876	462,919
Net Position, Beginning of Year					45,303,412	66,343,823	111,647,235	2,885,157	4,074,837
Net position, End of Year					<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>	<u>\$ 3,329,033</u>	<u>\$ 4,537,756</u>

City of Lancaster, Texas
Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 7,247,222	\$ 7,791,567	\$ 1,718,075	\$ 4,945,948	\$ 21,702,812
Receivables (net of allowance for uncollectibles):					
Notes	-	-	8,010,000	-	8,010,000
Delinquent taxes	475,233	-	210,504	16,843	702,580
Accounts	1,579,341	-	-	280,255	1,859,596
Sales tax	1,084,220	-	-	-	1,084,220
Fines	867,783	-	-	-	867,783
Due from:					
Component unit	528,753	-	-	-	528,753
Other funds	853,410	-	-	-	853,410
Inventory, at cost	66,339	-	-	-	66,339
Prepaid items	50,159	-	-	-	50,159
	<u>\$ 12,752,460</u>	<u>\$ 7,791,567</u>	<u>\$ 9,938,579</u>	<u>\$ 5,243,046</u>	<u>\$ 35,725,652</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts and contracts payable	\$ 531,574	\$ 656,804	\$ -	\$ 111,573	\$ 1,299,951
Accrued liabilities	1,335,922	-	-	70,121	1,406,043
Deposits	293,433	-	-	-	293,433
	<u>2,160,929</u>	<u>656,804</u>	<u>-</u>	<u>181,694</u>	<u>2,999,427</u>
Deferred inflows of resources	<u>1,523,591</u>	<u>-</u>	<u>8,188,686</u>	<u>6,983</u>	<u>9,719,260</u>
Fund balances					
Nonspendable for inventory and prepaid items	116,498	-	-	-	116,498
Restricted for					
Court security	38,013	-	-	-	38,013
Court technology	97,869	-	-	-	97,869
Capital projects	-	7,134,763	-	-	7,134,763
Debt service	-	-	1,749,893	-	1,749,893
Public works	-	-	-	2,497,565	2,497,565
Public improvement districts	-	-	-	829,346	829,346
Police grants	-	-	-	64,360	64,360
Tourism, convention centers, arts	-	-	-	717,922	717,922
Law enforcement purposes	-	-	-	945,176	945,176
Unassigned	8,815,560	-	-	-	8,815,560
	<u>9,067,940</u>	<u>7,134,763</u>	<u>1,749,893</u>	<u>5,054,369</u>	<u>23,006,965</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,752,460</u>	<u>\$ 7,791,567</u>	<u>\$ 9,938,579</u>	<u>\$ 5,243,046</u>	<u>\$ 35,725,652</u>

City of Lancaster, Texas
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
September 30, 2017

Total fund balances – governmental funds	\$	23,006,965
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		101,178,876
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.		(432,866)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.		1,709,260
Notes receivable are not measurable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements.		8,010,000
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Deferred charges on refunding	1,439,598	
Employer contributions	1,363,662	
Investment return difference (GASB 68)	2,340,302	
Assumption changes (GASB 68)	350,742	
Experience difference (GASB 68)	<u>(697,024)</u>	4,797,280
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	(55,160,017)	
Certificates of obligation	(14,340,000)	
Note payable	(3,716,561)	
Premiums on bond debt	(2,579,060)	
Net pension liability	(12,292,583)	
Compensated absences	(2,617,349)	
OPEB liability	(261,061)	
Capital leases	<u>(771,598)</u>	<u>(91,738,229)</u>
Total net position of governmental activities		<u>\$ 46,531,286</u>

City of Lancaster, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and fees	\$ 20,802,099	\$ -	\$ 5,568,399	\$ 2,201,440	\$ 28,571,938
Licenses and permits	1,204,769	-	-	279,483	1,484,252
Intergovernmental	98,071	-	1,182,217	-	1,280,288
Charges for services	1,447,290	-	-	-	1,447,290
Fines and forfeits	1,175,488	388,303	-	-	1,563,791
Interest	64,369	169,623	7,895	28,186	270,073
Miscellaneous	528,231	-	6,208	46,996	581,435
	<u>25,320,317</u>	<u>557,926</u>	<u>6,764,719</u>	<u>2,556,105</u>	<u>35,199,067</u>
Expenditures					
Current:					
General government	4,801,896	-	-	-	4,801,896
Public safety	16,096,810	-	-	156,089	16,252,899
Public works	1,873,516	58,054	-	1,086,930	3,018,500
Community development and recreation	1,322,065	-	-	254,555	1,576,620
Capital outlay	211,039	9,289,673	-	30,855	9,531,567
Debt service:					
Principal retirement	434,932	-	2,967,324	30,000	3,432,256
Interest and fiscal charges	217,784	-	2,912,326	14,824	3,144,934
Cost of issuance of bonds	-	-	92,884	2,322	95,206
	<u>24,958,042</u>	<u>9,347,727</u>	<u>5,972,534</u>	<u>1,575,575</u>	<u>41,853,878</u>
Excess (deficiency) of revenues over expenditures	<u>362,275</u>	<u>(8,789,801)</u>	<u>792,185</u>	<u>980,530</u>	<u>(6,654,811)</u>
Other financing sources (uses):					
Transfers in	1,730,755	-	56,000	-	1,786,755
Transfers out	-	-	-	(64,547)	(64,547)
Proceeds from refunding bonds issued	-	-	5,200,000	130,000	5,330,000
Bond premium	-	-	387,559	9,689	397,248
Payment to refunded bond escrow agent	-	-	(5,494,675)	(137,367)	(5,632,042)
	<u>1,730,755</u>	<u>-</u>	<u>148,884</u>	<u>(62,225)</u>	<u>1,817,414</u>
Net Change in Fund Balances	2,093,030	(8,789,801)	941,069	918,305	(4,837,397)
Fund Balances, Beginning of Year	<u>6,974,910</u>	<u>15,924,564</u>	<u>808,824</u>	<u>4,136,064</u>	<u>27,844,362</u>
Fund Balances, End of Year	<u>\$ 9,067,940</u>	<u>\$ 7,134,763</u>	<u>\$ 1,749,893</u>	<u>\$ 5,054,369</u>	<u>\$ 23,006,965</u>

City of Lancaster, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2017

Net change in fund balances – total governmental funds		\$ (4,837,397)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		9,575,698
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(5,618,758)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:		
General and certificates of obligation bonds	8,464,608	
Notes payable	434,932	
Capital leases	<u>168,758</u>	9,068,298
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:		
Issuance of general obligation bonds	(5,330,000)	
Bond premium/discount	(397,248)	
Amortization of deferred loss	(145,425)	
Amortization of bond premium/discount	<u>421,306</u>	(5,451,367)
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.		(901,701)
Current year change in long-term liability for compensated absences and OPEB liability do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		272,727
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.		24,585
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year.		<u>(904,211)</u>
Change in net position of governmental activities		<u>\$ 1,227,874</u>

City of Lancaster, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

Assets and Deferred Outflows of Resources	Water and Sewer	Airport Fund	Non-major Enterprise Funds	Total Proprietary Funds
Current Assets				
Cash and cash equivalents	\$ 28,286,518	\$ 190	\$ 1,078,426	\$ 29,365,134
Receivables (net of allowance for uncollectibles):				
Accounts	1,045,572	16,204	179,519	1,241,295
Unbilled	733,233	-	118,036	851,269
Inventory	-	23,244	-	23,244
	<u>30,065,323</u>	<u>39,638</u>	<u>1,375,981</u>	<u>31,480,942</u>
Total current assets				
Non-current Assets				
Restricted assets:				
Cash and cash equivalents	3,719,111	-	-	3,719,111
Capital Assets				
Nondepreciable	945,686	6,031,136	349,554	7,326,376
Depreciable (net of accumulated depreciation)	<u>33,671,293</u>	<u>5,454,819</u>	<u>1,904,656</u>	<u>41,030,768</u>
Total non-current assets	<u>38,336,090</u>	<u>11,485,955</u>	<u>2,254,210</u>	<u>52,076,255</u>
Total assets	<u>68,401,413</u>	<u>11,525,593</u>	<u>3,630,191</u>	<u>83,557,197</u>
Deferred Outflows of Resources				
Deferred charges on refunding	207,726	2,471	-	210,197
Deferred outflows on pensions - contributions	124,650	16,406	-	141,056
Deferred outflows on pensions - assumption changes	30,239	4,121	-	34,360
Deferred outflows on pensions - experience	6,110	826	-	6,936
Deferred outflows on pensions - difference in earnings	<u>203,468</u>	<u>27,639</u>	<u>-</u>	<u>231,107</u>
Total deferred outflows of resources	<u>572,193</u>	<u>51,463</u>	<u>-</u>	<u>623,656</u>
Liabilities, Deferred Inflows or Resources and Net Position				
Current Liabilities				
Accounts and contracts payable	422,886	14,163	124,869	561,918
Accrued liabilities	114,129	7,176	46,759	168,064
Accrued interest	58,777	516	-	59,293
Deposits	1,125,381	-	-	1,125,381
Due to:				
Other funds	-	853,410	-	853,410
Component units	-	747,236	-	747,236
General obligation bonds	930,000	10,000	-	940,000
Certificates of obligation	320,000	-	-	320,000
Compensated absences	<u>7,436</u>	<u>292</u>	<u>218</u>	<u>7,946</u>
Total current liabilities	<u>2,978,609</u>	<u>1,632,793</u>	<u>171,846</u>	<u>4,783,248</u>
Non-current Liabilities				
General obligation bonds	1,682,451	58,254	-	1,740,705
Certificates of obligation	5,480,493	-	-	5,480,493
Compensated absences	68,184	2,677	654	71,515
Net pension liability	<u>1,106,378</u>	<u>151,126</u>	<u>-</u>	<u>1,257,504</u>
Total non-current liabilities	<u>8,337,506</u>	<u>212,057</u>	<u>654</u>	<u>8,550,217</u>
Total liabilities	<u>11,316,115</u>	<u>1,844,850</u>	<u>172,500</u>	<u>13,333,465</u>
Deferred Inflows of Resources				
Deferred inflows on pensions - experience	67,226	9,091	-	76,317
Total deferred outflows of resources	<u>67,226</u>	<u>9,091</u>	<u>-</u>	<u>76,317</u>
Net Position				
Net investment in capital assets	30,130,872	11,420,172	2,254,210	43,805,254
Unrestricted	<u>27,459,393</u>	<u>(1,697,057)</u>	<u>1,203,481</u>	<u>26,965,817</u>
Total net position	<u>\$ 57,590,265</u>	<u>\$ 9,723,115</u>	<u>\$ 3,457,691</u>	<u>\$ 70,771,071</u>

City of Lancaster, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2017

	Water and Sewer	Airport Fund	Non-major Enterprise Funds	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 16,072,343	\$ 681,037	\$ 2,808,964	\$ 19,562,344
Intergovernmental	-	71,115	-	71,115
Miscellaneous	1,070,425	10,002	-	1,080,427
Impact fee revenue	631,824	-	-	631,824
	<u>17,774,592</u>	<u>762,154</u>	<u>2,808,964</u>	<u>21,345,710</u>
Total operating revenues				
Operating Expenses				
Personnel services and benefits	1,920,342	244,746	-	2,165,088
Maintenance	311,777	105,989	90,689	508,455
Purchase of water	2,952,032	-	-	2,952,032
Materials and supplies	499,360	280,600	-	779,960
Heat, light and power	218,227	44,544	35,099	297,870
Sewage treatment	4,780,769	-	-	4,780,769
Special services	426,281	25,532	1,417,672	1,869,485
Equipment rental	8,322	20,110	18,649	47,081
Depreciation	1,425,471	120,959	85,846	1,632,276
	<u>12,635,280</u>	<u>842,480</u>	<u>1,647,955</u>	<u>15,125,715</u>
Total operating expenses				
Operating Income	<u>5,139,312</u>	<u>(80,326)</u>	<u>1,161,009</u>	<u>6,219,995</u>
Non-operating Revenues (Expenses)				
Interest revenue	214,295	-	4,781	219,076
Interest and fiscal charges	(292,557)	2,942	-	(289,615)
	<u>(78,262)</u>	<u>2,942</u>	<u>4,781</u>	<u>(70,539)</u>
Total non-operating revenues (expenses)				
Income Before Transfers and Capital Contributions	<u>5,061,050</u>	<u>(77,384)</u>	<u>1,165,790</u>	<u>6,149,456</u>
Transfers and Capital Contributions				
Transfers out	(1,509,208)	-	(213,000)	(1,722,208)
	<u>(1,509,208)</u>	<u>-</u>	<u>(213,000)</u>	<u>(1,722,208)</u>
Total transfers and capital contributions				
Change in Net Position	3,551,842	(77,384)	952,790	4,427,248
Net Position, Beginning of Year	<u>54,038,423</u>	<u>9,800,499</u>	<u>2,504,901</u>	<u>66,343,823</u>
Net Position, End of Year	<u>\$ 57,590,265</u>	<u>\$ 9,723,115</u>	<u>\$ 3,457,691</u>	<u>\$ 70,771,071</u>

