

NEW ISSUE - Book-Entry-Only

In the opinion of Special Tax Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not included in the alternative minimum taxable income of individuals, subject to the matters described under "TAX MATTERS - Tax Exemption". See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Special Tax Counsel, including the alternative minimum tax consequences for corporations.

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$6,575,000
CITY OF LANCASTER, TEXAS
(Dallas County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016

Dated Date: October 15, 2016
Interest to accrue from Delivery Date

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$6,575,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2016 (the "Bonds") will accrue from the Delivery Date (as defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2017, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), including particularly Texas Government Code, Chapter 1207, as amended, and are direct obligations of the City of Lancaster, Texas (the "City"), payable from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "THE BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein and SCHEDULE I attached hereto for a detailed description of the Refunded Obligations and their call date.

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 514444

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 155,000	2017	2.00%	0.90%	E79	\$ 290,000	2025	3.00%	1.75%	F78
1,920,000	2018	2.00%	1.00%	E87	300,000	2026	4.00%	1.85%	F86
1,165,000	2019	2.00%	1.15%	E95	310,000	2027	4.00%	1.90% ⁽²⁾	F94
205,000	2020	3.00%	1.30%	F29	265,000	2028	4.00%	1.95% ⁽²⁾	G28
180,000	2021	3.00%	1.40%	F37	275,000	2029	4.00%	2.00% ⁽²⁾	G36
175,000	2022	3.00%	1.50%	F45	280,000	2030	4.00%	2.05% ⁽²⁾	G44
175,000	2023	3.00%	1.60%	F52	300,000	2031	4.00%	2.10% ⁽²⁾	G51
275,000	2024	3.00%	1.65%	F60	305,000	2032	4.00%	2.15% ⁽²⁾	G69

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2026.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinions of West & Associates, L.L.P., Bond Counsel, Dallas, Texas, and Andrews Kurth Kenyon LLP, Special Tax Counsel, Houston, Texas (see APPENDIX C, "Form of Bond Counsel's Opinion" and APPENDIX D - "Form of Special Tax Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Mahomes Bolden PC, Dallas, Texas, counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on November 23, 2016 (the "Delivery Date").

This Official Statement, which includes the cover page, Schedule I and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (the "SEC") AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENT.

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The cover page hereof, this page, the schedule, the appendices included herein and any addenda, supplement, or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY**..... The City of Lancaster is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 34 square miles (see "INTRODUCTION - Description of the City").
- THE BONDS**..... The \$6,575,000 General Obligation Refunding Bonds, Series 2016 (the "Bonds") are scheduled to mature on February 15 in the years 2017 through 2032 (see "THE BONDS - Description of the Bonds").
- PAYMENT OF INTEREST** Interest on the Bonds accrues from the Delivery Date and is payable February 15, 2017, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of The Bonds "and "THE BONDS – Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapter 1207, as amended, and a Bond Ordinance adopted by the City Council of the City (see "THE BONDS - Authority for Issuance").
- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the City, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS - Security and Source of Payment").
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").
- REDEMPTION** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").
- TAX EXEMPTION** In the opinion of Special Tax Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and will not be included in the alternative minimum taxable income of individuals, subject to the matters described under "TAX MATTERS - Tax Exemption" herein. See "TAX MATTERS - Tax Exemption" for a discussion of Special Tax Counsel's opinion, including the alternative minimum tax consequences corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt for debt service savings and to pay the costs associated with the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein and SCHEDULE I attached hereto for a detailed description of the Refunded Obligations and their call dates.
- RATINGS** The Bonds and presently outstanding tax-supported debt of the City are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's"). The City also has outstanding tax-supported debt that is rated by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD The City has never defaulted on the payment of its tax-supported indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt ⁽³⁾	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2013	36,980 ⁽¹⁾	\$ 1,390,144,810	\$ 37,592	\$ 84,315,000	\$ 2,280	6.07%	99.98%
2014	37,150 ⁽¹⁾	1,558,041,404	41,939	81,000,000	2,180	5.20%	102.46%
2015	37,360 ⁽¹⁾	1,689,126,480	45,212	85,850,000	2,298	5.08%	103.04%
2016	38,000 ⁽²⁾	1,776,715,230	46,756	82,110,000	2,161	4.62%	102.05% ⁽⁵⁾
2017	39,380 ⁽²⁾	2,068,483,920	52,526	77,825,000 ⁽⁴⁾	1,976	3.76%	NA

(1) Source: North Central Texas Council of Governments.

(2) Estimate provided by City Staff.

(3) Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Projected. Excludes the Refunded Obligations, includes the Bonds.

(5) Collections through September 1, 2016.

For additional information regarding the City, please contact:

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 City of Lancaster
 211 North Henry Street
 Lancaster, Texas 75146
 (972) 218-1300

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 Nick Bulaich
 or FirstSouthwest, a Division of Hilltop Securities Inc.
 777 Main Street, Suite 1200
 Fort Worth, Texas 76102-3123
 (817) 332-9710

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Marcus E. Knight Mayor	8 Years 5 Months	May, 2018	Business Executive
Carol Strain-Burk Mayor Pro Tem, Councilmember District 1	11 Years 5 Months	May, 2019	Self-Employed Consultant
Stanley Jaglowski Deputy Mayor Pro Tem, Councilmember District 2	5 Years 5 Months	May, 2017	Automotive Service Professional
Marco Mejia Councilmember, District 3	6 Years 5 Months	May, 2019	Business Owner, Construction Company
Spencer W. Hervey Jr. Councilmember, District 4	2 Months	May, 2017	Retired
Clyde C. Hairston Councilmember, District 5	7 Years 5 Months	May, 2019	Minister
Nina Morris Councilmember, District 6	8 Years 5 Months	May, 2017	Assist Advocate for children with disabilities

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Length of Service to Municipal Governments</u>
Opal Mauldin-Robertson	City Manager	13 Years	24 Years
Baron Sauls	Director of Finance	2 Years	15 Years
Sorangel O. Arenas	City Secretary	2 Years	6 Years
Bob Hager	City Attorney	38 Years	41 Years

INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS

Independent Auditors	BKD, L.L.P. Dallas, Texas
Bond Counsel	West & Associates, L.L.P. Dallas, Texas
Special Tax Counsel	Andrews Kurth Kenyon LLP Houston, Texas
Financial Advisor.....	FirstSouthwest, a Division of Hilltop Securities Inc. Fort Worth, Texas

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OFFICIAL STATEMENT
RELATING TO
\$6,575,000
CITY OF LANCASTER, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes Schedule I and Appendices hereto, provides certain information regarding the issuance of \$6,575,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2016 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Bonds (the "Bond Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), Fort Worth, Texas.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION – Forward-Looking Statements Disclaimer").

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State" or "Texas"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered three year terms with elections held annually in May. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 36,361, while the estimated 2017 population is 39,380. The City covers approximately 34 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds. See SCHEDULE I for a detailed listing of the Refunded Obligations and their call date.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the redemption date thereof, from funds to be deposited pursuant to an Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The Bond Ordinance provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriter, together with other available funds of the City, if any, the City will deposit with the Escrow Agent an amount which, together with the Federal Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Federal Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase obligations authorized by Chapter 1207, Texas Government Code, as amended (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes or other revenues nor for the purpose of applying any limitation on the issuance of debt.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied as follows:

<u>Sources of Funds</u>	
Par Amount	\$ 6,575,000.00
Reoffering Premium	490,037.80
Total Sources of Funds	<u>\$ 7,065,037.80</u>
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 6,947,593.72
Costs of Issuance ⁽¹⁾	117,444.08
Total Uses of Funds	<u>\$ 7,065,037.80</u>

(1) Including Underwriter's Discount.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated October 15, 2016, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of their initial delivery to the Underwriter, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing February 15, 2017, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207, Texas Government Code, as amended, and the Bond Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The principal of and interest on the Bonds is payable from a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5, of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City limits the maximum tax rate of the City to \$1.50 per \$100 Taxable Assessed Valuation. While State law does not provide for any allocation of the City's tax between debt service and operations, administratively, the Attorney General of the State will permit allocation of approximately two-thirds of the maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption. Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

ANY NOTICE GIVEN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE, AND ANY REDEMPTION NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the

deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any obligations subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

Limitation on Transfer of Bonds Called for Redemption. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, when such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity and series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of the notices be provided directly to them.