City of Lancaster, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2017

	Water and Sewer Fund	Airport Fund	Non-major Enterprise Funds	Total
Operating Activities				
Receipts from customers and users	\$ 17,867,282	\$ 759,972	\$ 2,761,973	\$ 21,389,227
Utility deposits collected	42,248	-	-	42,248
Payments to employees	(1,933,532)	(246,168)	-	(2,179,700)
Payments to suppliers	<u>(9,263,089)</u>	<u>(1,355,552)</u>	<u>(1,551,383)</u>	<u>(12,170,024)</u>
Net cash provided by operating activities	<u>6,712,909</u>	<u>(841,748)</u>	<u>1,210,590</u>	<u>7,081,751</u>
Noncapital and Related Financing Activities				
Transfers out	(1,509,208)	-	(213,000)	(1,722,208)
Loan proceeds from other funds	<u>-</u>	<u>1,600,646</u>	<u>-</u>	<u>1,600,646</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,509,208)</u>	<u>1,600,646</u>	<u>(213,000)</u>	<u>(121,562)</u>
Capital and Related Financing Activities				
Acquisition and construction of capital assets	(468,108)	(750,000)	(239,583)	(1,457,691)
Principal payments on debt	(1,196,724)	(11,840)	-	(1,208,564)
Interest payments on debt	<u>(264,822)</u>	<u>2,942</u>	<u>-</u>	<u>(261,880)</u>
Net cash used in capital and financing activities	<u>(1,929,654)</u>	<u>(758,898)</u>	<u>(239,583)</u>	<u>(2,928,135)</u>
Investing Activities				
Interest on investments	<u>214,295</u>	<u>-</u>	<u>4,781</u>	<u>219,076</u>
Net cash provided by investing activities	<u>214,295</u>	<u>-</u>	<u>4,781</u>	<u>219,076</u>
Increase in Cash and Cash Equivalents	3,488,342	-	762,788	4,251,130
Cash and Cash Equivalents, Beginning of Year	<u>28,517,287</u>	<u>190</u>	<u>315,638</u>	<u>28,833,115</u>
Cash and Cash Equivalents, End of Year	<u>\$ 32,005,629</u>	<u>\$ 190</u>	<u>\$ 1,078,426</u>	<u>\$ 33,084,245</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 5,139,311	\$ (80,326)	\$ 1,161,009	\$ 6,219,994
Item not requiring cash				
Depreciation	1,425,471	120,959	85,846	1,632,276
Amortization	(16,774)	-	-	(16,774)
Changes in				
Accounts receivable	92,690	(2,182)	(40,144)	50,364
Inventories	-	(9,188)	-	(9,188)
Accounts payable	(61,417)	(872,809)	(5,317)	(939,543)
Accrued expenses	65,302	(8,773)	9,196	65,725
Net pension liability, net of related deferred resources	75,039	15,492	-	90,531
Compensated absences	<u>(6,713)</u>	<u>(4,921)</u>	<u>-</u>	<u>(11,634)</u>
Net cash provided by operating activities	<u>\$ 6,712,909</u>	<u>\$ (841,748)</u>	<u>\$ 1,210,590</u>	<u>\$ 7,081,751</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

Note 1: Summary of Significant Accounting Policies

The accounting and reporting policies of the City of Lancaster conform to the generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

The City of Lancaster (the 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* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (1) the primary government must be able to impose its will or (2) the primary government may potentially benefit financially or be financially responsible for the component unit. The Lancaster Economic Development Corporation (Economic) and the Lancaster Recreational Development Corporation (Recreational) are nonprofit industrial development corporations formed in July and October 1995, respectively, under the Development Corporation Act of 1979. Both Economic and Recreational are organized exclusively for the purposes of benefiting and accomplishing public purposes and to act on behalf of the City. This includes the construction and renovation of municipal buildings, the acquisition, improvement and operation of parks, as well as, other economic development purposes. The affairs of these corporations are managed by two separate Boards of Directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. Economic and Recreational have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position 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. However, interfund services provided and used are not eliminated in the consolidation process. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

The statement of net position presents information on all the City's assets, deferred outflows, and liabilities, with the difference reported as "net position." Over time, increases or decreases in net position 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 properly not 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.

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

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

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, deferred outflows of resources and liabilities are included on the Statement of Net Position. The City has presented the following major Proprietary Funds:

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

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

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

Fund balance flow assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Classification of Fund Equity

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, fines and forfeits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services (except for sanitation services), and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Cash and Cash Equivalents

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

Investments

Investments in external investment pools are carried at either net asset value or amortized cost, as determined by each pool's individual investment valuation method and whether there is a readily determinable fair value of the pool as of the City's fiscal year end. In instances where pools transact at amortized cost, no readily determinable fair value is deemed available.

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, 2017, were \$793,653 for uncollectible taxes, \$2,646,430 for water and sewer billings, \$289,261 for court fees and fines and \$890,360 for ambulance fees.

Inventory

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

Prepaid Items

Prepaid balances, which are recognized as expenditures as they are consumed, are for payments made by the City in the current year for services occurring in the subsequent year.

Interfund Receivables and Payables

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

Interfund Transactions

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

Capital Assets

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

All items purchased with a price of \$5,000 or greater and a useful life exceeding one year is placed on the capital asset list. Each department is required to monitor their inventory and is accountable for the location of the asset. Asset tags are issued after payment has been processed. The Purchasing Agent conducts a yearly inventory to verify the inventory.

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	40 years
Improvements	5 – 50 years
Machinery and equipment	5 – 10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred loss on refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and recognized over the shorter of the life of the refunded or refunding debt.
- Employer Contributions – Pensions – These contributions are those made after the measurement date through the fiscal year end (January 1st – September 30th) resulting in a cash outlay not yet recognized in GASB 68. This amount is deferred and recognized in the following fiscal year.
- Investment difference – Pensions – These amounts represent the difference in projected and actual earnings on pension plan assets. These differences are deferred and recognized over a closed five year period.
- Experience difference – Pensions – These amounts represent the difference in expected and actual pension experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Assumption changes – Pensions – These amounts represent the difference resulting from a change in assumptions used to measure the underlying net pension liability. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.

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In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The City has the following items that qualify for reporting in this category.

- Unavailable revenue – This amount represents uncollected property taxes, municipal court fees, ambulance fees, and notes receivables. This amount is deferred and recognized once payments are made in the follow fiscal year.
- Experience difference – Pensions – These amounts represent the difference in expected and actual pension experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Investment difference – Pensions – These amounts represent the difference in projected and actual earnings on pension plan assets. These differences are deferred and amortized over a closed five-year period.

Compensated Absences

Sick leave is recorded on governmental activities for the Fire and Police Departments. All other employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one year to the next is limited to 260 hours.

The liability for unused vested vacation leave as of September 30, 2017, 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.

Defined Benefit Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's total pension liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Fund allocation of related balances is determined by individual employee assignment. This assignment is uniform with regard to liquidation of the liability.

City of Lancaster, Texas
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New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following new statements to be implemented in future years.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

- This statement was issued June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This standard becomes effective for the City in fiscal year 2018.

GASB Statement No. 81: *Irrevocable Split-Interest Agreements*

- This statement provides guidance for governments that are named as beneficiaries of split-interest agreements to recognize an asset (beneficial interest) and deferred inflow of resources. It also provides guidance for governments that are administering the trust assets to recognize a liability for payments to the other beneficiaries. GASB guidance previously had included very little about split-interest agreements. In split-interest agreements, donors contribute assets for the benefit of a government (such as a public university or hospital) and at least one other party. The assets are held in a trust or a similar arrangement, sometimes administered by the government itself. This standard becomes effective for the City in fiscal year 2018.

GASB Statement No. 83: *Certain Asset Retirement Obligations*

- This statement establishes uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs). An ARO is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. Examples could be costs associated with decommissioning a nuclear power plant or disposal of an x-ray machine. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event (such as a legally binding contract or a court judgment) and an internal obligating event (such as placing a tangible capital asset into service). A government also recognizes a deferred outflow of resources when it recognizes an ARO liability. The ARO is measured at the best estimate of the current value of outlays expected to be incurred. Additional note disclosures are required. This standard becomes effective for the City in fiscal year 2019.

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GASB Statement No. 84: *Fiduciary Activities*

- This statement establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. This standard becomes effective for the City in fiscal year 2020.

GASB Statement No. 85: *Omnibus 2017*

- This statement addresses practice issues that have arisen during implementation of other GASB standards. Among the topics addressed are blending of component units for a business-type activity that reports in a single column, presentation of goodwill from acquisitions that occurred prior to GASB 69, valuation of money market and certain other investments, and certain issues relating to pensions and other postemployment benefits. These updates either provide clarification, correction, or additional guidance on the topics covered. This standard becomes effective for the City in fiscal year 2018.

GASB Statement No. 86: *Certain Debt Extinguishment Issues*

- This statement eliminates an inconsistency in the literature related to in-substance defeasance of debt. Under previous guidance, debt could only be considered defeased if there was a refunding. GASB 86 now allows defeasance treatment even if the government uses existing assets and does not issue new debt. However, any resulting gain or loss will be recognized in the period of the defeasance. GASB 86 also includes guidance on handling prepaid insurance in any debt extinguishment. Additionally, there is a new requirement for all in-substance defeasances to disclose any ability to substitute risk-free monetary assets with those that are not. This standard becomes effective for the City in fiscal year 2018.

GASB Statement No. 87: *Leases*

- This statement provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset.

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An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2021.

The City has not yet determined the effect on the City's financial statements or disclosures upon implementation of these new accounting standards.

Note 2: Deposits and Investments

The deposit and investment policies of the City are governed by State Statutes and the adopted City Investment Policy. City policies governing bank deposits require depositories to be FDIC-insured institutions, and depositories must fully collateralize all deposits in excess of FDIC insurance limits.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agency securities, repurchase agreements and municipal pools.

The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

During the year ended September 30, 2017, the City invested in Texas CLASS, TexPool, and LOGIC, which are investment pools authorized by the Texas Legislature.

Texas CLASS Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques. Texas CLASS limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. Texas CLASS is rated AAAM by Standard & Poor's.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

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LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the “Agreement”) between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities which have become parties to the Agreement (“Participants”). Participants’ assets in the Pool are represented by units of beneficial interest (“Units”), which are issued in discrete series (each a “Portfolio”), as authorized from time to time by the Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. FirstSouthwest, a Division of Hilltop Securities (FirstSouthwest) and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds. LOGIC is rated AAAM by Standard & Poor’s.

TexPool is carried at amortized cost. Texas CLASS and LOGIC are carried at net asset value. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

As of September 30, 2017, the City held the following investments:

	Carring Value	Weighted- Average Maturity (Days)
Primary Government		
TexPool	\$ 28,461,933	51
LOGIC	20,576,817	59
Texas Class	<u>4,128,823</u>	56
Total primary government	<u>53,167,573</u>	
Component Units		
TexPool	3,040,557	51
LOGIC	2,198,199	59
Texas Class	<u>441,078</u>	56
Total component units	<u>5,679,834</u>	
Total investments	<u><u>\$ 58,847,407</u></u>	

City of Lancaster, Texas
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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.

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases and contracts with a third-party safekeeping agent.

Credit Risk

It is the City's policy to follow statutes, which authorize the City to invest in obligations of the U. S. Treasury agencies and instrumentalities, obligations of the state of Texas and related agencies, obligations of states, agencies, counties, cities and other political subdivisions of any state rated "A" or above by Standard & Poor's Corporation or Moody's, repurchase agreements and designated investment pools. The City's assets in investment pools meet this requirement as noted above.

Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

City of Lancaster, Texas
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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments measured at net asset value				
LOGIC	\$ 22,775,016			
TexCLASS	4,569,901			
	<u>27,344,917</u>			
Investments measured at amortized cost				
TexPool	31,502,490			
	<u>31,502,490</u>			
Total investments	<u>\$ 58,847,407</u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Note 4: 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, 2017, were 98% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30, that are collected within 60 days is recognized as revenue and recorded as taxes receivable. Any uncollected property taxes at September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred inflow of resources in governmental funds. 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, provision of Article XI, Section 5 of the *Texas Constitution* applicable to cities with populations greater than 5,000 limits the ad-valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city operating under a Home Rule Charter, the City has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2017, the City had a tax rate of \$.8675 per \$100.00 assessed valuation, of which \$.6012 was allocated for general government and \$.2663 was allocated for the payment of principal and interest on general obligation debt.

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

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

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

Note 5: Interfund receivables, payables, and transfers

Due To/Due From

Due to and due from other funds are the short-term portion of the advances to and advances from other funds. The Airport Fund is currently repaying an interfund loan to the General Fund. The General Fund loan was \$853,410 (which is an interest free loan) and is scheduled for full repayment in 2018.

Interfund Transfers

For the year ended September 30, 2017, interfund transactions, excluding discretely presented component units were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,730,755	\$ -
General Obligation Debt Service Fund	56,000	-
Nonmajor Governmental Funds	-	64,547
Water and Sewer Fund	-	1,509,208
Nonmajor Enterprise Funds	-	213,000
	\$ 1,786,755	\$ 1,786,755

The interfund transfer to the General Fund from the Non-major Governmental Funds, Water and Sewer Funds, Refuse Fund and Golf Course Fund is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer to the General Obligation Debt Service Fund from the Golf Course Fund is for debt repayment.