Redemption notices for the Bonds shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to one or both series of the Bonds at any time by giving reasonable notice to the City or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, obligation certificates are required to be printed and delivered.

The City may decide to discontinue the use of the system of book-entry-only transfers through DTC (or a successor depository). In that event, obligation certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Underwriter.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Bonds is discontinued, printed certificates will be issued to the DTC Participants or the registered owner of the Bonds, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, financial institution or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, Bond certificates will be printed and delivered to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of such Bond certificates and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original payment date. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System".

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES . . . The Bond Ordinance provides for specific events of default. If the City defaults in the payment of the principal of or interest on any Bond when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Bonds. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit of money damages, registered owners of the Bonds may not be able to bring suit against the City for breach of the Bond Ordinance or the Bonds. As noted above, the Bond Ordinance provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the City under the Bond Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be

construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its obligations, but in connection with the issuance of the obligations, the City has not waived sovereign immunity in the proceedings authorizing the Bonds.

The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

DEFEASANCE . . . The Bond Ordinance provides that the City may discharge its Bonds to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds to refund the obligations, that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current State law, after such deposit as described above, the Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

AMENDMENTS . . . The City may amend the Bond Ordinance without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the consent of the registered owners of a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Bond Ordinance; provided that, without the consent of all registered owners of Outstanding Bonds, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount, the redemption price, or the rate of interest, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by registered owners of such Bonds for consent to any such amendment, addition, or rescission of the Bond Ordinance.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1 of the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value the preceding year plus (b) the property's appraised value in the preceding year plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Senate Joint Resolution 1 ("SJRI"), passed during the 84th Texas Legislature, authorized a constitutional amendment to allow the Legislature to prohibit a municipality that adopts an optional homestead exemption from reducing or repealing the amount of the exemption. SJRI was approved by the voters in the November 2015 Constitutional election, and Senate Bill 1, also passed during the 84th Texas Legislature, prohibits municipalities from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse.

If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization. The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. House Joint Resolution 75 ("HJR75"), passed during the 84th Texas legislature, proposed a constitutional amendment that allows the Legislature to provide for an exemption from ad valorem taxation of all or part of the market value of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran and who would have had qualified for the full exemption before the law authorizing a residence homestead exemption took effect. The proposition authorized by HJR75 was approved by voters in the November 2015 constitutional election. As such, the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation of all or part of the market value of the residence homestead if the spouse has not remarried.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Sections 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school district, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is stored under a contract bailment by a public warehouse operator at one or more public warehouse facilities that are not in any way owned or controlled by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City may create one or more tax increment financing districts ("TIF") within the City, and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF.

The City also may enter into tax abatement agreements to encourage economic development. Under tax abatement agreement, a property owner typically agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

The City also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs or promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. Any agreement into which the City has entered pursuant to Chapter 380 is hereinafter referred to as a "Chapter 380 Agreement".

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council of the City is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, and a failure to adopt a tax rate by such required date will result in the tax rate for the City for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. Furthermore, the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of August 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on August 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on August 1 of each year and the final installment due on February 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$30,000; the disabled are also granted an exemption of \$30,000.

The City has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property and the Dallas County Tax Office collects taxes for the City.

The City does not permit split payments of taxes and discounts for the early payment of taxes are not allowed.

The City does not tax freeport property.

The City has taken action to continue taxing goods-in-transit in 2015 and future years.

The City does collect the additional one-quarter cent sales tax for reduction of ad valorem taxes.

TAX ABATEMENTS . . . The City has adopted a tax abatement policy and currently grants abatements to the following companies.

<u>Corporation Name</u>	<u>2016 Market Value</u>	<u>2016 Tax Value</u>	<u>Year on Roll</u>
Prologis	\$ 124,973,800	\$ 124,973,800	2008
United National Foods	55,736,010	40,924,846	2011

TAX INCREMENT FINANCING ZONES . . . The City has not created and does not participate in any TIFs created under Chapter 311 of the Tax Code.

CHAPTER 380 AGREEMENTS . . . The City has a policy in place relating to Chapter 380 economic development incentive programs, and has entered one such agreement which does not have a material financing impact on the City.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2016/17 Market Valuation Established by Dallas Central Appraisal District		\$ 2,522,553,460
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 60,756,687	
Disabled Veterans Exemptions	13,692,328	
Freeport Exemption	99,787,467	
Capped Value Loss	82,624,588	
Pollution Control Exemption	877,905	
Totally Exempt Property	87,975,800	
Prorated Total Exempt	154,287	
Under 500	6,110	
Mineral Rights	460	
Agricultural and Other Exemptions	<u>108,193,908</u>	<u>454,069,540</u>
2016/17 Taxable Assessed Valuation		\$ 2,068,483,920
City Funded Debt Payable from Ad Valorem Taxes (as of 9-1-16)		
General Obligation Bonds	\$ 53,915,000 ⁽¹⁾	
Certificates of Obligation	21,395,000 ⁽¹⁾	
The Bonds	<u>6,575,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 81,885,000
Less Self-Supporting Debt: ⁽²⁾		
Water and Sewer System General Obligation Debt	\$ 9,285,000 ⁽³⁾	
Stormwater System General Obligation Debt	395,000 ⁽³⁾	
Airport System General Obligation Debt	70,000	
Economic Development Corporation General Obligation Debt	1,890,000 ⁽³⁾	
Recreational Development Corporation General Obligation Debt	<u>6,035,000</u>	<u>17,675,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 64,210,000
Interest and Sinking Fund (as of 9-1-16)		\$ 602,626
Ratio Total Funded Debt to Taxable Assessed Valuation		3.96%
Ratio Net Funded Debt to Taxable Assessed Valuation		3.10%

2017 Estimated Population - 39,380
Per Capita Taxable Assessed Valuation - \$52,526
Per Capita Total Funded Debt - \$2,079
Per Capita Net Funded Debt - \$1,631

- (1) The above statement of indebtedness does not include the Refunded Obligations.
- (2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from the respective system revenues. This policy is subject to change in the future, but the City currently has no plans to change such policy. To the extent such policy is changed and such self-supporting debt is not paid from the respective system revenues, such debt will be paid from ad valorem taxes.
- (3) Includes a portion of the Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,159,793,970	45.98%	\$ 996,753,620	46.52%	\$ 897,187,140	46.02%
Real, Residential, Multi-Family	98,089,920	3.89%	91,753,730	4.28%	84,795,830	4.35%
Real, Vacant Lots/Tracts	65,642,580	2.60%	60,610,160	2.83%	62,311,560	3.20%
Real, Acreage (Land Only)	110,493,790	4.38%	90,078,200	4.20%	84,303,490	4.32%
Real, Farm and Ranch Improvements	11,091,520	0.44%	10,735,530	0.50%	13,521,860	0.69%
Real, Commercial	467,608,680	18.54%	416,261,200	19.43%	393,090,220	20.16%
Real, Industrial	35,465,840	1.41%	33,517,340	1.56%	30,867,460	1.58%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	125,144,770	4.96%	101,873,450	4.76%	93,323,500	4.79%
Tangible Personal, Commercial	380,592,570	15.09%	269,547,400	12.58%	226,478,600	11.62%
Tangible Personal, Industrial	64,970,990	2.58%	68,461,580	3.20%	61,150,060	3.14%
Tangible Personal, Other	13,500	0.00%	13,500	0.00%	13,500	0.00%
Tangible Personal, Mobile Homes	616,300	0.02%	630,110	0.03%	674,190	0.03%
Special Inventory	3,028,570	0.12%	2,203,790	0.10%	1,805,760	0.09%
Total Appraised Value Before Exemptions	\$ 2,522,553,460	100.00%	\$ 2,142,440,070	100.00%	\$ 1,949,523,630	100.00%
Adjustments	-		-		47,260,426	
Total Exemptions/Reductions	(454,069,540)		(365,724,840)		(307,657,576)	
Taxable Assessed Value	\$ 2,068,483,920		\$ 1,776,715,230		\$ 1,689,126,480	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2014		2013	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 842,432,030	50.11%	\$ 862,782,940	52.41%
Real, Residential, Multi-Family	76,397,010	4.54%	69,154,300	4.20%
Real, Vacant Lots/Tracts	46,515,170	2.77%	47,617,110	2.89%
Real, Acreage (Land Only)	82,364,920	4.90%	85,730,640	5.21%
Real, Farm and Ranch Improvements	13,037,900	0.78%	11,832,790	0.72%
Real, Commercial	248,424,530	14.78%	229,950,000	13.97%
Real, Industrial	30,896,080	1.84%	27,900,900	1.69%
Oil, Gas and Mineral Reserves	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	93,784,050	5.58%	115,256,740	7.00%
Tangible Personal, Commercial	183,840,280	10.94%	138,372,840	8.41%
Tangible Personal, Industrial	61,527,280	3.66%	54,999,160	3.34%
Tangible Personal, Other	13,500	0.00%	-	0.00%
Tangible Personal, Mobile Homes	668,620	0.04%	716,760	0.04%
Special Inventory	1,110,970	0.07%	1,822,120	0.11%
Total Appraised Value Before Exemptions	\$ 1,681,012,340	100.00%	\$ 1,646,136,300	100.00%
Adjustments	87,006,527		(71,788,912)	
Total Exemptions/Reductions	(209,977,463)		(184,202,578)	
Taxable Assessed Value	\$ 1,558,041,404		\$ 1,390,144,810	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2013	36,980 ⁽¹⁾	\$ 1,390,144,810	\$ 37,592	\$ 84,315,000	6.07%	\$ 2,280
2014	37,150 ⁽¹⁾	1,558,041,404	41,939	81,000,000	5.20%	2,180
2015	37,360 ⁽¹⁾	1,689,126,480	45,212	85,850,000	5.08%	2,298
2016	38,000 ⁽²⁾	1,776,715,230	46,756	82,110,000	4.62%	2,161
2017	39,380 ⁽²⁾	2,068,483,920	52,526	77,825,000 ⁽⁴⁾	3.76%	1,976

(1) Source: North Central Texas Council of Governments.

(2) Estimate, provided by City Staff.

(3) Projected. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Projected, includes a portion of the Bonds and excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2013	\$ 0.8675	\$ 0.6012	\$ 0.2663	\$ 12,655,326	98.04%	99.98%
2014	0.8675	0.6012	0.2663	12,731,142	99.84%	102.46%
2015	0.8675	0.6012	0.2663	13,892,617	100.89%	103.04%
2016	0.8675	0.6012	0.2663	15,413,005 ⁽¹⁾	98.75%	102.05%
2017	0.8675	0.6012	0.2663	16,020,636 ⁽¹⁾	73.51% ⁽²⁾	73.51% ⁽²⁾

(1) Calculated.

(2) Collections for partial year only, through September 1, 2016.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2016/17 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Prologis & Argent LP	Warehouse/Distribution	\$ 135,253,800	6.54%
Southwestern Bell Telephone	Telephone	59,401,710	2.87%
ONCOR Electric Delivery	Utility Delivery	57,816,640	2.80%
Swift Transporting Inc.	Transporting	46,986,280	2.27%
United Natural Foods Inc.	Commercial	40,924,846	1.98%
Mobis Parts America LLC	Auto Parts Distribution	35,787,665	1.73%
Wal-Mart	Retail	23,962,650	1.16%
Quaker Pepsico	Food Products Distribution	18,960,497	0.92%
Brenntag Southwest, Inc.	Industrial Chemicals	14,790,130	0.72%
Lowe's Home Centers LLC	Retail	14,328,083	0.69%
		<u>\$ 448,212,301</u>	<u>21.67%</u>

Note: Provided by the Dallas Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION . . . Other than as described under "THE BONDS – Tax Rate Limitation", no general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE BONDS – Tax Rate Limitation").

TABLE 6 – TAX ADEQUACY ⁽¹⁾

2017 Principal and Interest Requirements	\$ 5,361,621
\$0.2619 Tax Rate at 99.00% Collection Produces	\$ 5,363,186
Average Annual Principal and Interest Requirements, 2017 - 2040	\$ 4,401,347
\$0.2150 Tax Rate at 99.00% Collection Produces	\$ 4,402,768
Maximum Principal and Interest Requirements, 2017	\$ 5,361,621
\$0.2619 Tax Rate at 99.00% Collection Produces	\$ 5,363,186

(1) Includes a portion of the Bonds, less self-supporting debt and the Refunded Obligations. Also, includes that portion of interest offset by the refundable tax credit to be received by the City from the United States Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds." See "Table 9 – Interest and Sinking Fund Budget Projection" herein.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2016/17 Taxable Assessed Value	2016/17 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt As of 9-1-16	Authorized But Unissued Debt as of 9/1/2016 ⁽²⁾
City of Lancaster	\$ 2,068,483,920	\$ 0.867500	\$ 64,210,000 ⁽¹⁾	100.00%	\$ 64,210,000	\$ 9,550,695
Lancaster Independent School District	2,066,289,162	1.540000	141,775,344	86.43%	122,536,430	74,400,000
Dallas Independent School District	101,241,853,707	1.282085	3,014,640,000	0.04%	1,205,856	955,000,000
Dallas County	207,905,607,319	0.243100	227,980,000	0.98%	2,234,204	6,200,000
Dallas County Community College	217,216,436,340	0.123650	294,050,000	0.98%	2,881,690	-
Dallas County Hospital District	208,729,393,540	0.286000	718,480,000	0.98%	7,041,104	-
Total Direct and Overlapping Tax Debt					\$ 200,109,284	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					9.67%	
Per Capita Overlapping Tax Debt					\$ 5,081.50	

(1) Includes a portion of the Bonds, less self-supporting debt and the Refunded Obligations.
(2) Reflects remaining authorization after the issuance of the Bonds.

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		Total Outstanding Debt	Less:	Less:	Less:	Less:	Less:	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest		W&S Self-Supporting Requirements ⁽³⁾	Stormwater Self-Supporting Requirements ⁽³⁾	LEDC Self-Supporting Requirements ⁽³⁾	LRDC Self-Supporting Requirements	Airport Self-Supporting Requirements		
2017	\$ 3,905,000	\$ 3,660,401	\$ 155,000	\$ 133,234	\$ 7,853,635	\$ 1,484,822	\$ 44,824	\$ 225,767	\$ 728,700	\$ 7,900	\$ 5,361,621	
2018	2,395,000	3,537,781	1,920,000	162,900	8,015,681	1,485,106	44,850	230,550	913,825	12,650	5,328,700	
2019	2,470,000	3,446,710	1,165,000	132,050	7,213,760	692,506	49,200	227,350	924,150	7,400	5,313,153	
2020	3,540,000	3,314,920	205,000	117,325	7,177,245	685,906	43,150	212,350	921,000	12,050	5,302,789	
2021	3,725,000	3,144,131	180,000	111,550	7,160,681	687,556	41,750	210,425	922,500	11,550	5,286,900	24.01%
2022	3,915,000	2,962,032	175,000	106,225	7,158,257	693,731	45,275	213,125	926,875	11,050	5,268,200	
2023	4,095,000	2,773,343	175,000	100,975	7,144,318	705,631	43,725	210,450	923,600	10,600	5,250,312	
2024	4,120,000	2,584,901	275,000	94,225	7,074,126	706,806	42,175	207,525	923,100	10,200	5,184,320	
2025	3,340,000	2,408,261	290,000	85,750	6,124,011	672,981	50,375	214,100	-	-	5,186,555	
2026	3,485,000	2,238,183	300,000	75,400	6,098,583	674,031	48,275	214,900	-	-	5,161,377	48.64%
2027	3,645,000	2,056,776	310,000	63,200	6,074,976	684,156	46,100	215,050	-	-	5,129,669	
2028	3,445,000	1,883,826	265,000	51,700	5,645,526	537,056	-	-	-	-	5,108,469	
2029	3,600,000	1,719,124	275,000	40,900	5,635,024	547,369	-	-	-	-	5,087,655	
2030	3,745,000	1,546,300	280,000	29,800	5,601,100	551,281	-	-	-	-	5,049,819	
2031	3,895,000	1,365,050	300,000	18,200	5,578,250	558,900	-	-	-	-	5,019,350	72.77%
2032	3,495,000	1,176,831	305,000	6,100	4,982,931	-	-	-	-	-	4,982,931	
2033	2,935,000	1,012,675	-	-	3,947,675	-	-	-	-	-	3,947,675	
2034	3,080,000	853,365	-	-	3,933,365	-	-	-	-	-	3,933,365	
2035	3,225,000	688,456	-	-	3,913,456	-	-	-	-	-	3,913,456	
2036	1,700,000	548,678	-	-	2,248,678	-	-	-	-	-	2,248,678	90.77%
2037	1,770,000	435,418	-	-	2,205,418	-	-	-	-	-	2,205,418	
2038	1,850,000	317,261	-	-	2,167,261	-	-	-	-	-	2,167,261	
2039	1,925,000	194,045	-	-	2,119,045	-	-	-	-	-	2,119,045	
2040	2,010,000	65,606	-	-	2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 75,310,000</u>	<u>\$ 43,934,074</u>	<u>\$ 6,575,000</u>	<u>\$ 1,329,534</u>	<u>\$ 127,148,609</u>	<u>\$ 11,367,841</u>	<u>\$ 499,699</u>	<u>\$ 2,381,592</u>	<u>\$ 7,183,750</u>	<u>\$ 83,400</u>	<u>\$ 105,632,326</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" includes self-supporting debt. Excludes the Refunded Obligations. Includes that portion of interest offset by the refundable tax credit to be received by the City from the Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds".
- (2) Average life of the issue – 5.731 Years. Interest on the Bonds has been calculated at the rates stated on the cover page hereof.
- (3) Includes a portion of the Bonds.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-17		\$ 5,361,621
Interest and Sinking Fund Balance, 9-30-16	\$ 606,626	
Budgeted Interest and Sinking Fund Tax Levy	7,503,523	
Budgeted Transfers	283,750	
Estimated Build America Bonds Subsidy	632,133	
Estimated Investment Earnings	<u>2,550</u>	<u>9,028,582</u>
Estimated Balance, 9-30-17		<u>\$ 3,666,961</u>