City of Lancaster, Texas
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Note 6: Capital Assets

Governmental Activities

Capital assets of the Governmental Activities are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 13,214,268	\$ -	\$ -	\$ -	\$ 13,214,268
Construction in progress	9,015,471	8,852,875	-	(13,490,256)	4,378,090
		-	-	-	
Total capital assets not being depreciated	<u>22,229,739</u>	<u>8,852,875</u>	<u>-</u>	<u>(13,490,256)</u>	<u>17,592,358</u>
Capital assets being depreciated					
Buildings	24,487,196	69,100	-	4,917,523	29,473,819
Infrastructure, improvements, equipment, and furniture	126,656,832	605,758	(42,292)	8,572,733	135,793,031
Total capital assets being depreciated	151,144,028	674,858	(42,292)	13,490,256	165,266,850
Less accumulated depreciation for:					
Buildings	7,404,979	649,558	-	-	8,054,537
Infrastructure, improvements, equipment and furniture	68,698,887	4,969,200	(42,292)	-	73,625,795
Total accumulated depreciation	<u>76,103,866</u>	<u>5,618,758</u>	<u>(42,292)</u>	<u>-</u>	<u>81,680,332</u>
Total capital assets being depreciated, net	<u>75,040,162</u>	<u>(4,943,900)</u>	<u>-</u>	<u>13,490,256</u>	<u>83,586,518</u>
Governmental activities capital assets, net	<u>\$ 97,269,901</u>	<u>\$ 3,908,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,178,876</u>

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

General and administrative	\$ 1,898,918
Public safety	2,616,719
Public works	850,738
Community development and recreation	<u>252,383</u>
Total depreciation expense – governmental activities	<u>\$ 5,618,758</u>

City of Lancaster, Texas
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Business-type Activities

Capital assets of the Business-type Activities are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 4,971,266	\$ -	\$ -	\$ -	\$ 4,971,266
Construction in progress	1,156,566	1,198,544	-	-	2,355,110
Total capital assets not being depreciated	<u>6,127,832</u>	<u>1,198,544</u>	<u>-</u>	<u>-</u>	<u>7,326,376</u>
Capital assets being depreciated					
Plants and buildings	4,950,436	-	-	-	4,950,436
Other improvements	65,830,044	118,041	-	-	65,948,085
Runways and taxiways	7,663,689	-	-	-	7,663,689
Other structures	951,622	-	-	-	951,622
Machinery and equipment	3,316,510	141,096	(17,859)	-	3,439,747
Total capital assets being depreciated	82,712,301	259,137	(17,859)	-	82,953,579
Less accumulated depreciation for:					
Plants and buildings	3,009,325	54,481	-	-	3,063,806
Other improvements	31,196,220	1,338,730	-	-	32,534,950
Runways and taxiways	2,537,576	109,292	-	-	2,646,868
Other structures	820,169	23,824	-	-	843,993
Machinery and equipment	2,745,104	105,949	(17,859)	-	2,833,194
Total accumulated depreciation	<u>40,308,394</u>	<u>1,632,276</u>	<u>(17,859)</u>	<u>-</u>	<u>41,922,811</u>
Total capital assets being depreciated, net	<u>42,403,907</u>	<u>(1,373,139)</u>	<u>-</u>	<u>-</u>	<u>41,030,768</u>
Business-type activities capital assets, net	<u>\$ 48,531,739</u>	<u>\$ (174,595)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,357,144</u>

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

Water and Sewer	\$ 1,425,471
Airport	120,959
Golf	74,514
Refuse	11,332
Total depreciation expense – business-type activities	<u>\$ 1,632,276</u>

City of Lancaster, Texas
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Discretely Presented Component Units

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

	Beginning Balance	Increases	Ending Balance
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>\$ 100,378</u>

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

	Beginning Balance	Increases	Ending Balance
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>989,118</u>
Capital assets being depreciated			
Buildings	15,797,360	-	15,797,360
Park structures	3,965,809	-	3,965,809
Equipment and furniture	613,479	41,676	655,155
Total capital assets being depreciated	20,376,648	41,676	20,418,324
Less accumulated depreciation for:			
Buildings	6,488,625	394,934	6,883,559
Park structures	3,965,809	-	3,965,809
Equipment and furniture	462,046	28,608	490,654
Total accumulated depreciation	<u>10,916,480</u>	<u>423,542</u>	<u>11,340,022</u>
Total capital assets being depreciated, net	<u>9,460,168</u>	<u>(381,866)</u>	<u>9,078,302</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 10,449,286</u>	<u>\$ (381,866)</u>	<u>\$ 10,067,420</u>

City of Lancaster, Texas
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Note 7: Long-term Liabilities

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 55,260,017	\$ 5,330,000	\$ (5,430,000)	55,160,017	\$ 2,690,000
Certificates of obligation	17,360,105	-	(3,020,105)	14,340,000	365,000
Notes payable	4,151,493	-	(434,932)	3,716,561	577,616
Premiums on bond debt	2,618,372	397,248	(436,560)	2,579,060	-
Compensated absences	2,936,830	2,617,349	(2,936,830)	2,617,349	261,735
OPEB liability	214,307	46,754	-	261,061	-
Net pension liability	12,962,627	-	(670,044)	12,292,583	-
Capital leases	940,356	-	(168,758)	771,598	159,144
Total governmental activities	<u>\$ 96,444,107</u>	<u>\$ 8,391,351</u>	<u>\$ (13,097,229)</u>	<u>\$ 91,738,229</u>	<u>\$ 4,053,495</u>
Business-type Activities					
General obligation bonds	\$ 2,844,983	\$ 1,245,000	\$ (1,580,000)	\$ 2,509,983	\$ 940,000
Certificates of obligation	6,644,896	-	(829,896)	5,815,000	320,000
Premiums on bond debt	116,202	92,790	(38,270)	170,722	-
Net pension liability	1,323,147	-	(65,643)	1,257,504	-
Compensated absences	79,421	79,461	(79,421)	79,461	7,946
Total business-type activities	<u>\$ 11,008,649</u>	<u>\$ 1,417,251</u>	<u>\$ (2,593,230)</u>	<u>\$ 9,832,670</u>	<u>\$ 1,267,946</u>
Discretely Presented Component Units					
Notes payable to primary government	\$ 8,541,950	\$ 1,735,000	\$ (2,266,950)	\$ 8,010,000	\$ 845,000
Net pension liability	813,084	-	(42,076)	771,008	-
Total discretely presented component units	<u>\$ 9,355,034</u>	<u>\$ 1,735,000</u>	<u>\$ (2,309,026)</u>	<u>\$ 8,781,008</u>	<u>\$ 845,000</u>

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

During fiscal year 2017, the City executed a current refunding in the amount of \$6,575,000 of series 2007 General Obligation Refunding and Improvement Bonds and Tax, and Waterworks and Sewer System Surplus Revenue Certificates of Obligation. The bonds were refunded with \$6,575,000 Series 2016 General Obligation Refunding and Improvement Bonds dated November 23, 2016, bearing interest rates ranging from 2.00% to 4.00%. The Bonds were issued at a premium of \$490,038 and incurred issuance costs of \$75,919. As a result of the current refunding, the City recorded a deferred loss on refunding of \$139,285. An economic gain was incurred (difference between the present values of the debt service payments on the old and new debt) of \$692,428.

City of Lancaster, Texas
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For the governmental activities, compensated absences and net pension liabilities are generally liquidated in the General Fund and Stormwater Fund. The net OPEB obligation is generally liquidated in the General Fund.

General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2017, consist of the following:

	Governmental Activities	Water and Sewer	Airport	Total Primary Government
<u>General Obligation Bonds</u>				
\$22,995,000, 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	\$ 19,950,000	\$ -	\$ -	\$ 19,950,000
\$12,240,000, 2012 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 2.00% – 5.00%	8,685,000	220,000	65,000	8,970,000
\$22,530,000, 2015 General Obligation Refunding Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	21,315,017	1,014,983	-	22,330,000
\$6,575,000, 2016 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 2.00% – 4.00%	<u>5,210,000</u>	<u>1,210,000</u>	<u>-</u>	<u>6,420,000</u>
	<u>\$ 55,160,017</u>	<u>\$ 2,444,983</u>	<u>\$ 65,000</u>	<u>\$ 57,670,000</u>
<u>Certificates of Obligation</u>				
\$12,000,000, 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	\$ 10,420,000	\$ -	\$ -	\$ 10,420,000
\$7,585,000, 2011 Certificate of Obligation Bonds, due in annual installments through August 15, 2031, 2.00% – 3.50%	-	5,815,000	-	5,815,000
\$4,080,000, 2015 Certificate of Obligation Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	<u>3,920,000</u>	<u>-</u>	<u>-</u>	<u>3,920,000</u>
	<u>\$ 14,340,000</u>	<u>\$ 5,815,000</u>	<u>\$ -</u>	<u>\$ 20,155,000</u>

City of Lancaster, Texas
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The city has pledged future water customer revenues, net of specified operating expenses, to repay \$7.6 million in water system revenue bonds issued in 2011. Proceeds from the bonds provided financing for the improvement to the Airport. The bonds are payable solely from water customer net revenues and are payable through 2032. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$7,572,966. Principal and interest paid for the current year and total customer net revenues were \$595,856 and \$4,388,507, respectively.

<u>Note Payable</u>	<u>Governmental Activities</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
\$11,650,000 note payable, due in annual installments through February 15, 2024; 3.00% – 4.50%	\$ -	\$ -	\$ 6,285,000
\$1,125,000 note payable, due in annual installments through February 15, 2027; 2.00% – 3.75%	-	-	1,115,000
\$620,000 note payable, due in annual installments through February 15, 2027; 2.00% – 4.00%	-	-	610,000
\$5,690,000 note payable, due in annual installments beginning October 2013 through October 2022; 7.00%	<u>3,716,561</u>	<u>3,716,561</u>	<u>-</u>
	<u>\$ 3,716,561</u>	<u>\$ 3,716,561</u>	<u>\$ 8,010,000</u>
 <u>Capital Leases</u>			
\$1,250,000 Lease Purchase Agreement due in monthly installments through January 15, 2024; 2.08%	<u>771,598</u>	<u>771,598</u>	<u>-</u>
	<u>\$ 771,598</u>	<u>\$ 771,598</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.

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As of September 30, 2017, property and equipment under capital leases is carried at \$2,573,129, with \$1,258,833 in estimated accumulated depreciation, included in fixed assets. Amortization of these assets is included with depreciation expense.

The annual requirements to amortize the long-term debt as of September 30, 2017, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 2,690,000	\$ 2,687,481	\$ 5,377,481	\$ 940,000	\$ 70,300	\$ 1,010,300
2019	2,780,000	2,599,509	5,379,509	150,000	58,850	208,850
2020	2,675,017	2,481,830	5,156,847	344,983	53,500	398,483
2021	3,005,000	2,337,831	5,342,831	150,000	46,450	196,450
2022	3,155,000	2,185,511	5,340,511	155,000	39,225	194,225
2023-2027	14,600,000	8,712,327	23,312,327	770,000	87,125	857,125
2028-2032	14,230,000	5,308,280	19,538,280	-	-	-
2033-2037	8,225,000	2,318,000	10,543,000	-	-	-
2038-2040	3,800,000	378,950	4,178,950	-	-	-
Total	\$ 55,160,017	\$ 29,009,719	\$ 84,169,736	\$ 2,509,983	\$ 355,450	\$ 2,865,433

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 365,000	\$ 775,444	\$ 1,140,444	\$ 320,000	\$ 193,922	\$ 513,922
2019	375,000	759,345	1,134,345	330,000	183,818	513,818
2020	385,000	742,459	1,127,459	340,000	173,347	513,347
2021	395,000	723,744	1,118,744	355,000	164,307	519,307
2022	410,000	702,965	1,112,965	370,000	156,764	526,764
2023-2027	2,585,000	3,154,282	5,739,282	2,080,000	620,097	2,700,097
2028-2032	3,355,000	2,352,875	5,707,875	2,020,000	265,711	2,285,711
2033-2037	4,485,000	1,218,522	5,703,522	-	-	-
2038-2040	1,985,000	197,962	2,182,962	-	-	-
Total	\$ 14,340,000	\$ 10,627,598	\$ 24,967,598	\$ 5,815,000	\$ 1,757,966	\$ 7,572,966

Note Payable						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 577,616	\$ 270,308	\$ 847,924	\$ -	\$ -	\$ -
2019	618,049	232,520	850,569	-	-	-
2020	661,313	192,087	853,400	-	-	-
2021	707,605	148,824	856,429	-	-	-
2022	704,137	102,532	806,669	-	-	-
2022 - 2023	447,841	53,000	500,841	-	-	-
Total	\$ 3,716,561	\$ 999,271	\$ 4,715,832	\$ -	\$ -	\$ -

City of Lancaster, Texas
Notes to Basic Financial Statements
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Note Payable			
Fiscal	Discretely Presented Component Units		
Year	Principal	Interest	Total
2018	\$ 845,000	\$ 299,375	\$ 1,144,375
2019	880,000	271,500	1,151,500
2020	900,000	233,350	1,133,350
2021	945,000	187,925	1,132,925
2022	1,000,000	140,000	1,140,000
2023-2027	<u>3,440,000</u>	<u>188,725</u>	<u>3,628,725</u>
Total	<u>\$ 8,010,000</u>	<u>\$ 1,320,875</u>	<u>\$ 9,330,875</u>

Capital Leases			
Fiscal	Governmental Activities		
Year	Principal	Interest	Total
2018	\$ 159,144	\$ 16,049	\$ 175,193
2019	162,454	12,739	175,193
2020	90,000	9,360	99,360
2021	90,000	7,488	97,488
2022	90,000	5,616	95,616
2023-2024	<u>180,000</u>	<u>5,616</u>	<u>185,616</u>
Total	<u>\$ 771,598</u>	<u>\$ 56,868</u>	<u>\$ 828,466</u>

Note 8: Employee Retirement System

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. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.93% and 4.45%, respectively. There were no significant changes in the component unit's proportion to the plan during fiscal year 2017.

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

City of Lancaster, Texas
Notes to Basic Financial Statements
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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:

Deposit rate	7.00%
Matching ratio (City to employee)	2 – 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI Repeating

At the December 31, 2016, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	176
Inactive employees entitled to but not yet receiving benefits	214
Active employees	244
	<u>634</u>

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method beginning with the 2013 valuations. 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’s contributions to TMRS for the year ended September 30, 2017, were \$2,134,819, and were equal to the required contributions.

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, 2012, valuation is effective for the rates beginning January 1, 2014).

City of Lancaster, Texas
Notes to Basic Financial Statements
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Net Pension Liability

Actuarial Assumptions:

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per yer
Investment rate of return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a *Mortality Experience Investigation Study* covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2017

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7.00% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability(a) - (b)
Balances as of 9/30/16	\$ 73,946,109	\$ 58,847,251	\$ 15,098,858
Changes for the year:			
Service cost	2,335,235	-	2,335,235
Interest on total pension liability	4,963,011	-	4,963,011
Effect of difference in expected and actual experience	(1,104,406)	-	(1,104,406)
Benefit payments	(3,175,270)	(3,175,270)	-
Administrative expenses	-	(44,915)	44,915
Member contributions	-	1,049,207	(1,049,207)
Net investment income	-	3,975,648	(3,975,648)
Employer contributions	-	1,994,083	(1,994,083)
Other	-	(2,420)	2,420
Net changes	3,018,570	3,796,333	(777,763)
Balances as of 9/30/17	\$ 76,964,679	\$ 62,643,584	\$ 14,321,095

City of Lancaster, Texas
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Proportionate share and net pension liability reported in:

Primary Government	94.62%	\$	13,550,087
Lancaster Economic Development Corporation	0.93%		133,994
Lancaster Recreational Development Corporation	4.45%		637,014
	100.00%	\$	14,321,095

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the City, by primary government and discretely presented component units, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary government	\$ 24,929,301	\$ 13,550,087	\$ 4,370,189
Lancaster Economic Development Corporation	246,521	133,994	43,216
Lancaster Recreational Development Corporation	1,171,971	637,014	205,450
Plan's net pension liability	\$ 26,347,793	\$ 14,321,095	\$ 4,618,855

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the primary government recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$990,040.