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-15	\$ 6,959,699	
Less: Revenue Bonds Requirements, 2016 Fiscal Year		<u>-</u>
Balance Available for Other Purposes	\$ 6,959,699	
System General Obligation Bond Requirements, 2016 Fiscal Year		<u>1,514,721</u>
Balance	\$ 5,444,978	
Percentage of System General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-15	\$ 355,064	
Stormwater General Obligation Bond Requirements, 2016 Fiscal Year		<u>48,758</u>
Balance	\$ 306,306	
Percentage of Stormwater General Obligation Bonds, Self-Supporting		100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-15	\$ 4,277,431	
LEDC General Obligation Bond Requirements, 2016 Fiscal Year		<u>229,038</u>
Balance	\$ 4,048,393	
Percentage of LEDC General Obligation Bonds, Self-Supporting		100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-15	\$ 698,569	
LRDC General Obligation Bond Requirements, 2016 Fiscal Year		<u>733,000</u>
Balance	\$ (34,431) ⁽²⁾	
Percentage of LRDC General Obligation Bonds, Self-Supporting		95.30%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-15	\$ -	
Airport General Obligation Bond Requirements, 2016 Fiscal Year		<u>18,375</u>
Balance	\$ (18,375) ⁽³⁾	
Percentage of Airport General Obligation Bonds, Self-Supporting		0.00%

(1) It is the City's current policy to pay the above-described self-supporting debt from the respective revenue sources shown above; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(2) The deficit occurred because the debt service and operating expenses of the Lancaster Recreation Center, Library, and Senior Center - exceed the ½¢ sales tax revenue dedicated for Lancaster Recreational Development Corporation ("LRDC"). The General Fund budgets each year to cover the deficit in the LRDC. Information for fiscal year 2015 indicates that the ½¢ sales tax generated \$2,176,600; debt service was \$733,000, and the amount transferred from the General Fund was \$200,000. Any deficit in fiscal year 2016 will be eliminated through a similar transfer. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

(3) The deficit occurred because operating expenses exceeded revenues. Information for fiscal year 2015 indicates that the Airport generated \$788,807 in operating revenues; debt service was \$18,375, and the amount transferred from the General Fund was \$18,375. Any deficit in fiscal year 2016 will be eliminated through a similar transfer. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date	Amount	Amount	Unissued
	Authorized	Authorized	Heretofore Issued	Balance
Permanent Public Improvements	11/6/2007	\$ 37,545,695	\$ 27,995,000	\$ 9,550,695

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing additional general obligation debt within the next 12 months.

TABLE 12 - OTHER OBLIGATIONS

The annual requirements to amortize the capital leases as of September 1, 2016 are as follows:

Fiscal Year	Capital Leases		
	Government Activities		
	Principal	Interest	Total
2016	\$ 240,154	\$ 23,635	\$ 263,789
2017	155,901	19,292	175,193
2018	159,144	16,049	175,193
2019	162,454	12,739	175,193
2020	90,000	9,360	99,360
2021 - 2025	360,000	18,720	378,720
Total	\$ 1,167,653	\$ 99,795	\$ 1,267,448

PENSION FUND . . . The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the city are required to participate in TMRS.

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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:

	Plan Year 2014	Plan Year 2015
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	10
	60/5, 0/20	60/5, 0/20
Service retirement eligibility (expressed as age/years of service)		
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	50% of CPI Repeating	50% of CPI Repeating

At December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	159
Inactive Employees Entitled to But Not Yet Receiving Benefits	188
Active Employees	<u>223</u>
	570

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, 2015, were \$2,012,259, 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).

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010, valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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.

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 20,755,493	\$ 10,041,866	\$ (1,389,027)

OTHER POST-EMPLOYMENT BENEFITS . . . 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.

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.

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 Cost and Net OPEB Obligation . . . The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost and the related information are as follows at September 30, 2015, 2014 and 2013:

	September 30,		
	2015	2014	2013
Annual Required Contribution	\$ 74,211	\$ 82,341	\$ 79,943
Interest on OPEB Obligation	5,883	5,478	20,509
Adjustment to ARC	(5,450)	(5,075)	(4,586)
Annual OPEB Cost (Expense)	\$ 74,644	\$ 82,744	\$ 95,866
Contributions Made	(29,908)	(73,754)	(68,578)
Change in OPEB Obligation	\$ 44,736	\$ 8,990	\$ 27,288
Net OPEB Obligation (Asset) – Beginning of Year	130,724	121,734	94,446
Net OPEB Obligation (Asset) – End of Year	\$ 175,460	\$ 130,724	\$ 121,734
Percent of OPEB Costs Contributed	40.1%	89.1%	71.5%

For more information concerning the OPEB plan and funding progress relating thereto see "APPENDIX B – Excerpts from City's Comprehensive Annual Financial Report".

FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 3,275,363	\$ 2,846,642	\$ 2,651,439	\$ 2,211,273	\$ 2,656,324
Operating Grants & Contributions	1,351,379	1,339,640	2,814,031	8,171,297	8,765,448
Capital Grants & Contributions	-	-	-	1,146,735	1,740,834
General Revenues:					
Taxes & Fees	24,215,602	20,586,653	20,114,364	22,554,611	20,919,755
Other	505,390	334,862	366,363	1,915,990	1,221,524
Total Revenues	<u>\$ 29,347,734</u>	<u>\$ 25,107,797</u>	<u>\$ 25,946,197</u>	<u>\$ 35,999,906</u>	<u>\$ 35,303,885</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 3,891,404	\$ 4,055,911	\$ 4,171,973	\$ 3,722,430	\$ 4,254,835
Public Safety	16,540,660	14,898,549	14,350,239	14,232,681	14,333,669
Public Works	5,987,362	4,926,327	4,991,125	5,119,834	4,832,457
Community Development and Recreation	1,225,730	1,260,500	1,238,745	1,173,498	1,048,563
Social and Welfare	-	3,623	2,048,769	8,413,338	8,640,215
Interest and Fiscal Charges	3,379,380	3,054,899	1,836,254	2,367,927	2,837,440
Total Expenses	<u>\$ 31,024,536</u>	<u>\$ 28,199,809</u>	<u>\$ 28,637,105</u>	<u>\$ 35,029,708</u>	<u>\$ 35,947,179</u>
Increase (Decrease in Net Assets Before Transfers)	\$ (1,676,802)	\$ (3,092,012)	\$ (2,690,908)	\$ 970,198	\$ (643,294)
Transfers	<u>1,635,572</u>	<u>1,679,963</u>	<u>1,856,628</u>	<u>-</u>	<u>(669,107)</u>
Change in Net Assets	\$ (41,230)	\$ (1,412,049)	\$ (834,280)	\$ 970,198	\$ (1,312,401)
Net Assets - Beginning	54,822,317	56,234,366	57,760,986	56,790,788	58,103,189
Prior Period Adjustments	(7,545,298) ⁽¹⁾	-	(692,340)	-	-
Net Assets - Ending	<u>\$ 47,235,789</u>	<u>\$ 54,822,317</u>	<u>\$ 56,234,366</u>	<u>\$ 57,760,986</u>	<u>\$ 56,790,788</u>

(1) Net position as of October 1, 2014 has been restated for the effects of adopting GASB No. 68.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

Revenues	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Taxes and Fees	\$ 17,301,959	\$ 15,632,121	\$ 14,698,446	\$ 17,119,024	\$ 16,590,881
Licenses and Permits	657,735	681,212	875,112	586,567	459,717
Intergovernmental	758,579	147,090	1,022,357	202,691	413,154
Charges for Services	886,838	881,346	715,540	671,295	533,411
Fines and Forfeitures	1,264,493	798,272	785,089	839,766	861,273
Interest	3,918	1,807	5,885	6,045	5,021
Miscellaneous	272,160	254,112	253,973	404,762	337,881
Total Revenues	\$ 21,145,682	\$ 18,395,960	\$ 18,356,402	\$ 19,830,150	\$ 19,201,338
Expenditures					
General Government	\$ 3,648,643	\$ 3,437,170	\$ 3,375,903	\$ 3,200,473	\$ 3,792,006
Public Safety	14,866,020	13,589,450	13,267,811	13,070,881	13,215,005
Public Works	1,655,802	1,471,110	1,655,272	2,095,799	1,916,680
Cultural and Recreational	808,467	843,176	809,093	741,190	811,058
Capital Outlay	1,434,754	734,429	1,499,018	383,845	66,808
Debt Service	991,290	576,704	-	-	138,184
Total Expenditures	\$ 23,404,976	\$ 20,652,039	\$ 20,607,097	\$ 19,492,188	\$ 19,939,741
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,259,294)	\$ (2,256,079)	\$ (2,250,695)	\$ 337,962	\$ (738,403)
Transfers In	\$ 1,900,157	\$ 1,751,362	\$ 1,904,628	\$ 1,535,236	\$ 1,535,236
Transfers Out	(80,343)	(85,399)	-	-	-
Proceeds from Capital Lease	1,250,000	-	-	366,345	-
Total Sources (Uses)	\$ 3,069,814	\$ 1,665,963	\$ 1,904,628	\$ 1,901,581	\$ 1,535,236
Net Increase (Decrease)	\$ 810,520	\$ (590,116)	\$ (346,067)	\$ 2,239,543	\$ 796,833
Beginning Fund Balance	5,857,773	6,447,889	6,793,956	4,554,413	3,757,580
Prior Period Adjustments	-	-	-	-	-
Ending Fund Balance	\$ 6,668,293	\$ 5,857,773	\$ 6,447,889	\$ 6,793,956	\$ 4,554,413

TABLE 14 - MUNICIPAL SALES TAX HISTORY

In addition to the sales and use tax levied by the State, the City levies the following local sales and use taxes for the purposes described: (i) a one percent (1%) sales and use tax the proceeds of which are credited to the General Fund of the City and are not pledged to the payment of debt; (ii) a voter-authorized one-half of one percent (1/2 of 1%) sales and use tax collected on behalf of Lancaster Recreational Development Corporation ("LRDC") for park and recreational development; (iii) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax collected on behalf of Lancaster Economic Development Corporation ("LEDC") for economic development and which may be pledged to the payment of debt issued by the LEDC; and (iv) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax for property tax reduction. Collection and enforcement of the sales and use taxes are effected through the Comptroller of Public Accounts, State, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. **Such sales tax revenues are not pledged to the payment of the Bonds.**

DISTRIBUTION OF SALES AND USE TAXES

Property Tax Relief	0.25¢
Economic and Community Development	0.25¢
Recreational Development Corporation	0.50¢
City Sales & Use Tax	1.00¢
State Sales & Use Tax	<u>6.25¢</u>
Total	8.25¢

GENERAL FUND SALES AND USE TAX

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2012	\$ 4,537,723	34.89%	\$ 0.3264	\$ 124
2013	3,876,260	30.63%	0.2788	105
2014	4,960,391	38.96%	0.3184	134
2015	5,545,413	39.92%	0.3283	148
2016 ⁽¹⁾	4,120,424	25.72%	0.2319	108

(1) Collections through August 1, 2016.

ECONOMIC DEVELOPMENT, RECREATION DEVELOPMENT AND PROPERTY REDUCTION SALES AND USE TAXES

Fiscal Year Ended Collected	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2012	\$ 1,134,431	\$ 2,268,862	\$ 1,134,431
2013	969,065	1,938,130	969,065
2014	1,240,098	2,480,196	1,240,098
2015	1,386,353	2,772,707	1,386,353
2016 ⁽¹⁾	1,030,106	2,060,212	1,030,106

(1) Collections through September 1, 2016.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . It is the City's policy regarding the General Fund and Enterprise Funds that working capital resources should be maintained at a minimum of 10%, with a stated target of 15% of the Fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the bond ordinances.

Use of Bond Proceeds. . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures. . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year between May and July, the City Manager analyzes, and then after review, submits a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with applicable law. The City Council will adopt a budget prior to September 30. If the Council fails to adopt a budget then the budget presented to the Council by the City Manager becomes the adopted budget.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Pursuant to Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA"), the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit or share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office of a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and provided for by law for City deposits, or (ii) where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1) above, (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the PFIA.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of

investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value, and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council. The City's policies require investments in accordance with applicable state law.

ADDITIONAL PROVISIONS . . . Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 15 - CURRENT INVESTMENTS

As of September 1, 2016, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	53.82%	\$ 31,521,489
Logic	8.45%	4,949,374
Logic 2010 GO Bond Fund	8.29%	4,855,724
Logic 2011 CO Bond Fund	6.28%	3,678,255
Logic 2015 GO Bond Fund	8.57%	5,020,802
Logic 2015 CO Bond Fund	6.87%	4,020,667
Texas Class	7.72%	4,520,118
	<u>100.00%</u>	<u>\$ 58,566,429</u>

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Special Tax Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinions (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The form of Special Tax Counsel's opinion is reproduced as Appendix D. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinion, Special Tax Counsel will rely upon representations and certifications of the City made in certificates dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Bond Ordinance subsequent to the issuance of the Bonds. The Bond Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Special Tax Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Special Tax Counsel, and Special Tax Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Special Tax Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

PROPOSED TAX LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Special Tax Counsel expresses no opinion.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . Some of the Bonds may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases the Bonds of that maturity (the "Discount Bonds") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will

be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bonds under the caption "Tax Exemption" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase Discount Bonds must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Discount Bond. See "Tax Exemption" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the City. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time. Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Premium Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Premium Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser.

Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to a Premium Bond. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Premium Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution.

The City designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100 percent disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds would not be deductible pursuant to Section 291 of the code.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement while it remains obligated to advance funds to pay such Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City ending in or after 2016, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and (2) if not provided as part such financial information and operating data, audited financial statements of the City when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Bond Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City's continuing disclosure agreements for the Bonds may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of such Bonds. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2010, 2013 and 2014 audited financial statements release dates were August 19, 2011, July 27, 2014 and May 12, 2015 respectively. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding unenhanced tax supported debt of the City are rated "Aa3" by Moody's and the City also has unenhanced tax supported debt rated by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

In the opinion of City officials the City is not a party to any litigation or other proceeding pending or to their knowledge threatened, in or before any court, agency or other administrative body (either state or federal) which, if decided adversely to the City, would have a material adverse effect on the financial condition or operations of the City.

At the time of the initial delivery of the Bonds, the City will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before the Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds to any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the respective Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon an examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect. The City will also furnish an opinion of Special Tax Counsel to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING" (excluding the information under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System" and "Remedies" and the last sentence under "Tax Rate Limitation"), and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings") and the subcaptions "Legal Matters" (except for the last sentence of the first paragraph hereof), "Registration and Qualification of Bonds for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Ordinance. Special Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Special Tax Counsel, such firm has reviewed the information under the captions "TAX MATTERS" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate and fair description of the laws and legal issues addressed therein. The legal fee to be paid to Bond and Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond and Special Tax Counsels' legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Mahomes Bolden PC, Dallas, Texas, whose fee is also contingent on the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited and unaudited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and Bond Ordinance contained in this Preliminary Official Statement are made subject to all of the provisions of such statutes, documents and Bond Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

FirstSouthwest, is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. FirstSouthwest, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

USE OF AUDITED FINANCIAL STATEMENTS

BKD LLP, the City's independent auditor for fiscal year 2015, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the fiscal year 2015 financial statements addressed in that report. BKD also has not performed any procedures relating to this Official Statement.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yields. Such report will be relied upon by Special Tax Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Obligations.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by FirstSouthwest on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by FirstSouthwest on behalf of the City and has not evaluated or examined the assumptions or information used in the computations.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of \$41,525.25 from the initial prices to the public as shown on the cover page hereof. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Blaylock Beal Van, LLC ("Blaylock Beal Van" or "BBV"), the Underwriter of the Bonds, has entered into a distribution agreement (the "Agreement") with TD Ameritrade, Inc. ("TD") for the retail distribution of certain municipal securities offerings underwritten by or allocated to Blaylock Beal Van, including the Bonds. Under the Agreement, Blaylock Beal Van will share with TD a portion of the underwriting compensation paid to BBV.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The Bond Ordinance authorized the issuance of the Bonds and approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter.