At September 30, 2017, the primary government reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 76,618	\$ 843,023
Change of assumptions	385,102	-
Difference between projected and actual investment earnings plan investments	2,571,409	
Contributions subsequent to the measurement date	1,504,718	-
	\$ 4,537,847	\$ 843,023

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For the year ended September 30, 2017, the primary government reported \$1,501,990 as deferred outflows of resources related to pensions resulting from primary government contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

For the year ended September 30, 2017, Lancaster Economic Development Corporation recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$9,420.

At September 30, 2017, Lancaster Economic Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 723	\$ 7,953
Change of assumptions	3,678	-
Difference between projected and actual investment earnings		
plan investments	24,433	-
Contributions subsequent to the measurement date	14,040	-
	<u>\$ 42,874</u>	<u>\$ 7,953</u>

For the year ended September 30, 2017, Lancaster Economic Development Corporation reported \$14,040 as deferred outflows of resources related to pensions resulting from Lancaster Economic Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

For the year ended September 30, 2017, Lancaster Recreational Development Corporation recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$47,205.

At September 30, 2017, Lancaster Recreational Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,554	\$ 39,102
Change of assumptions	18,354	-
Difference between projected and actual investment earnings		
plan investments	120,892	-
Contributions subsequent to the measurement date	67,308	-
	<u>\$ 210,108</u>	<u>\$ 39,102</u>

City of Lancaster, Texas
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For the year ended September 30, 2017, Lancaster Recreational Development Corporation reported \$67,308 as deferred outflows of resources related to pensions resulting from Lancaster Recreational Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the primary government will be recognized in pension expense as follows:

Year Ending September 30	
2017	\$851,355
2018	766,065
2019	573,340
2020	(654)
	\$ 2,190,106

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Lancaster Economic Development Corporation will be recognized in pension expense as follows:

Year Ending September 30	
2017	\$8,123
2018	7,303
2019	5,461
2020	(6)
	\$ 20,881

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Lancaster Recreational Development Corporation will be recognized in pension expense as follows:

Year Ending September 30	
2017	\$ 40,393
2018	36,259
2019	27,077
2020	(31)
	\$ 103,698

City of Lancaster, Texas
Notes to Basic Financial Statements
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Supplemental Death Benefit Fund

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the TMRS known as the Supplemental Death Benefits fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1, of any year to be effective the following January 1.

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2017, 2016 and 2015, were \$21,792, \$21,157 and \$21,234, respectively, which equaled the required contributions each year.

Note 9: 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 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

City of Lancaster, Texas
Notes to Basic Financial Statements
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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 \$518 per month for retiree-only coverage, \$1,140 per month for retiree and spouse, and \$1,765 per month for retiree and family. Members receiving PPO medical benefits contribute \$574 per month for retiree-only coverage, \$1,264 per month for retiree and spouse, and \$1,956 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

Annual OPEB Costs

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The unfunded actuarial accrued liabilities were amortized as a level percent of active payroll over an open period of 30 years. The City's annual OPEB cost and the related information are as follows at September 30, 2017, 2016 and 2015:

	September 30,		
	2017	2016	2015
Annual required contribution	\$ 88,361	\$ 76,437	\$ 74,211
Interest on prior year net OPEB obligation	8,572	7,896	5,883
Adjustment to annual required contribution	<u>(8,351)</u>	<u>(7,315)</u>	<u>(5,450)</u>
Annual OPEB cost	88,582	77,018	74,644
Contributions made	<u>(41,828)</u>	<u>(38,171)</u>	<u>(29,908)</u>
Increase in net OPEB obligation	46,754	38,847	44,736
Net obligation, beginning of year	<u>214,307</u>	<u>175,460</u>	<u>130,724</u>
Net obligation, end of year	<u>\$ 261,061</u>	<u>\$ 214,307</u>	<u>\$ 175,460</u>
Percentage of OPEB costs contributed	47.2%	49.6%	40.1%

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2016, was as follows:

Actuarial accrued liability	\$ 1,060,277
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 1,060,277</u>
Funded ratio	0.00%
Covered payroll	\$ 15,132,267
Unfunded actuarial accrued liability as a percentage of covered payroll	7.0%

City of Lancaster, Texas
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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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, 2016, 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 7.50% initially, reduced by decrements to an ultimate rate of 4.5% after eight years. The rate of inflation is assumed to be 3%.

Note 10: Litigation

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's legal counsel and management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe the amount is probable.

The City is involved in a litigation case with White Rock Commercial, LLC (White Rock). The case involves the City repaying the cost of infrastructure improvements placed by White Rock. To date, an amount to repay is indeterminable due to the imposition of impact fees and other considerations. This case has an initial verdict for the City to repay, but appeals are pending.

Note 11: Commitments and Contingencies

Risk Management

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

City of Lancaster, Texas
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September 30, 2017

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2017, was \$4,358,372, for the Ten Mile Creek Regional Wastewater System and \$79,411, for the Red Oak Creek Regional Wastewater System. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2017.

Federal and State Programs

The City participates in several federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2017, may be impaired.

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 in the accompanying financial statements.

Note 12: Tax Incentive Rebates

The City of Lancaster has four (4) active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting business that generates incremental tax revenues. In addition to GASB 77, the agreements are subject Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. City Council approves the agreements via resolution. As part of the agreement, the City agrees to rebate the tax valorem tax increment and the local sales tax after confirmation of payment. If the businesses do not meet the obligations as set forth in the agreement, a clawback provision for default on agreement is included in the agreement and the business agrees return a percentage of the rebate back to the City. Total rebate of taxes for the year ended September 30, 2017 is \$1,109,675.

Required Supplementary Information

City of Lancaster, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (Unaudited)

	<u>Measurement Year 2014</u>	<u>Measurement Year 2015</u>	<u>Measurement Year 2016</u>
Total Pension Liability:			
Service cost	\$ 1,754,296	\$ 2,193,202	\$ 2,335,235
Interest (on the Total Pension Liability)	4,600,938	4,801,518	4,963,011
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(470,634)	190,955	(1,104,406)
Changes in assumptions	-	961,057	-
Benefit payments, including refunds of employee contributions	(3,082,997)	(3,394,263)	(3,175,270)
Net change in total pension liability	<u>2,801,603</u>	<u>4,752,469</u>	<u>3,018,570</u>
Total pension liability – Beginning	<u>66,392,037</u>	<u>69,193,640</u>	<u>73,946,109</u>
Total pension liability – Ending (a)	<u>\$ 69,193,640</u>	<u>\$ 73,946,109</u>	<u>\$ 76,964,679</u>
Plan Fiduciary Net Position:			
Contributions – employer	\$ 1,950,250	\$ 2,038,833	\$ 1,994,083
Contributions – employee	943,452	1,019,417	1,049,207
Net investment income	3,212,784	87,279	3,975,648
Benefit payments, including refunds of employee contributions	(3,082,997)	(3,394,263)	(3,175,270)
Administrative expense	(33,545)	(53,164)	(44,915)
Other	(2,758)	(2,625)	(2,420)
Net change in plan fiduciary net position	<u>2,987,186</u>	<u>(304,523)</u>	<u>3,796,333</u>
Plan fiduciary net position – Beginning	<u>56,164,588</u>	<u>59,151,774</u>	<u>58,847,251</u>
Plan fiduciary net position – Ending (b)	<u>\$ 59,151,774</u>	<u>\$ 58,847,251</u>	<u>\$ 62,643,584</u>
City’s net pension liability – Ending (a) – (b)	<u>\$ 10,041,866</u>	<u>\$ 15,098,858</u>	<u>\$ 14,321,095</u>
Plan fiduciary net position as a percentage of the total pension liability	85.49%	79.58%	81.39%
Covered payroll	\$ 13,477,886	\$ 14,563,096	\$ 14,988,669
City’s net pension liability as a percentage of covered payroll	74.51%	103.68%	95.55%

Changes in assumptions: In the 2015 valuation the investment rate decreased from 7.0% to 6.75%; the inflation rate was lowered from 3.0% to 2.5%; the experience study for retirement age was updated

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City’s measurement date (December 31).

City of Lancaster, Texas
Required Supplementary Information
Schedule of Contributions
Texas Municipal Retirement System (Unaudited)

	<u>Fiscal Year 2015</u>	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2017</u>
Actuarially determined contribution	\$ 2,012,259	\$ 2,002,110	\$ 2,134,819
Contributions in relation to the actuarially determined contribution	<u>2,012,259</u>	<u>2,002,110</u>	<u>2,134,819</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 14,156,179	\$ 14,839,963	\$ 15,572,564
Contributions as a percentage of covered payroll	14.21%	13.49%	13.71%

Notes to Schedule Contributions

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	

Mortality

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014 RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's most recent fiscal year-end (September 30).

City of Lancaster, Texas
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability and Contributions
Texas Municipal Retirement System (Unaudited)

	Primary Government			Lancaster Economic Development Corporation			Lancaster Recreational Development Corporation		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Proportionate share of net pension liability	94.63%	94.61%	94.62%	0.95%	0.93%	0.93%	4.42%	4.45%	4.45%
Net pension liability	\$ 9,502,407	\$ 14,285,030	\$ 13,550,087	\$ 95,378	\$ 140,419	\$ 133,994	\$ 444,082	\$ 671,899	\$ 637,014
Actuarially determined contribution	\$ 1,904,158	\$ 1,894,295	\$ 1,894,396	\$ 19,113	\$ 18,696	\$ 18,620	\$ 88,988	\$ 89,119	\$ 89,094
Covered payroll	\$ 13,395,694	\$ 14,040,821	\$ 14,041,573	\$ 134,456	\$ 138,576	\$ 138,012	\$ 626,029	\$ 660,566	\$ 660,378
Proportionate share of net pension liability as a percentage of covered payroll	70.94%	101.74%	96.50%	70.94%	101.33%	97.09%	70.94%	101.72%	96.46%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the the City's most recent fiscal year-end (September 30).

City of Lancaster, Texas
Required Supplementary Information
Employees' Other Post-employment Benefits Plan
Schedule of Funding Progress (Unaudited)
September 30, 2017

Fiscal Year	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]
				[1]/[2]	[2]-[1]		[4]/[5]
2013	12/31/2012	\$ -	\$ 886,334	0.0%	\$ 886,334	\$ 12,440,548	7.1%
2015	12/31/2014	\$ -	\$ 876,821	0.0%	\$ 876,821	\$ 13,863,623	6.3%
2017	12/31/2016	\$ -	\$ 1,060,277	0.0%	\$ 1,060,277	\$ 15,132,267	7.0%

City of Lancaster, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund (Unaudited)
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and fees	\$ 19,321,122	\$ 19,321,122	\$ 20,802,099	\$ 1,480,977
Licenses and permits	747,900	747,900	1,204,769	456,869
Intergovernmental	-	-	98,071	98,071
Charges for services	829,800	829,800	1,447,290	617,490
Fines and forfeits	689,500	689,500	1,175,488	485,988
Interest	4,000	4,000	64,369	60,369
Miscellaneous	32,650	32,650	528,231	495,581
	<u>21,624,972</u>	<u>21,624,972</u>	<u>25,320,317</u>	<u>3,695,345</u>
Expenditures				
Current				
General government	4,691,635	4,691,635	4,801,896	(110,261)
Public safety	15,127,271	15,127,271	16,096,810	(969,539)
Public works	426,337	426,337	1,873,516	(1,447,179)
Community development and recreation	1,919,122	1,919,122	1,322,065	597,057
Capital outlay	2,019,230	2,019,230	211,039	1,808,191
Debt service				
Principal retirement	-	-	434,932	(434,932)
Interest and fiscal charges	-	-	217,784	(217,784)
	<u>24,183,595</u>	<u>24,183,595</u>	<u>24,958,042</u>	<u>(774,447)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,558,623)</u>	<u>(2,558,623)</u>	<u>362,275</u>	<u>2,920,898</u>
Other financing sources (uses)				
Transfers in	<u>1,816,435</u>	<u>1,816,435</u>	<u>1,730,755</u>	<u>(85,680)</u>
Total other financing sources (uses)	<u>1,816,435</u>	<u>1,816,435</u>	<u>1,730,755</u>	<u>(85,680)</u>
Net Change in Fund Balances	(742,188)	(742,188)	2,093,030	2,835,218
Fund Balance, Beginning of Year	<u>6,974,910</u>	<u>6,974,910</u>	<u>6,974,910</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 6,232,722</u>	<u>\$ 6,232,722</u>	<u>\$ 9,067,940</u>	<u>\$ 2,835,218</u>

City of Lancaster, Texas
Notes to Required Supplementary Information (Unaudited)
September 30, 2017

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 is legally adopted each fiscal year.