/s/ MARCUS E. KNIGHT
Mayor
City of Lancaster, Texas

ATTEST:

/s/ SORANGEL ARENAS
City Secretary
City of Lancaster, Texas

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SCHEDULE OF REFUNDED OBLIGATIONS

General Obligation Refunding and Improvement Bonds, Series 2007

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>	<u>Amount Refunded</u>
3/15/2007	2/15/2018	5.000%	\$ 1,325,000	\$ 1,325,000
	2/15/2019	4.000%	650,000	650,000
	2/15/2020	4.125%	120,000	120,000
	2/15/2021	4.125%	130,000	130,000
	2/15/2022	4.250%	140,000	140,000
	2/15/2023	4.250%	145,000	145,000
	2/15/2024	5.000% ⁽¹⁾	150,000	150,000
	2/15/2025	5.000% ⁽¹⁾	160,000	160,000
	2/15/2026	5.000% ⁽²⁾	170,000	170,000
	2/15/2027	5.000% ⁽²⁾	175,000	175,000
	2/15/2028	4.600% ⁽³⁾	185,000	185,000
	2/15/2029	4.600% ⁽³⁾	195,000	195,000
	2/15/2030	4.600% ⁽³⁾	205,000	205,000
	2/15/2031	4.600% ⁽³⁾	215,000	215,000
	2/15/2032	4.600% ⁽³⁾	225,000	225,000
			<u>\$ 4,190,000</u>	<u>\$ 4,190,000</u>

The 2018 - 2032 maturities will be redeemed prior to original maturity on February 15, 2017 at par.

- (1) Represents a Term Bond with a final maturity of February 15, 2025.
(2) Represents a Term Bond with a final maturity of February 15, 2027.
(3) Represents a Term Bond with a final maturity of February 15, 2032.

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
3/15/2007	2/15/2018	4.000%	\$ 595,000	\$ 595,000
	2/15/2019	4.000%	620,000	620,000
	2/15/2020	4.125%	105,000	105,000
	2/15/2021	4.125%	110,000	110,000
	2/15/2022	4.250%	115,000	115,000
	2/15/2023	4.250%	120,000	120,000
	2/15/2024	4.250%	125,000	125,000
	2/15/2025	4.375%	130,000	130,000
	2/15/2026	4.375%	135,000	135,000
	2/15/2027	4.375%	145,000	145,000
	2/15/2028	4.600% ⁽¹⁾	75,000	75,000
	2/15/2029	4.600% ⁽¹⁾	80,000	80,000
	2/15/2030	4.600% ⁽¹⁾	80,000	80,000
	2/15/2031	4.600% ⁽¹⁾	85,000	85,000
	2/15/2032	4.600% ⁽¹⁾	90,000	90,000
			<u>\$ 2,610,000</u>	<u>\$ 2,610,000</u>

The 2018 - 2032 maturities will be redeemed prior to original maturity on February 15, 2017 at par.

- (1) Represents a Term Bond with a final maturity of February 15, 2032.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION . . . The City of Lancaster is a growing community located in south central Dallas County approximately twelve miles south of the downtown Dallas business district. The City is located near the major intersections of Interstate Highways 35, 635 and 45, providing ready access to all parts of the Dallas-Fort Worth Metroplex.

POPULATION . . . The City has grown steadily since the mid-1970's, when it was a small bedroom community.

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	2012	36,700
1980 Census	14,807	2013	36,980
1990 Census	22,117	2014	37,150
2000 Census	25,894	2015	37,360
2010 Census	36,361	2016	38,000
2011	36,390	2017	39,380

Source: U.S. Census Bureau and North Central Texas Council of Governments.

EDUCATION . . . Educational facilities are primarily provided by the Lancaster Independent School District. The District is comprised of a Developmental Center, five elementary, one intermediate, one junior high and one high school. All campuses in the District are accredited by the Southern Association of Colleges and Schools and the Texas Education Agency. The high school curriculum offers sound basics for college preparation with college credit available in senior-level honors courses and features a strong vocational training program. Lancaster Independent School District boasts a student-to-computer ratio of four-to-one, the lowest in the Dallas area and one of the lowest nationwide. The District has been recognized nationally for its commitment to instructional technology.

Higher education facilities located within a 45-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, Texas Christian University, the University of North Texas at Dallas, Northwood University, and Cedar Valley Junior College.

TRANSPORTATION . . . The City is bounded in the west by Interstate Highway 35 East, in the east by Interstate Highway 45, and in the north by Interstate Highway 635 South, and is traversed by State Highway 342. The City is served by the Lancaster Municipal Airport, M-K-T Railroad, Southern Pacific Railroad, two bus lines and five freight lines. The City is approximately 30 miles southeast of the Dallas-Fort Worth International Airport and 18 miles from Dallas Love Field.

RECREATION . . . Recreational facilities in the City are provided by four City parks covering 165 acres of land, one swimming pool, four lighted tennis courts, seven lighted ball diamonds, one youth center and several movie theaters. Country View Golf Course offers a 175-acre public golf course.

GROWTH INDICES

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits⁽¹⁾</u>		<u>Water Customers</u>
		<u>Number</u>	<u>Value</u>	
2012	36,700	38	\$ 5,966,006	12,611
2013	36,980	64	10,569,845	12,613
2014	37,150	1,090	40,776,897	12,723
2015	37,360	587	19,661,403	12,788
2016	38,000	359	10,737,484	11,682

(1) Sources: City of Lancaster, Planning Department.

ECONOMY . . . The City has eight major industrial or commercial sites totaling over 5,300 acres available for marketing to new business and industry with all utilities available. There are four industrial parks totaling over 300 acres with all utilities in place. Lancaster Municipal Airport has undergone major changes by adding to its capacity for general aviation and offering a natural opportunity for freight-related industries. Additions include a 1,500 foot expansion to the runway (to a total of 6,500 feet), taxiway, lighting and navigational directional beacon to existing facilities.

The City is primarily a suburban residential area with industry and manufacturing becoming increasingly important to the local economy.

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APPENDIX B

EXCERPTS FROM THE
CITY OF LANCASTER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2015, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

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

We have audited the accompanying basic 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, 2015, and the related notes to the basic 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. 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, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2015, the City changed its method of accounting for pensions with the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, as amended. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary, 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.

Supplementary 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 combining fund statements and financial statements of the discretely presented component units listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and Members of the City Council
City of Lancaster, Texas
Page 3

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

BKD, LLP

Dallas, Texas
March 30, 2016

City of Lancaster, Texas

Management's Discussion and Analysis (Unaudited)

September 30, 2015

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, 2015. 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 2015, resulting in \$104,696,458 of net position. Net position associated with governmental activities is approximately \$47 million, or 45% of the total net position of the City. Net position associated with business-type activities is approximately \$57 million, or 55% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is approximately \$76 million.
- Unrestricted net position, which may be used to meet the City's future obligations, consists of approximately \$26 million, or 25% of the City's total net position. Unrestricted net position for governmental activities is approximately \$2 million, or 4% of total net position for governmental activities. Unrestricted net position for business-type activities is approximately \$24 million or 42% of total net position for business-type activities.
- As of the close of fiscal year 2015, the City's Governmental Funds reported a combined ending fund balance of \$23,363,141, an increase of \$6,108,630 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$6,668,293. This represents approximately 28% of General Fund expenditures, which is more than the 12% required by the City's adopted fund balance policy.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains 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, 2015

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, 2015

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, HUD Fund, Debt Service Fund and Capital Projects Fund, all of which are considered to be major funds. Data from the other Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these Nonmajor Governmental Funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the 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 Nonmajor Governmental Funds, Enterprise Funds and component units fund financial statements follow the section of required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2015, City assets and deferred outflows of resources exceeded its liabilities and deferred inflows resulting in \$104,696,458 of net position.