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

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

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

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

**Combining and Individual Fund
Statements and Schedules**

City of Lancaster, Texas
Non-major Governmental Funds
September 30, 2017

Special Revenue Funds

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

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

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

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

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

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

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

City of Lancaster, Texas
Combining Balance Sheet
Non-major Governmental Funds
September 30, 2017

	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Non-major Governmental Funds
Assets							
Cash and cash equivalents	\$ 2,441,856	\$ 825,213	\$ 32,747	\$ 35,123	\$ 685,896	\$ 925,113	\$ 4,945,948
Receivables (net of allowance for uncollectibles)							
Delinquent taxes	-	16,843	-	-	-	-	16,843
Accounts receivable	225,430	-	-	-	33,958	20,867	280,255
Total assets	<u>\$ 2,667,286</u>	<u>\$ 842,056</u>	<u>\$ 32,747</u>	<u>\$ 35,123</u>	<u>\$ 719,854</u>	<u>\$ 945,980</u>	<u>\$ 5,243,046</u>
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
Accounts and contracts payable	\$ 100,404	\$ 5,727	\$ 3,510	\$ -	\$ 1,932	\$ -	\$ 111,573
Accrued liabilities	69,317	-	-	-	-	804	70,121
Total liabilities	<u>169,721</u>	<u>5,727</u>	<u>3,510</u>	<u>-</u>	<u>1,932</u>	<u>804</u>	<u>181,694</u>
Deferred inflows of resources	-	6,983	-	-	-	-	6,983
Fund balances							
Restricted for							
Public works	2,497,565	-	-	-	-	-	2,497,565
Public improvement districts	-	829,346	-	-	-	-	829,346
Police grants	-	-	29,237	35,123	-	-	64,360
Tourism, convention centers, arts	-	-	-	-	717,922	-	717,922
Law enforcement purposes	-	-	-	-	-	945,176	945,176
Total fund balances	<u>2,497,565</u>	<u>829,346</u>	<u>29,237</u>	<u>35,123</u>	<u>717,922</u>	<u>945,176</u>	<u>5,054,369</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,667,286</u>	<u>\$ 842,056</u>	<u>\$ 32,747</u>	<u>\$ 35,123</u>	<u>\$ 719,854</u>	<u>\$ 945,980</u>	<u>\$ 5,243,046</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, 2017

	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	\$ 1,643,490	\$ 422,323	\$ -	\$ -	\$ 135,627	\$ -	\$ 2,201,440
Licenses and permits	-	-	-	-	-	279,483	279,483
Miscellaneous	-	-	10,221	36,338	437	-	46,996
Interest	13,649	5,335	248	118	3,890	4,946	28,186
Total revenues	<u>1,657,139</u>	<u>427,658</u>	<u>10,469</u>	<u>36,456</u>	<u>139,954</u>	<u>284,429</u>	<u>2,556,105</u>
Expenditures							
Current							
Public safety	-	-	7,037	32,712	-	116,340	156,089
Public works	1,086,930	-	-	-	-	-	1,086,930
Community development and recreation	-	211,386	-	-	43,169	-	254,555
Capital outlay	30,855	-	-	-	-	-	30,855
Debt service							
Principal retirement	30,000	-	-	-	-	-	30,000
Interest and fiscal charges	14,824	-	-	-	-	-	14,824
Cost of issuance of bonds	2,322	-	-	-	-	-	2,322
Total expenditures	<u>1,164,931</u>	<u>211,386</u>	<u>7,037</u>	<u>32,712</u>	<u>43,169</u>	<u>116,340</u>	<u>1,575,575</u>
Excess (deficiency) of revenues over (under) expenditures	<u>492,208</u>	<u>216,272</u>	<u>3,432</u>	<u>3,744</u>	<u>96,785</u>	<u>168,089</u>	<u>980,530</u>
Other Financing Uses							
Transfers out	(64,547)	-	-	-	-	-	(64,547)
Proceeds from refunding bonds issued	130,000	-	-	-	-	-	130,000
Bond premium	9,689	-	-	-	-	-	9,689
Payment to refunded bond escrow agent	(137,367)	-	-	-	-	-	(137,367)
Total other financing uses	<u>(62,225)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,225)</u>
Net Change in Fund Balances	429,983	216,272	3,432	3,744	96,785	168,089	918,305
Fund Balances, Beginning of Year	<u>2,067,582</u>	<u>613,074</u>	<u>25,805</u>	<u>31,379</u>	<u>621,137</u>	<u>777,087</u>	<u>4,136,064</u>
Fund Balances, End of Year	<u>\$ 2,497,565</u>	<u>\$ 829,346</u>	<u>\$ 29,237</u>	<u>\$ 35,123</u>	<u>\$ 717,922</u>	<u>\$ 945,176</u>	<u>\$ 5,054,369</u>

City of Lancaster, Texas
Non-major Enterprise Funds
September 30, 2017

Enterprise Funds

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

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 Position
Non-major Enterprise Funds
September 30, 2017

Assets	Golf Course Fund	Refuse Fund	Total Non-major Enterprise Funds
Current Assets			
Cash and cash equivalents	\$ 190,044	\$ 888,382	\$ 1,078,426
Receivables (net of allowance for uncollectibles)			
Accounts	9,394	170,125	179,519
Unbilled	-	118,036	118,036
	<hr/>	<hr/>	<hr/>
Total current assets	199,438	1,176,543	1,375,981
Noncurrent Assets			
Capital assets			
Nondepreciable	349,554	-	349,554
Depreciable (net of accumulated depreciation)	1,676,405	228,251	1,904,656
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	2,025,959	228,251	2,254,210
	<hr/>	<hr/>	<hr/>
Total assets	2,225,397	1,404,794	3,630,191
Liabilities			
Current Liabilities			
Accounts and contracts payable	7,128	117,741	124,869
Accrued liabilities	330	46,429	46,759
Compensated absences	-	218	218
	<hr/>	<hr/>	<hr/>
Total current liabilities	7,458	164,388	171,846
Noncurrent Liabilities			
Compensated absences	-	654	654
	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	-	654	654
	<hr/>	<hr/>	<hr/>
Total liabilities	7,458	165,042	172,500
Net Position			
Net investment in capital assets	2,025,959	228,251	2,254,210
Unrestricted	191,980	1,011,501	1,203,481
	<hr/>	<hr/>	<hr/>
	\$ 2,217,939	\$ 1,239,752	\$ 3,457,691
	<hr/>	<hr/>	<hr/>

City of Lancaster, Texas
Combining Statement of Revenues, Expenses and Changes in Net Position
Non-major Enterprise Funds
For the Year Ended September 30, 2017

	Golf Course Fund	Refuse Fund	Total Non-major Enterprise Funds
Operating Revenues			
Charges for services	\$ 113,629	2,695,335	\$ 2,808,964
Total operating revenues	<u>113,629</u>	<u>2,695,335</u>	<u>2,808,964</u>
Operating Expenses			
Maintenance	-	90,689	90,689
Heat, light and power	35,099	-	35,099
Depreciation	74,514	11,332	85,846
Special services	7,254	1,410,418	1,417,672
Miscellaneous	-	18,649	18,649
Total operating expenses	<u>116,867</u>	<u>1,531,088</u>	<u>1,647,955</u>
Operating Income (Loss)	<u>(3,238)</u>	<u>1,164,247</u>	<u>1,161,009</u>
Nonoperating Revenues (Expenses)			
Interest revenue	<u>1,156</u>	<u>3,625</u>	<u>4,781</u>
Total nonoperating revenues (expenses)	<u>1,156</u>	<u>3,625</u>	<u>4,781</u>
Income (Loss) Before Transfers	(2,082)	1,167,872	1,165,790
Transfers out	<u>(63,000)</u>	<u>(150,000)</u>	<u>(213,000)</u>
Change in Net Position (Deficit)	(65,082)	1,017,872	952,790
Net Position, Beginning of Year	<u>2,283,021</u>	<u>221,880</u>	<u>2,504,901</u>
Net Position, End of Year	<u>\$ 2,217,939</u>	<u>\$ 1,239,752</u>	<u>\$ 3,457,691</u>

City of Lancaster, Texas
Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Year Ended September 30, 2017

	Golf Course Fund	Refuse Fund	Non-major Enterprise Fund
Operating Activities			
Receipts from customers and users	\$ 97,388	\$ 2,664,585	\$ 2,761,973
Payments to suppliers	(42,353)	(1,509,030)	(1,551,383)
Net cash provided by operating activities	<u>55,035</u>	<u>1,155,555</u>	<u>1,210,590</u>
Capital and Related Financing Activities			
Acquisition and construction of fixed assets	-	(239,583)	(239,583)
Net cash used in capital and financing activities	<u>-</u>	<u>(239,583)</u>	<u>(239,583)</u>
Noncapital and Related Financing Activities			
Transfers out	(63,000)	(150,000)	(213,000)
Net cash used in noncapital financing activities	<u>(63,000)</u>	<u>(150,000)</u>	<u>(213,000)</u>
Investing Activities			
Interest on investments	1,156	3,625	4,781
Net cash provided by investing activities	<u>1,156</u>	<u>3,625</u>	<u>4,781</u>
Increase (Decrease) in Cash and Cash Equivalents	(6,809)	769,597	762,788
Cash and Cash Equivalents, Beginning of Year	<u>196,853</u>	<u>118,785</u>	<u>315,638</u>
Cash and Cash Equivalents, End of year	<u><u>\$ 190,044</u></u>	<u><u>\$ 888,382</u></u>	<u><u>\$ 1,078,426</u></u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ (3,238)	\$ 1,164,247	\$ 1,161,009
Item not requiring cash			
Depreciation	74,514	11,332	85,846
Changes in			
Accounts receivable	(9,394)	(30,750)	(40,144)
Accounts payable	(6,847)	1,530	(5,317)
Accrued expenses	-	9,196	9,196
Net cash provided by operating activities	<u><u>\$ 55,035</u></u>	<u><u>\$ 1,155,555</u></u>	<u><u>\$ 1,210,590</u></u>

City of Lancaster, Texas
Discretely Presented Component Units
September 30, 2017

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, 2017

Assets	
Cash and cash equivalents	\$ 4,122,662
Sales tax receivable	216,843
Due from primary government	<u>747,236</u>
 Total Assets	 <u>5,086,741</u>
 Liabilities	
Accounts payable	20,768
Accrued liabilities	<u>4,426</u>
 Total liabilities	 <u>25,194</u>
 Fund Balances	
Unassigned	<u>5,061,547</u>
 Total fund balances	 <u>5,061,547</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 5,086,741</u></u>

City of Lancaster, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
Economic Development Corporation
September 30, 2017

Total fund balance	\$ 5,061,547
Amounts reported in the statement of net position 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 balance sheet.	(8,819)
Capital assets used in governmental activities are not financial resources; therefore, are not reported as assets in fund financial statements. 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.	(1,858,994)
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:	
Employer contributions	14,040
Investment return difference (GASB 68)	24,433
Assumption changes (GASB 68)	3,678
Experience difference (GASB 68)	(7,230)
	(7,230)
Total net position	\$ 3,329,033

City of Lancaster, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Economic Development Corporation
For the Year Ended September 30, 2017

Revenues	
Sales taxes	\$ 1,233,648
Interest	27,666
	<u>1,261,314</u>
Total revenues	<u>1,261,314</u>
Expenditures	
Cultural and recreation	635,576
Debt service	
Repayment of note payable to primary government	155,000
Repayment of interest to primary government	70,767
	<u>861,343</u>
Total expenditures	<u>861,343</u>
Excess of revenues over expenditures	<u>399,971</u>
Net Change in Fund Balance	399,971
Fund Balance, Beginning of Year	<u>4,661,576</u>
Fund Balance, End of Year	<u><u>\$ 5,061,547</u></u>

City of Lancaster, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Economic Development Corporation
For the Year Ended September 30, 2017

Net change in fund balance	\$ 399,971
Amounts reported in the statement of activities are different because:	
The issuance of long-term liabilities, including notes payable, do not require the use of current financial resources; therefore, are not reported as expenditures in fund financial statements.	(103,050)
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.	(9,420)
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.	155,000
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in Governmental Funds.	<u>1,375</u>
Change in net position	<u>\$ 443,876</u>

City of Lancaster, Texas
Balance Sheet
Recreational Development Corporation
September 30, 2017

Assets

Cash and cash equivalents	\$ 1,578,104
Sales tax receivable	433,683
Accounts receivable	26,677
Prepaid expenses	<u>15,707</u>
 Total assets	 <u>2,054,171</u>

Liabilities

Accounts payable	60,441
Accrued liabilities	215,030
Due to primary government	<u>528,753</u>
 Total liabilities	 <u>804,224</u>

Fund Balance

Nonspendable for prepaid items	15,707
Unassigned	<u>1,234,240</u>
 Total fund balances	 <u>1,249,947</u>

Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ <u>2,054,171</u>
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City of Lancaster, Texas
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
Recreational Development Corporation
September 30, 2017

Total fund balance	\$ 1,249,947
Amounts reported in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in fund financial statements. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	10,067,420
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the balance sheet.	(28,603)
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.	(6,922,014)
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:	
Employer contributions	67,308
Investment return difference (GASB 68)	120,892
Assumption changes (GASB 68)	18,354
Experience difference (GASB 68)	(35,548)
Total net position	\$ 4,537,756

City of Lancaster, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Recreational Development Corporation
For the Year Ended September 30, 2017

Revenues	
Sales taxes	\$ 2,467,297
Charges for services	625,538
Intergovernmental	55,001
Other revenues	42,477
Interest	<u>7,772</u>
Total revenues	<u>3,198,085</u>
Expenditures	
Cultural and recreation	2,018,204
Capital outlay	<u>41,676</u>
Debt service	
Repayment of note payable to primary government	480,000
Repayment of interest to primary government	<u>248,700</u>
Total expenditures	<u>2,788,580</u>
Excess of revenues over expenditures	<u>409,505</u>
Net Change in Fund Balance	409,505
Fund Balance, Beginning of Year	<u>840,442</u>
Fund Balance, End of Year	<u><u>\$ 1,249,947</u></u>

City of Lancaster, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Recreational Development Corporation
For the Year Ended September 30, 2017

Net change in fund balance	\$ 409,505
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the amount of capital outlay recorded as capital assets in the current period.	41,676
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(423,542)
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.	480,000
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.	(47,205)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	<u>2,485</u>
Change in net position	<u><u>\$ 462,919</u></u>

Statistical Section

The following portion of the City of Lancaster Comprehensive Annual Financial Report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information regarding the City's overall financial health.

Table	Contents
<i>Financial Trends – These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Entity-wide information:	
A	Net position by component, last ten fiscal years
B	Changes in net position, last ten fiscal years
Governmental funds information:	
C	Fund balance, last ten fiscal years
D	Changes in fund balances, last ten fiscal years
 <i>Revenue Capacity – These tables contain information to help the reader assess one of the City's most significant revenue sources, the property tax.</i>	
E	Assessed and estimated actual value of taxable property, last ten fiscal years
F	Direct and overlapping property tax rates, last ten fiscal years
G	Principal taxpayers, current year and nine years ago
H	Ad-valorem tax levies and collections, last ten fiscal years
 <i>Debt Capacity – These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
I	Ratios of outstanding debt by type, last ten fiscal years
J	Ratios of net general bonded debt to assessed value and net bonded debt <i>per capita</i> , last ten fiscal years
K	Legal debt margin information
L	Direct and overlapping governmental activities debt, last ten fiscal years
M	Secured revenue coverage – Water Bonds, last ten fiscal years
 <i>Demographic and Economic Information – These tables offer demographic and economic indicators to help understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.</i>	
N	Demographic and Economic Statistics, last ten calendar years
O	Principal employers, current and six years ago
 <i>Operating Information – These tables contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and activities it performs.</i>	
P	Full-time equivalent City government employees by function/program, last ten years
Q	Operating indicators by function/program
R	Capital asset statistics by function/program

Sources: Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant years.

City of Lancaster, Texas
Table A – Net Position by Component
Accrual Basis of Accounting
Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Net investment in capital assets	\$ 50,425,678	\$ 40,366,067	\$ 51,819,877	\$ 50,606,700	\$ 55,109,346	\$ 46,231,794	\$ 46,504,601	\$ 43,186,713	\$ 41,406,070	\$ 47,966,710
Restricted for										
Housing and Urban Development	-	-	-	-	-	201,618	198,242	-	-	-
Court Security	-	-	-	-	-	-	-	25,509	29,106	38,013
Court Technology	-	-	-	-	-	-	-	77,596	82,633	97,869
Debt service	297,651	620,279	222,762	718,522	242,823	352,439	397,888	602,627	808,824	1,749,893
Public improvement districts	-	-	-	-	-	254,959	324,233	443,707	613,074	829,346
Tourism, convention centers, arts	-	-	-	-	-	367,370	433,318	535,168	621,137	717,922
Law enforcement purposes	-	-	-	-	-	616,916	467,206	619,198	834,271	1,009,536
Unrestricted	10,496,418	20,277,619	6,060,550	5,465,566	2,408,817	8,209,270	6,496,829	1,745,271	2,596,403	(5,878,003)
Total governmental activities net asset	<u>\$ 61,219,747</u>	<u>\$ 61,263,965</u>	<u>\$ 58,103,189</u>	<u>\$ 56,790,788</u>	<u>\$ 57,760,986</u>	<u>\$ 56,234,366</u>	<u>\$ 54,822,317</u>	<u>\$ 47,235,789</u>	<u>\$ 46,991,518</u>	<u>\$ 46,531,286</u>
Business-type Activities										
Net investment in capital assets	\$ 29,900,904	\$ 33,653,811	\$ 38,435,110	\$ 38,270,127	\$ 37,955,920	\$ 37,933,467	\$ 38,224,476	\$ 33,117,792	\$ 42,684,653	\$ 43,805,254
Restricted for										
Debt service	1,820,910	731,987	731,987	-	-	-	-	-	-	-
Impact fees	-	-	-	-	-	-	-	-	-	-
Capital	5,211,102	5,327,838	5,435,469	-	-	-	-	-	-	-
Unrestricted	10,060,820	7,595,677	1,936,585	11,135,037	13,121,089	15,798,314	17,260,560	24,342,877	23,659,170	26,965,817
Total business-type activities net asset	<u>\$ 46,993,736</u>	<u>\$ 47,309,313</u>	<u>\$ 46,539,151</u>	<u>\$ 49,405,164</u>	<u>\$ 51,077,009</u>	<u>\$ 53,731,781</u>	<u>\$ 55,485,036</u>	<u>\$ 57,460,669</u>	<u>\$ 66,343,823</u>	<u>\$ 70,771,071</u>
Primary Government										
Net investment in capital assets	\$ 80,326,582	\$ 74,019,878	\$ 90,254,987	\$ 88,876,827	\$ 93,065,266	\$ 84,165,261	\$ 84,729,077	\$ 76,304,505	\$ 84,090,723	\$ 91,771,964
Restricted for										
Housing and Urban Development	-	-	-	-	-	201,618	198,242	-	-	-
Court Security	-	-	-	-	-	-	-	25,509	29,106	38,013
Court Technology	-	-	-	-	-	-	-	77,596	82,633	97,869
Public improvement districts	-	-	-	-	-	254,959	324,233	443,707	613,074	829,346
Tourism, convention centers, arts	-	-	-	-	-	367,370	433,318	535,168	621,137	717,922
Law enforcement purposes	-	-	-	-	-	616,916	467,206	619,198	834,271	1,009,536
Debt service	2,118,561	1,352,266	954,749	718,522	242,823	352,439	397,888	602,627	808,824	1,749,893
Impact fees	-	-	-	-	-	-	-	-	-	-
Capital	5,211,102	5,327,838	5,435,469	-	-	-	-	-	-	-
Governmental funded construction costs	-	-	-	-	-	-	-	-	-	-
Unrestricted	20,557,238	27,873,296	7,997,135	16,600,603	15,529,906	24,007,584	23,757,389	26,088,148	26,255,573	21,087,814
Total primary governmental net assets	<u>\$ 108,213,483</u>	<u>\$ 108,573,278</u>	<u>\$ 104,642,340</u>	<u>\$ 106,195,952</u>	<u>\$ 108,837,995</u>	<u>\$ 109,966,147</u>	<u>\$ 110,307,353</u>	<u>\$ 104,696,458</u>	<u>\$ 113,335,341</u>	<u>\$ 117,302,357</u>

Source: Comprehensive Annual Financial Report

City of Lancaster, Texas
Table B – Change in Net Position (Continued)
Accrual Basis of Accounting
Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities										
General government	\$ 5,395,286	\$ 3,689,422	\$ 4,603,846	\$ 4,254,835	\$ 3,642,761	\$ 4,171,973	\$ 4,055,911	\$ 3,891,404	\$ 7,337,257	\$ 7,327,188
Public safety	14,116,941	14,487,896	14,829,005	14,333,669	14,232,681	14,350,239	14,898,549	16,540,660	18,522,908	18,869,618
Public works	3,162,728	4,902,806	5,678,976	4,832,457	5,119,834	4,991,125	4,926,327	5,987,362	3,651,258	3,869,238
Community development and recreation	4,290,873	1,506,422	1,317,628	1,048,563	1,173,498	1,238,745	1,260,500	1,225,730	1,366,830	1,829,003
Social and welfare	9,015,301	8,496,435	8,599,376	8,640,215	8,493,007	2,048,769	3,623	-	-	-
Interest and fiscal charges	2,367,768	2,053,606	2,880,768	2,837,440	2,367,927	1,836,254	3,054,899	3,379,380	3,200,431	2,935,851
Total governmental activities expenses	<u>38,348,897</u>	<u>35,136,587</u>	<u>37,909,599</u>	<u>35,947,179</u>	<u>35,029,708</u>	<u>28,637,105</u>	<u>28,199,809</u>	<u>31,024,536</u>	<u>34,078,684</u>	<u>34,830,898</u>
Business-type activities										
Water and sewer	10,479,809	9,621,112	10,082,971	9,178,117	10,085,993	9,945,611	11,215,515	12,185,162	12,960,201	12,635,280
Refuse	2,026,237	1,247,727	1,769,530	2,196,791	2,509,957	2,050,731	2,153,859	2,134,898	1,470,074	1,531,088
Airport	914,387	923,923	810,211	905,354	982,868	852,874	886,065	909,428	724,101	842,480
Golf course	107,311	135,276	86,966	83,002	139,621	108,196	86,605	82,234	79,667	116,867
Total business-type activities expenses	<u>13,527,744</u>	<u>11,928,038</u>	<u>12,749,678</u>	<u>12,363,264</u>	<u>13,718,439</u>	<u>12,957,412</u>	<u>14,342,044</u>	<u>15,311,722</u>	<u>15,234,043</u>	<u>15,125,715</u>
Total primary government expenses	<u>\$ 51,876,641</u>	<u>\$ 47,064,625</u>	<u>\$ 50,659,277</u>	<u>\$ 48,310,443</u>	<u>\$ 48,748,147</u>	<u>\$ 41,594,517</u>	<u>\$ 42,541,853</u>	<u>\$ 46,336,258</u>	<u>\$ 49,312,727</u>	<u>\$ 49,956,613</u>
Program Revenues										
Governmental activities										
Charges for services										
General government	\$ 25,410	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	1,610,438	1,759,314	1,759,747	1,394,684	1,529,136	787,570	990,079	1,436,765	2,303,526	1,563,791
Public works	989,766	927,298	920,361	1,261,640	682,137	1,863,869	1,856,563	1,838,598	3,346,266	2,931,542
Community development and recreation	1,056,471	542,632	518,507	-	-	-	-	-	-	-
Social and welfare	-	-	-	-	-	2,814,031	1,339,640	1,351,379	-	-
Operating grants and contributions	10,588,454	8,424,486	8,817,871	8,765,448	8,171,297	-	-	-	894,947	748,338
Capital grants and contributions	132,158	1,384,895	1,866,380	1,740,834	1,146,735	-	-	-	-	-
Total governmental activities program revenues	<u>\$ 14,402,697</u>	<u>\$ 13,038,625</u>	<u>\$ 13,882,866</u>	<u>\$ 13,162,606</u>	<u>\$ 11,529,305</u>	<u>\$ 5,465,470</u>	<u>\$ 4,186,282</u>	<u>\$ 4,626,742</u>	<u>\$ 6,544,739</u>	<u>\$ 5,243,671</u>

City of Lancaster, Texas
Table B – Change in Net Position (Continued)
Accrual Basis of Accounting
Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Business-type activities										
Charges for services										
Water and sewer	\$ 10,065,258	\$ 10,869,572	\$ 10,924,161	\$ 11,480,609	\$ 14,209,081	\$ 14,251,489	\$ 14,291,481	\$ 15,807,876	\$ 15,708,146	\$ 16,072,343
Refuse	1,988,397	1,465,835	1,799,068	2,124,940	2,077,599	2,171,652	2,190,122	2,281,175	2,374,754	2,695,335
Airport	682,872	541,019	576,949	726,819	806,724	750,308	788,602	748,077	775,416	681,037
Golf course	66,487	80,749	72,550	84,542	94,847	85,595	79,845	72,021	69,582	113,629
Operating grants and contributions	19,281	30,695	382,600	50,089	-	-	-	-	-	-
Capital grants and contributions	-	530,710	565,364	-	300,000	-	-	-	3,612,835	-
Total business-type activities program revenues	<u>12,822,295</u>	<u>13,518,580</u>	<u>14,320,692</u>	<u>14,466,999</u>	<u>17,488,251</u>	<u>17,259,044</u>	<u>17,350,050</u>	<u>18,909,149</u>	<u>22,540,733</u>	<u>19,562,344</u>
Total primary government program revenues	<u>\$ 27,224,992</u>	<u>\$ 26,557,205</u>	<u>\$ 28,203,558</u>	<u>\$ 27,629,605</u>	<u>\$ 29,017,556</u>	<u>\$ 22,724,514</u>	<u>\$ 21,536,332</u>	<u>\$ 23,535,891</u>	<u>\$ 29,085,472</u>	<u>\$ 24,806,015</u>
Net (Expenses) Revenues										
Governmental activities	\$ (23,946,200)	\$ (22,097,962)	\$ (24,026,733)	\$ (22,784,573)	\$ (23,500,403)	\$ (23,171,635)	\$ (24,013,527)	\$ (26,397,794)	\$ (27,533,945)	\$ (29,587,227)
Business-type activities	(705,449)	1,590,542	1,571,014	2,103,735	3,769,812	4,301,632	3,008,006	3,597,427	7,306,690	4,436,629
Total primary government net expenses	<u>\$ (24,651,649)</u>	<u>\$ (20,507,420)</u>	<u>\$ (22,455,719)</u>	<u>\$ (20,680,838)</u>	<u>\$ (19,730,591)</u>	<u>\$ (18,870,003)</u>	<u>\$ (21,005,521)</u>	<u>\$ (22,800,367)</u>	<u>\$ (20,227,255)</u>	<u>\$ (25,150,598)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Property taxes	\$ 12,617,630	\$ 13,426,315	\$ 12,194,286	\$ 13,621,585	\$ 13,255,066	\$ 12,299,191	\$ 12,240,385	\$ 14,047,562	\$ 15,696,270	\$ 18,172,866
Sales taxes	3,463,123	3,881,711	4,532,556	4,693,061	5,676,841	4,845,324	4,960,391	5,545,413	5,633,760	6,168,242
Franchise taxes	2,158,341	1,822,233	1,722,966	2,477,222	3,526,875	2,969,849	3,337,767	2,127,730	2,041,390	2,138,384
Other local taxes	41,853	146,970	116,535	127,887	51,632	-	48,110	2,494,897	2,019,179	1,761,893
Interest on investments	1,141,586	156,990	36,118	40,627	44,197	22,654	10,241	15,923	111,569	270,073
Miscellaneous	204,380	1,380,725	1,374,279	1,180,897	484,754	343,709	324,621	489,467	292,911	581,435
Transfers	1,327,654	1,327,236	2,381,236	(669,107)	1,431,236	1,856,628	1,679,963	1,635,572	(193,511)	1,722,208
Total governmental activities	<u>20,954,567</u>	<u>22,142,180</u>	<u>22,357,976</u>	<u>21,472,172</u>	<u>24,470,601</u>	<u>22,337,355</u>	<u>22,601,478</u>	<u>26,356,564</u>	<u>25,601,568</u>	<u>30,815,101</u>
Business-type activities										
Interest on investments	143,189	30,087	15,963	15,105	30,081	26,255	9,682	14,728	89,948	219,076
Miscellaneous	9,110	22,184	24,097	78,066	(696,812)	511,763	415,530	787,542	1,293,005	1,493,751
Transfers	(1,327,654)	(1,327,236)	(2,381,236)	669,107	(1,431,236)	(1,856,628)	(1,679,963)	(1,635,572)	193,511	(1,722,208)
Total business-type activities	<u>(1,175,355)</u>	<u>(1,274,965)</u>	<u>(2,341,176)</u>	<u>762,278</u>	<u>(2,097,967)</u>	<u>(1,318,610)</u>	<u>(1,254,751)</u>	<u>(833,302)</u>	<u>1,576,464</u>	<u>(9,381)</u>
Total primary government	<u>19,779,212</u>	<u>20,867,215</u>	<u>20,016,800</u>	<u>22,234,450</u>	<u>22,372,634</u>	<u>21,018,745</u>	<u>21,346,727</u>	<u>25,523,262</u>	<u>27,178,032</u>	<u>30,805,720</u>
Change in Net Position										
Governmental activities	(2,991,633)	44,218	(1,668,757)	(1,312,401)	970,198	(834,280)	(1,412,049)	(41,230)	(1,932,377)	1,227,874
Business-type activities	(1,880,804)	315,577	(770,162)	2,866,013	1,671,845	2,983,022	1,753,255	2,764,125	8,883,154	4,427,248
Total primary government	<u>\$ (4,872,437)</u>	<u>\$ 359,795</u>	<u>\$ (2,438,919)</u>	<u>\$ 1,553,612</u>	<u>\$ 2,642,043</u>	<u>\$ 2,148,742</u>	<u>\$ 341,206</u>	<u>\$ 2,722,895</u>	<u>\$ 6,950,777</u>	<u>\$ 5,655,122</u>