The largest portion of the City's net position, 73%, reflects its net investment in capital assets (*e.g.*, land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2015

An additional portion of the City's net position (2%) represents resources that are subject to external restriction on how they may be used. The remaining balance (unrestricted net position) \$26,088,148, or 25%, may be used to meet the City's ongoing obligations to citizens and creditors.

Statement of Net Position for Governmental and Business-type Activities

	Governmental Activities 2015	Business-type Activities 2015	Total 2015	Governmental Activities 2014	Business-type Activities 2014	Total 2014
Current and other assets	\$ 36,173,939	\$ 31,956,328	\$ 68,130,267	\$ 30,237,709	\$ 24,264,897	\$ 54,502,606
Capital assets	101,296,512	44,326,339	145,622,851	104,671,409	46,242,694	150,914,103
Total assets	<u>137,470,451</u>	<u>76,282,667</u>	<u>213,753,118</u>	<u>134,909,118</u>	<u>70,507,591</u>	<u>205,416,709</u>
Deferred outflows of resources	<u>3,490,977</u>	<u>306,506</u>	<u>3,797,483</u>	<u>999,404</u>	<u>98,916</u>	<u>1,098,320</u>
Long-term liabilities	87,472,193	14,922,865	102,395,058	75,182,225	10,808,924	85,991,149
Other liabilities	5,958,621	4,175,660	10,134,281	5,903,980	4,312,547	10,216,527
Total liabilities	<u>93,430,814</u>	<u>19,098,525</u>	<u>112,529,339</u>	<u>81,086,205</u>	<u>15,121,471</u>	<u>96,207,676</u>
Deferred inflows of resources	<u>294,825</u>	<u>29,979</u>	<u>324,804</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position						
Net investment in capital assets	43,186,713	33,117,792	76,304,505	46,504,601	38,224,476	84,729,077
Restricted	2,303,805	-	2,303,805	1,820,887	-	1,820,887
Unrestricted	1,745,271	24,342,877	26,088,148	6,496,829	17,260,560	23,757,389
Total net position	<u>\$ 47,235,789</u>	<u>\$ 57,460,669</u>	<u>\$ 104,696,458</u>	<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>

By far, the largest portion of the City's net position (73%) 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 (2.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$26,088,148 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Analysis of City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2015. Overall, the City had a decrease in net position of \$5,610,895. During 2015, the City adopted GASB 68 that required a deduction in beginning of year net position of \$8,333,790. The 2014 balances have not been adjusted to reflect this restatement.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2015

Revenues and Expenses for Governmental and Business-type Activities

	Governmental Activities 2015	Business-type Activities 2015	Total 2015	Governmental Activities 2014	Business-type Activities 2014	Total 2014
Revenues						
Program revenues						
Charges for services	\$ 3,275,363	\$ 18,909,149	\$ 22,184,512	\$ 2,846,642	\$ 17,350,050	\$ 20,196,692
Operating grant and contribution	1,351,379	-	1,351,379	1,339,640	-	1,339,640
General Revenues						
Taxes and fees	24,215,602	-	24,215,602	20,586,653	-	20,586,653
Other	505,390	802,270	1,307,660	334,862	425,212	760,074
Total revenues	<u>29,347,734</u>	<u>19,711,419</u>	<u>49,059,153</u>	<u>25,107,797</u>	<u>17,775,262</u>	<u>42,883,059</u>
Program Expenses						
General government	3,891,404	-	3,891,404	4,055,911	-	4,055,911
Public safety	16,540,660	-	16,540,660	14,898,549	-	14,898,549
Public works	5,987,362	-	5,987,362	4,926,327	-	4,926,327
Community development and recreation	1,225,730	-	1,225,730	1,260,500	-	1,260,500
Social and welfare	-	-	-	3,623	-	3,623
Interest and fiscal charges	3,379,380	-	3,379,380	3,054,899	-	3,054,899
Water and sewer	-	12,185,162	12,185,162	-	11,215,515	11,215,515
Refuse	-	2,134,898	2,134,898	-	2,153,859	2,153,859
Airport	-	909,428	909,428	-	886,065	886,065
Golf course	-	82,234	82,234	-	86,605	86,605
Total expenses	<u>31,024,536</u>	<u>15,311,722</u>	<u>46,336,258</u>	<u>28,199,809</u>	<u>14,342,044</u>	<u>42,541,853</u>
Increase (Decrease in Net Position Before Transfers)						
	(1,676,802)	4,399,697	2,722,895	(3,092,012)	3,433,218	341,206
Transfers	<u>1,635,572</u>	<u>(1,635,572)</u>	<u>-</u>	<u>1,679,963</u>	<u>(1,679,963)</u>	<u>-</u>
Change in Net Position	<u>(41,230)</u>	<u>2,764,125</u>	<u>2,722,895</u>	<u>(1,412,049)</u>	<u>1,753,255</u>	<u>341,206</u>
Net Position, As Previously Reported*	54,822,317	55,485,036	110,307,353	56,234,366	53,731,781	109,966,147
Change in Accounting Principle	<u>(7,545,298)</u>	<u>(788,492)</u>	<u>(8,333,790)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position, Beginning of Year	<u>47,277,019</u>	<u>54,696,544</u>	<u>101,973,563</u>	<u>56,234,366</u>	<u>53,731,781</u>	<u>109,966,147</u>
Net Position, Ending of Year	<u>\$ 47,235,789</u>	<u>\$ 57,460,669</u>	<u>\$ 104,696,458</u>	<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>

*Net position as of October 1, 2014, has been restated for the effects of adopting GASB No. 68.

Governmental Activities. Governmental activities decreased the City's net position by \$41,230. Total revenue for the governmental activities (excluding transfers) increased from the previous year by \$4,268,715. General revenue had a net increase of \$3,828,255. Sales tax collections increased \$585,022 as a result of new business openings and continued growth in the local economy. Franchise tax revenue increased \$612,376 due to an overall increase in the continued growth in the community. Program revenues, which consist of charges for services, operating and capital grants and contributions increased \$440,460 due to an overall increase in the continued growth in the community.

Business-type Activities. Net position from business-type activities increased by \$2,764,125. Total revenue for the business-type activities increased from the previous year by \$1,936,157 primarily due to an increase in income. Overall business-type expenses increased \$969,678, some of which are due to Water and Sewer. Water purchases and wastewater treatment charges increased due to rate increases from both the City and the Trinity River Authority.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2015

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 \$23,363,141, an increase of \$6,108,630 from the prior year. This amount includes fund balance restricted for Public Improvement Districts of \$443,707, restricted for Capital Projects of \$12,782,493, restricted for Public Works of \$1,704,102, Police Grants, Law Enforcement Purposes and Tourism of \$1,154,366. The net unassigned fund balance was \$6,383,964, an increase of approximately \$708,000 from prior year.

In the General Fund, the original budget projected a \$555,804 decrease in fund balance this fiscal year; however, the actual increase was \$810,520. Total revenues were \$2,094,176 over budget and total expenditures were over budget by \$2,260,763, for a total deficiency of revenues under expenditures of \$166,587. The increase in expense from the budget is majority related to Public Works, due to an increase in capital outlay improvement.

Proprietary Funds

The City's Proprietary Fund statements provide detail on the City's individual business-type activities.

Unrestricted net position of the Proprietary Funds at the end of the year was \$24,342,877. The total increase in unrestricted net position was approximately \$7.1 million from the prior year.