Source: Comprehensive Annual Financial Report

City of Lancaster, Texas
Table C – Fund Balances of Governmental Funds
Modified Accrual Basis of Accounting
Last Ten Fiscal Years (Unaudited)

	Fiscal Year (Pre-GASB 54)		
	2008	2009	2010
General Fund			
Reserved for			
Unreserved and designated	\$ -	\$ 100,721	\$ 100,721
Unreserved and undesignated	<u>2,677,344</u>	<u>3,740,866</u>	<u>3,584,666</u>
Total general fund	<u><u>\$ 2,677,344</u></u>	<u><u>\$ 3,841,587</u></u>	<u><u>\$ 3,685,387</u></u>
All Other Governmental Funds			
Reserved for			
Housing and Urban Development	\$ 982,226	\$ 884,078	\$ 960,264
Inventory and prepaid items	3,929	870	690,548
Court technology	-	35,871	35,871
Westwood wall	-	30,000	30,000
Capital projects	474,461	(8,485,282)	19,428,162
Debt service	295,932	586,712	1,081,805
Unreserved and undesignated – special revenue funds	<u>1,320,503</u>	<u>871,868</u>	<u>(176,741)</u>
Total all other governmental funds	<u><u>\$ 3,077,051</u></u>	<u><u>\$ (6,075,883)</u></u>	<u><u>\$ 22,049,909</u></u>

Source: Comprehensive Annual Financial Report

Notes: The City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

City of Lancaster, Texas
Table C – Fund Balances of Governmental Funds (Continued)
Modified Accrual Basis of Accounting
Last Ten Fiscal Years (Unaudited)

	Fiscal Year (Post-GASB 54)						
	2011	2012	2013	2014	2015	2016	2017
General Fund							
Nonspendable	\$ -	\$ -	\$ 50,317	\$ 181,550	\$ 181,224	\$ 16,290	\$ 116,498
Court security	-	-	-	-	25,509	29,106	38,013
Court technology	-	-	-	-	77,596	82,633	97,869
Unassigned	<u>4,554,413</u>	<u>6,793,956</u>	<u>6,447,889</u>	<u>5,676,223</u>	<u>6,383,964</u>	<u>6,846,881</u>	<u>8,815,560</u>
Total general fund	<u>\$ 4,554,413</u>	<u>\$ 6,793,956</u>	<u>\$ 6,498,206</u>	<u>\$ 5,857,773</u>	<u>\$ 6,668,293</u>	<u>\$ 6,974,910</u>	<u>\$ 9,067,940</u>
All Other Governmental Funds							
Nonspendable	\$ -	\$ -	\$ 3,519	\$ 3,519	\$ 7,553	\$ -	\$ -
Restricted for							
Housing and Urban Development	1,097,652	950,820	201,618	198,242	-	-	-
Capital projects	15,286,477	9,723,620	8,742,773	8,177,260	12,782,493	15,924,564	7,134,763
Debt service	718,522	242,823	352,439	397,888	602,627	808,824	1,749,893
Public works	467,955	832,928	1,085,362	1,395,072	1,704,102	2,067,582	2,497,565
Public improvement districts	85,076	189,076	254,959	324,233	443,707	613,074	829,346
Police grants	9,477	7,539	7,299	50,137	34,805	57,184	64,360
Tourism, convention centers arts	252,144	298,965	367,370	433,318	535,168	621,137	717,922
Law enforcement purposes	<u>240,589</u>	<u>395,610</u>	<u>609,617</u>	<u>417,069</u>	<u>584,393</u>	<u>777,087</u>	<u>945,176</u>
Total all other governmental funds	<u>\$ 18,157,892</u>	<u>\$ 12,641,381</u>	<u>\$ 11,624,956</u>	<u>\$ 11,396,738</u>	<u>\$ 16,694,848</u>	<u>\$ 20,869,452</u>	<u>\$ 13,939,025</u>

City of Lancaster, Texas

Table D – Changes in Fund Balances of Governmental Funds Modified Accrual Basis of Accounting Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes and fees	\$ 19,189,895	\$ 20,041,073	\$ 19,638,379	\$ 21,372,099	\$ 22,746,133	\$ 20,301,610	\$ 21,269,177	\$ 23,577,637	\$ 25,270,016	\$ 28,571,938
Licenses and permits	991,440	746,037	807,945	773,463	857,841	1,148,329	975,217	951,760	1,830,079	1,484,252
Intergovernmental	9,383,472	9,320,122	11,070,885	11,384,338	8,821,297	2,814,031	1,339,640	1,946,379	1,504,947	1,280,288
Charges for services	455,084	517,691	516,420	533,411	671,295	715,540	881,346	886,838	1,516,187	1,447,290
Fines and forfeitures	1,524,133	1,075,935	906,897	909,658	884,828	787,570	990,079	1,436,765	2,303,526	1,563,791
Interest	1,141,586	156,990	36,118	40,934	44,197	22,654	10,241	15,923	111,569	270,073
Miscellaneous	2,190,957	2,000,345	727,462	481,671	484,754	343,709	324,621	489,467	292,911	581,435
Total revenues	34,876,567	33,858,193	33,704,106	35,495,574	34,510,345	26,133,443	25,790,321	29,304,769	32,829,235	35,199,067
Expenditures										
Current										
General government	5,096,311	3,296,431	3,332,021	3,803,506	3,234,973	3,375,903	3,437,170	3,800,206	4,171,215	4,801,896
Public safety	14,055,884	13,275,960	14,006,428	13,275,122	13,191,322	13,336,419	13,652,389	14,978,932	16,114,990	16,252,899
Public works	2,771,221	2,887,326	4,005,130	2,722,718	2,873,078	2,650,764	2,446,367	2,740,264	2,243,874	3,018,500
Community development and recreation	4,077,685	1,379,462	1,186,687	908,906	1,028,649	1,087,215	1,093,189	1,044,526	1,134,586	1,576,620
Community service	-	-	-	-	-	-	-	-	-	-
Non departmental	-	-	-	-	-	-	-	-	-	-
Social and welfare	9,015,301	8,496,435	8,599,376	8,640,215	8,493,007	2,048,769	3,623	-	-	-
Capital outlay	11,744,352	10,951,593	8,226,552	3,682,485	11,680,610	2,830,968	1,938,125	2,090,865	1,769,198	9,531,567
Debt Service										
Principal retirement	1,801,196	1,169,697	1,370,490	1,434,986	2,380,747	2,126,748	2,614,905	3,168,011	3,345,838	3,432,256
Interest and fiscal charges	2,587,296	1,983,203	2,384,066	3,381,520	2,392,568	1,895,777	3,102,850	3,248,164	3,454,802	3,144,934
Cost of issuance of bonds	-	-	-	-	94,871	-	-	294,059	-	95,206
Total expenditures	51,149,246	43,440,107	43,110,750	37,849,458	45,369,825	29,352,563	28,288,618	31,365,027	32,234,503	41,853,878
Excess (deficiency) of revenues over (under) expenditures	<u>(16,272,679)</u>	<u>(9,581,914)</u>	<u>(9,406,644)</u>	<u>(2,353,884)</u>	<u>(10,859,480)</u>	<u>(3,219,120)</u>	<u>(2,498,297)</u>	<u>(2,060,258)</u>	<u>594,732</u>	<u>(6,654,811)</u>
Other Financing Sources (Uses)										
Bonds issued	\$ -	\$ -	\$ 34,995,000	\$ -	\$ 5,690,060	\$ -	\$ -	\$ 4,580,316	\$ 4,080,000	\$ -
Capital leases issued	-	-	-	-	366,345	-	-	1,250,000	-	-
Payment to refunding escrow agent	-	-	-	-	(12,972,717)	-	-	(18,399,389)	-	(5,632,042)
Premium on issuance of bonds	-	-	-	-	1,417,588	-	-	2,167,688	-	397,248
Proceeds from refunding bonds issued	-	-	-	-	11,650,000	-	-	16,934,701	-	5,330,000
Proceeds from capital lease	732,858	265,987	-	-	-	-	-	-	-	-
Transfers from other funds	2,510,242	1,436,004	2,485,236	1,535,236	1,535,236	1,960,628	1,807,362	1,992,109	1,729,308	1,786,755
Transfers to other funds	(1,182,588)	(108,768)	(104,000)	(2,204,343)	(104,000)	(104,000)	(127,399)	(356,537)	(1,922,819)	(64,547)
Total other financing sources (uses)	2,060,512	1,593,223	37,376,236	(669,107)	7,582,512	1,856,628	1,679,963	8,168,888	3,886,489	1,817,414
Net Change in Fund Balances	(14,212,167)	(7,988,691)	27,969,592	(3,022,991)	(3,276,968)	(1,362,492)	(818,334)	6,108,630	4,481,221	(4,837,397)
Debt service as a percentage of noncapital expenditures	11.1%	9.7%	10.8%	14.1%	14.2%	15.2%	21.7%	21.9%	22.3%	20.3%

Source: Comprehensive Annual Financial Report

City of Lancaster, Texas
Table E – Assessed Value and Estimated
Actual Value of Taxable Property
Last Ten Fiscal Years (Unaudited)

Fiscal Year	Residential Property	Commercial Property	Business Personal Property	Less Tax Exempt Property	Total Taxable Assessed Value^a	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value^b as a Percentage of Actual Value
2008	1,066,638,118	395,608,141	259,940,440	68,670,680	1,653,516,019	\$ 0.77750	1,653,516,019	100.00%
2009	944,759,684	389,718,968	236,665,958	72,864,400	1,498,280,210	\$ 0.77750	1,498,280,210	100.00%
2010	895,627,240	360,747,053	242,038,935	78,844,700	1,419,568,528	\$ 0.86750	1,419,568,528	100.00%
2011	879,866,743	352,868,955	266,485,139	78,140,980	1,421,079,857	\$ 0.86750	1,421,079,857	100.00%
2012	837,761,007	350,073,492	274,370,063	79,344,590	1,382,859,972	\$ 0.86750	1,382,859,972	100.00%
2013	813,868,339	377,629,529	279,488,272	80,841,330	1,390,144,810	\$ 0.86750	1,390,144,810	100.00%
2014	853,863,082	466,827,012	321,175,960	83,824,650	1,558,041,404	\$ 0.86750	1,558,041,404	100.00%
2015	925,157,825	497,341,044	354,216,361	87,588,750	1,689,126,480	\$ 0.86750	1,689,126,480	100.00%
2016	1,040,174,731	560,156,380	468,152,809	88,233,230	1,980,250,690	\$ 0.86750	1,980,250,690	100.00%
2017	1,138,668,544	662,277,813	447,807,739	91,233,260	2,157,520,836	\$ 0.86750	2,157,520,836	100.00%

Source: City of Lancaster Budget Document
Dallas Central Appraisal District (a username and password is needed to access this info on the DCAD website)

Note: The County assesses property at 100% of its market value. Tax rates are per \$100 of assessed value.

^a Includes adjustments to certified rolls.

^b Excludes tax exempt property.

City of Lancaster, Texas
Table F – Direct and Overlapping
Property Tax Rates
Last Ten Fiscal Years (Unaudited)

Fiscal Year	City Direct Rates			Overlapping Rates				
	Operating/ General Rate	General Obligation Debt Service	Total Direct	Lancaster Independent School District	Dallas Independent School District	Lancaster MUD#1	Dallas County	Dallas County Hospital (Parkland)
2008	0.644100	0.133400	0.77750	1.412700	1.183402	0.900000	0.228100	0.254000
2009	0.614100	0.163400	0.77750	1.412700	1.040050	1.060000	0.228100	0.274000
2010	0.650200	0.217300	0.86750	1.412700	1.040050	1.060000	0.243100	0.271000
2011	0.601200	0.266300	0.86750	1.412700	1.040050	1.060000	0.243100	0.271000
2012	0.601200	0.266300	0.86750	1.418000	1.040050	1.060000	0.243100	0.271000
2013	0.601200	0.266300	0.86750	1.418000	1.040050	1.060000	0.243100	0.271000
2014	0.601200	0.266300	0.86750	1.418000	1.040050	1.060000	0.243100	0.271000
2015	0.601200	0.266300	0.86750	1.540000	1.040050	1.060000	0.243100	0.286000
2016	0.601200	0.266300	0.86750	1.418000	1.040050	1.060000	0.243100	0.276000
2017	0.601200	0.266300	0.86750	1.418000	1.040050	1.060000	0.243100	0.276000

Source: Dallas County

City of Lancaster, Texas
Table G – Principal Taxpayers
Current Year and Nine Years Ago (Unaudited)

Taxpayer	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value ^a	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value ^a
CSHV 20 35 LLC	\$ 150,672,090	1	6.98%			
AT&T Corp	\$ 67,469,590	2	3.13%			
Oncor Electric Delivery	\$ 60,215,550	3	2.79%			
United Natural Foods Inc	\$ 41,307,840	4	1.91%			
Mobis Parts America	\$ 36,122,749	5	1.67%			
2935 Danieldale Rd Holdings LL	\$ 32,363,950	6	1.50%			
Swift Transportation Inc	\$ 30,493,730	7	1.41%			
DFW Rollings Hills Apartments L	\$ 23,300,000	8	1.08%			
Walmart Stores Inc	\$ 23,079,540	9	1.07%			
Pepsico Inc	\$ 21,290,583	10	0.99%			
Oncor Electric Delivery				\$ 60,995,980	1	3.69%
AT&T Corp				\$ 49,157,350	2	2.98%
Prologis & Argent LP				\$ 20,339,260	3	1.23%
Pleasant Run Apartments				\$ 20,130,000	4	1.22%
Brasscraft Manufacturing Co.				\$ 20,066,608	5	1.21%
Brenntag Southwest, Inc.				\$ 16,096,720	6	0.97%
Swift Transportation Inc				\$ 14,489,430	7	0.88%
	<u>\$ 486,315,622</u>		<u>22.54%</u>	<u>\$ 201,275,348</u>		<u>12.18%</u>

Source: City of Lancaster, Budget Document, Dallas County Tax Office, and Municipal Advisory Council of Texas.

Note: ^a Taxpayers are assessed on January 1st of each fiscal year.

City of Lancaster, Texas
Table H – Ad-Valorem Tax Levies and Collections
Last Ten Fiscal Years (Unaudited)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	12,523,900	11,980,584	95.66%	226,619	12,207,203	97.47%
2009	13,298,919	12,662,829	95.22%	336,779	12,999,608	97.75%
2010	12,080,916	11,723,231	97.04%	485,846	12,209,077	101.06%
2011	12,996,251	12,708,980	97.79%	394,351	13,103,331	100.82%
2012	13,003,960	12,738,761	97.96%	228,173	12,966,934	99.72%
2013	12,655,326	12,406,728	98.04%	245,482	12,652,210	99.98%
2014	12,731,142	12,710,498	99.84%	333,520	13,044,018	102.46%
2015	13,892,617	14,015,979	100.89%	298,426	14,314,405	103.04%
2016	16,852,274	15,593,048	92.53%	268,116	15,861,164	94.12%
2017	19,462,435	17,606,753	90.47%	363,111	17,969,864	92.33%

Source: Dallas County Tax Assessor and Collector

City of Lancaster, Texas
Table I – Ratios of Outstanding Debt by Type
Last Ten Fiscal Years (Unaudited)

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income ^a	Per Capita ^a
	General Obligation Bonds	Certificates of Obligation	Other Obligations	Water and Sewer General Obligation Bonds & Certificates of Obligation	Airport Bonds	Other Obligations			
2008	31,197,713	13,992,974	638,907	10,318,215	167,280	1,587,751	57,902,840	7.17%	1,624
2009	30,181,531	13,710,000	715,197	9,534,838	157,280	869,901	55,168,747	7.66%	1,522
2010	52,785,752	25,292,725	498,961	8,731,461	147,280	600,160	88,056,339	11.48%	2,422
2011	51,927,333	24,915,625	268,975	7,520,455	137,280	72,552	84,842,220	10.98%	2,276
2012	52,695,925	22,268,525	6,147,351	14,200,793	129,284	56,631	95,498,509	11.96%	2,523
2013	51,233,460	21,536,425	6,075,603	13,001,471	118,511	37,998	92,003,468	11.45%	2,428
2014	49,615,995	20,919,325	5,555,698	11,763,738	107,828	17,703	87,980,287	11.40%	2,311
2015	60,129,226	14,037,329	5,877,687	14,782,527	92,060	-	94,918,829	12.24%	2,481
2016	57,913,267	17,325,229	5,091,849	9,529,799	76,282	-	89,936,426	11.29%	2,284
2017	57,739,077	14,340,000	4,488,159	8,427,451	68,254	-	85,062,941	6.92%	2,217

Note: Details regarding the City’s outstanding debt can be found in the notes to the financial statements.

^aSee Table N for personal income and population data.

City of Lancaster, Texas
Table J – Ratios of Net General Bonded Debt
Outstanding *per Capita*
Last Ten Fiscal Years (Unaudited)

General Bonded Debt Outstanding					Percentage of Actual Taxable Value of Property^a	Per Capita^b
Fiscal Year	General Obligation Bonds	Certificates of Obligation	Less: Amounts Available in Debt Service Fund	Total		
2008	\$ 38,716,055	\$ 13,990,127	\$ 295,932	\$ 52,410,250	3.17%	1,470
2009	\$ 37,106,329	\$ 13,707,320	\$ 586,712	\$ 50,226,937	3.35%	1,386
2010	\$ 59,096,999	\$ 25,290,219	\$ 1,081,805	\$ 83,305,413	5.87%	2,291
2011	\$ 57,227,436	\$ 24,913,257	\$ 718,522	\$ 81,422,171	5.73%	2,184
2012	\$ 57,599,904	\$ 22,269,623	\$ 242,823	\$ 79,626,704	5.76%	2,104
2013	\$ 55,437,371	\$ 21,537,496	\$ 352,439	\$ 76,622,428	5.51%	2,022
2014	\$ 53,096,505	\$ 20,920,381	\$ 397,888	\$ 73,618,998	4.73%	1,934
2015	\$ 63,872,886	\$ 18,118,360	\$ 602,627	\$ 81,388,619	4.82%	2,127
2016	\$ 60,873,448	\$ 17,326,233	\$ 808,824	\$ 77,390,857	3.91%	1,965
2017	\$ 60,420,622	\$ 20,157,414	\$ 2,067,582	\$ 78,510,454	3.64%	2,047

Note: Details regarding the City’s outstanding debt can be found in the notes to the financial statements.

^aSee Table E for property value data.

^bSee Table N for population data.

City of Lancaster, Texas
Table K – Legal Debt Margin Information
Last Ten Fiscal Years (Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Tax rate limit	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	2.50
Current tax rate	<u>0.7775</u>	<u>0.7775</u>	<u>0.8675</u>	<u>1.4180</u>						
Available tax rate	<u>\$ 1.72</u>	<u>\$ 1.72</u>	<u>\$ 1.63</u>	<u>\$ 1.08</u>						

Note: The City Charter of the City of Lancaster, Texas, does not provide for a debt limit. Under provisions of state law, the maximum tax rate is limited to \$2.50 per \$100 assessed valuation. No direct bond debt limitation is imposed on the City under current state law or the City's Charter.

City of Lancaster, Texas
Table L – Direct and Overlapping
Governmental Activities Debt
September 30, 2017 (Unaudited)

Governmental Unit	Gross Bonded Debt	Estimated Percentage Applicable ^a	City Share of Overlapping Debt
Lancaster I.S.D.	\$ 146,239,468	86.08%	\$ 125,882,934
Dallas County	199,545,000	1.04%	2,075,268
Dallas County Hospital District	703,770,000	1.04%	7,319,208
Dallas County Community College District	263,140,000	1.04%	2,736,656
Dallas County Schools	40,330,000	1.04%	419,432
Dallas ISD	2,923,745,000	0.05%	1,461,873
Ferris ISD	28,192,801	0.05%	14,096
	<u>4,304,962,269</u>		<u>139,909,467</u>
City of Lancaster (Direct Debt)	<u>76,567,236</u>	<u>100.00%</u>	<u>76,567,236</u>
Total Direct and Overlapping Debt	<u>\$ 4,381,529,505</u>		<u>\$ 216,476,703</u>

Source: Assessed value data used to estimate applicable percentages provided by Dallas Central Appraisal District. Debt outstanding data provided by each governmental unit.

^aThe percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

City of Lancaster, Texas
Table M – Secured Revenue Coverage
Last Ten Fiscal Years (Unaudited)

Water and Sewer System General Obligation Bonds and Certificates of Obligation					
Less:					
Fiscal Year	Total Revenues^a	Operating Expenses^b	Net Available Revenue	Annual Requirement^c	Times Coverage
2008	10,108,434	8,407,574	1,700,860	1,445,056	1.18
2009	10,899,391	7,826,412	3,072,979	1,618,485	1.90
2010	10,939,768	8,295,335	2,644,433	1,360,739	1.94
2011	11,930,376	7,742,007	4,188,369	1,171,763	3.57
2012	14,238,894	8,548,334	5,690,560	1,523,532	3.74
2013	14,905,946	8,281,266	6,624,680	1,182,245	5.60
2014	15,026,427	9,359,770	5,666,657	1,648,888	3.44
2015	17,044,261	13,552,343	3,491,918	1,504,088	2.32
2016	17,721,270	14,380,758	3,340,512	1,517,470	2.20
2017	17,988,887	12,635,280	5,353,607	1,484,822	3.61

Note: ^a Includes operating and nonoperating revenues.

^b Includes operating expenses minus depreciation.

^c Includes principal and interest.

City of Lancaster, Texas
Table N – Demographic and Economic Statistics
Last Ten Calendar Years (Unaudited)

Year	Estimated Population^a	Personal Income	Per Capita Personal Income^b	Median Age^b	Median Household Income^b	School Enrollment^c	Unemployment Rate^d
2008	35,651	807,566,452	22,652	33.6	50,389	6,180	6.4%
2009	36,236	720,190,500	19,875	34.1	51,533	5,986	9.9%
2010	36,361	766,889,851	21,091	34.1	51,533	6,172	10.6%
2011	37,275	772,561,650	20,726	33.7	52,199	6,253	13.1%
2012	37,845	798,188,895	21,091	34.1	51,533	6,160	9.0%
2013	37,893	803,407,386	21,202	35.0	46,254	6,538	8.8%
2014	38,071	771,661,099	20,269	32.0	53,652	6,823	7.0%
2015	38,256	775,410,864	22,347	32.0	53,652	6,910	6.8%
2016	39,380	796,342,360	20,222	32.3	49,590	7,051	5.8%
2017	38,361	1,228,973,384	31,144	32.9	50,137	7,315	6.4%

- Sources:**
- ^a Estimated Population – City of Lancaster from Census.Gov
 - ^b Per Capital Income, Median Age & Median Household Income – U.S. Census Bureau, 2005 – 2014 American Community Survey, Community Sourcebook of ZIP Code Demographics
 - ^c School enrollment – Texas Education Agency Snapshot Summary Tables
 - ^d Unemployment – Homefacts.com for Lancaster, Texas

Note: Personal income is calculated by multiplying estimated population by per capita personal income.

City of Lancaster, Texas
Table O – Principal Employers
Current and Seven Years Ago (Unaudited)

Employer	2017			2010		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Lancaster ISD	850	1	6.75%	600	1	2.76%
Walmart	370	2	2.94%	450	2	2.07%
Brass Craft	242	3	1.92%	260	3	1.20%
Oak Creek Homes	235	4	1.87%	240	4	1.10%
Cedar Valley College	200	5	1.59%	200	5	0.92%
United National Foods	200	6	1.59%	195	6	0.90%
AT&T Material Distribution	172	7	1.37%	190	7	0.87%
Swift Transportation	171	8	1.36%	185	8	0.85%
Consolidated Mail Pharmacy	162	9	1.29%	180	9	0.83%
Bentwood Companies	150	10	1.19%	170	10	0.78%
FFE Transportation	150	11	1.19%	160	11	0.74%
	2,902		23.03%	2,830		13.02%

Source: City of Lancaster Economic Development Corporation and TWC website

City of Lancaster, Texas

**Table P – Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years (Unaudited)**

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government Division	19	19	16	17	15	17	41	44	36	45
Public Safety Division	144	145	147	134	132	133	140	141	139	130
Public Works Division	8	7	7	6	5	5	4	4	4	4
Community Development Division	18	18	16	13	11	10	13	17	17	17
Nondepartmental Division	7	7	7	6	5	5	-	-	-	-
Water and Sewer	34	33	29	31	30	28	22	22	23	20
Airport	1	2	5	4	4	4	5	5	6	5
4A LEDC Fund	3	2	2	2	1	1	1	1	1	2
4B LRDC Fund – Library	-	4	9	9	8	9	8	8	13	13
Parks and Recreation Fund	29	28	45	29	32	32	24	25	34	33
Housing	12	12	12	12	9	4	-	-	-	-
Stormwater Fund	12	13	13	12	11	13	13	13	8	10
Total	287	290	308	273	262	260	271	280	281	279

Sources: City of Lancaster Budget Document

City of Lancaster, Texas
Table Q – Operating Indicators by Function/Program
Last Ten Fiscal Years (Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police										
Number of police officers	63	59	59	52	51	51	49	54	52	44
Number of violations (citations)	11,418	12,083	7,927	11,731	12,269	9,432	8,185	5,808	6,698	8,110
Municipal Court										
Number of traffic cases	8,662	9,139	5,356	11,056	19,434	8,865	4,283	5,101	8,678	6,542
Number of city ordinance cases	772	652	1,116	485	2,298	322	85	1,098	1,085	330
Fire										
Number of fire fighters	52	59	59	57	56	56	62	62	62	63
Number of emergency fire responses	1,927	2,021	1,632	1,916	1,846	1,792	1,826	1,913	1,773	1,864
Number of medical emergencies	3,508	3,364	3,748	3,664	4,017	4,268	4,353	4,632	4,668	4,662
Development Services										
Total number of building permits ^a	107	95	51	26	38	64	1,090	982	359	1,502
Estimated valuation ^a	22,001,131	17,560,945	8,471,688	4,888,776	5,966,006	10,569,845	40,776,897	54,551,440	10,737,484	159,807,781
Parks and Recreation										
Number of acres	530	530	863	1,070	1,070	1,070	1,087	1,087	1,087	1,087
Number of recreation center participants	2,448	2,650	2,504	3,279	4,541	3,690	4,375	6,175	12,852	16,448
Library										
Volumes in collection ^b	80,727	85,483	84,786	90,117	90,972	87,468	77,020	86,411	83,827	86,558
Number of library cardholders	9,537	17,913	9,343	6,412	23,701	27,584	30,011	35,892	10,364	35,305
Water and Wastewater										
Number of water accounts	12,223	12,285	12,334	12,543	12,611	12,613	12,723	12,845	14,242	15,119
Average daily water consumption (millions of gallons)	4	4	4	5	4	4	4	4	4	5
Average daily effluent (millions of gallons)	4	4	5	4	4	5	5	5	5	5

Sources: City Departments

Notes: ^a Includes residential and commercial permits

^b Includes books and media

City of Lancaster, Texas
Table R – Capital Asset Statistics by Function/Program
Last Ten Fiscal Years (Unaudited)

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety										
Fire stations	3	3	3	3	3	3	3	3	3	3
Police stations	1	1	1	1	1	1	1	1	1	1
Culture and Recreation										
Parks and Recreation										
Number of parks	22	22	24	25	25	25	25	25	25	25
Number of baseball diamonds	8	8	8	8	8	8	8	8	8	8
Number of soccer/football fields	12	12	12	13	13	13	13	13	13	13
Public swimming pools	1	1	1	1	1	1	1	1	1	1
Community centers	3	3	3	3	3	3	3	3	3	3
Library	1	1	1	1	1	1	1	1	1	1
Water and Wastewater										
Water mains (miles)	187	187	187	187	187	187	188	190	208	208
Sanitary sewer mains (miles)	160	160	160	160	160	160	161	163	174	205
Fire hydrants	1,554	1,554	1,554	1,554	1,554	1,554	1,558	1,598	1,638	1,793

Sources: City Departments

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lancaster (City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
March 28, 2018