Capital Assets

The City's capital assets for its governmental and business-type activities as of September 30, 2015, amount to \$145,622,851 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	\$ 13,214,268	\$ 13,214,268	\$ 4,971,266	\$ 4,971,266	\$ 18,185,534	\$ 18,185,534
Buildings	24,487,196	24,487,196	4,950,436	4,950,436	29,437,632	29,437,632
Equipment	17,122,344	18,282,038	2,812,062	2,972,683	19,934,406	21,254,721
Construction in progress	19,396,744	8,224,067	-	70,379	19,396,744	8,294,446
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	3,536,717	3,538,774	65,739,374	65,830,044	69,276,091	69,368,818
Streets and bridges	85,199,216	97,301,007	-	-	85,199,216	97,301,007
Drainage	7,332,619	7,332,619	-	-	7,332,619	7,332,619
Runways and taxiways	-	-	3,422,564	3,422,564	3,422,564	3,422,564
Accumulated depreciation	(65,617,695)	(71,083,457)	(36,604,630)	(38,842,655)	(102,222,325)	(109,926,112)
Total	<u>\$ 104,671,409</u>	<u>\$ 101,296,512</u>	<u>\$ 46,242,694</u>	<u>\$ 44,326,339</u>	<u>\$ 150,914,103</u>	<u>\$ 145,622,851</u>

There were no significant capital asset activities during 2015 other than depreciation of existing assets.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2015

Long-term Debt

At the end of the current fiscal year, the City had total bonds outstanding of \$85,850,001, all being tax supported. The City also has approximately \$5,877,687 of additional debt through notes payable and capital leases.

	Governmental Activities		Business-type Activities		Totals	
	2014	2015	2014	2015	2014	2015
General obligation bonds	\$ 48,315,000	\$ 57,025,017	\$ 3,335,000	\$ 3,619,983	\$ 51,650,000	\$ 60,645,000
Certificates of obligation	20,960,000	14,075,105	8,390,000	11,129,896	29,350,000	25,205,001
Notes payable	5,241,512	4,710,033	17,703	-	5,259,215	4,710,033
Capital leases	314,186	1,167,654	-	-	314,186	1,167,654
Total	<u>\$ 74,830,698</u>	<u>\$ 76,977,809</u>	<u>\$ 11,742,703</u>	<u>\$ 14,749,879</u>	<u>\$ 86,573,401</u>	<u>\$ 91,727,688</u>

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

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2016 budget, General Fund revenues are budgeted to increase by 2.5% from the 2015 budget year. This increase is mostly attributed to an increase in property tax revenue due to an expanding residential sector as well as from fines and forfeitures.

Property taxes make up about 50% of budgeted revenues and sales tax make up about 22% 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

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City of Lancaster, Texas
Statement of Net Position
September 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Assets					
Cash and cash equivalents	\$ 22,365,496	\$ 25,122,010	\$ 47,487,506	\$ 4,082,332	\$ 1,116,457
Receivables (net of allowance)					
Notes	9,151,950	-	9,151,950	-	-
Delinquent taxes	689,175	-	689,175	-	-
Accounts	1,236,944	2,113,583	3,350,527	-	-
Sales tax	920,335	-	920,335	184,067	375,494
Fines	1,088,114	-	1,088,114	-	-
Due from other governments	4,395	-	4,395	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid expenses	175,855	20,748	196,603	12,314	15,707
Inventory	12,922	22,158	35,080	-	-
Restricted assets					
Cash and cash equivalents	-	4,677,829	4,677,829	-	-
Capital assets					
Land and construction in progress	21,438,335	5,041,645	26,479,980	100,378	989,118
Other capital assets, net of accumulated depreciation	79,858,177	39,284,694	119,142,871	-	9,812,484
Total assets	<u>137,470,451</u>	<u>76,282,667</u>	<u>213,753,118</u>	<u>4,379,091</u>	<u>12,309,260</u>
Deferred Outflows of Resources					
Deferred loss on refunding	1,721,779	126,609	1,848,388	-	-
Deferred pension contributions	1,273,993	129,543	1,403,536	13,104	62,613
Difference in projected and actual earnings on pension plan investments	495,205	50,354	545,559	5,094	24,338
Total deferred outflows of resources	<u>3,490,977</u>	<u>306,506</u>	<u>3,797,483</u>	<u>18,198</u>	<u>86,951</u>
Liabilities					
Accounts payable and contracts payable	696,011	2,054,223	2,750,234	-	114,323
Accrued liabilities	655,933	150,733	806,666	1,282	127,322
Accrued interest	406,021	44,086	450,107	10,906	32,875
Due to primary government	-	-	-	-	528,753
Deposits	387,684	1,014,338	1,402,022	-	-
General obligation bonds	2,107,380	431,604	2,538,984	-	-
Certificates of obligation	727,857	473,159	1,201,016	-	-
Notes payable	504,512	-	504,512	140,000	470,000
Compensated absences	245,941	7,517	253,458	-	-
Capital leases	227,282	-	227,282	-	-
Noncurrent liabilities					
General obligation bonds	57,946,295	3,311,055	61,257,350	-	-
Certificates of obligation	13,385,023	10,658,769	24,043,792	-	-
Notes payable	4,205,521	-	4,205,521	1,776,950	6,765,000
Compensated absences	2,213,467	56,689	2,270,156	-	-
OPEB liability	175,460	-	175,460	-	-
Capital leases	940,372	-	940,372	-	-
Net pension liability	8,606,055	896,352	9,502,407	95,378	444,082
Total liabilities	<u>93,430,814</u>	<u>19,098,525</u>	<u>112,529,339</u>	<u>2,024,516</u>	<u>8,482,355</u>
Deferred Inflows of Resources					
Difference in expected and actual experience - pensions	294,825	29,979	324,804	3,033	14,890
Total deferred inflows of resources	<u>294,825</u>	<u>29,979</u>	<u>324,804</u>	<u>3,033</u>	<u>14,890</u>
Net Position					
Net investment in capital assets	43,186,713	33,117,792	76,304,505	100,378	3,566,602
Restricted for					
Court Security	25,509	-	25,509	-	-
Court Technology	77,596	-	77,596	-	-
Debt service	602,627	-	602,627	-	-
Public improvement districts	443,707	-	443,707	-	-
Tourism, convention centers, arts	535,168	-	535,168	-	-
Law enforcement purposes	619,198	-	619,198	-	-
Unrestricted	<u>1,745,271</u>	<u>24,342,877</u>	<u>26,088,148</u>	<u>2,269,362</u>	<u>332,364</u>
Total net position	<u>\$ 47,235,789</u>	<u>\$ 57,460,669</u>	<u>\$ 104,696,458</u>	<u>\$ 2,369,740</u>	<u>\$ 3,898,966</u>

City of Lancaster, Texas
Statement of Activities
For the Year Ended September 30, 2015

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Functions/program			
Primary government			
Governmental activities			
General government	\$ 3,891,404	\$ -	\$ -
Public safety	16,540,660	1,436,765	-
Public works	5,987,362	1,838,598	-
Community development and recreation	1,225,730	-	-
Social and welfare	-	-	1,351,379
Interest and fiscal charges	3,379,380	-	-
	<u>31,024,536</u>	<u>3,275,363</u>	<u>1,351,379</u>
Total governmental activities			
Business-type activities			
Water and sewer	12,185,162	15,807,876	-
Refuse	2,134,898	2,281,175	-
Airport	909,428	748,077	-
Golf course	82,234	72,021	-
	<u>15,311,722</u>	<u>18,909,149</u>	<u>-</u>
Total business-type activities			
Total primary government	<u>\$ 46,336,258</u>	<u>\$ 22,184,512</u>	<u>\$ 1,351,379</u>
Component units			
Lancaster Economic Development Corporation	\$ 540,476	\$ -	\$ -
Lancaster Recreational Development Corporation	2,804,224	570,942	48,982
	<u>\$ 3,344,700</u>	<u>\$ 570,942</u>	<u>\$ 48,982</u>
Total component units			
General revenues			
Taxes			
Property taxes			
Sales taxes			
Franchise taxes			
Other local taxes			
Interest on investments			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in net position			
Net Position, Beginning of Year, as Previously Reported			
Change in Accounting Principle			
Net position, beginning of year			
Net position, end of year			

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
\$ (3,891,404)	\$ -	\$ (3,891,404)	\$ -	\$ -
(15,103,895)	-	(15,103,895)	-	-
(4,148,764)	-	(4,148,764)	-	-
(1,225,730)	-	(1,225,730)	-	-
1,351,379	-	1,351,379	-	-
(3,379,380)	-	(3,379,380)	-	-
<u>(26,397,794)</u>	<u>-</u>	<u>(26,397,794)</u>	<u>-</u>	<u>-</u>
-	3,622,714	3,622,714	-	-
-	146,277	146,277	-	-
-	(161,351)	(161,351)	-	-
-	(10,213)	(10,213)	-	-
<u>-</u>	<u>3,597,427</u>	<u>3,597,427</u>	<u>-</u>	<u>-</u>
<u>\$ (26,397,794)</u>	<u>\$ 3,597,427</u>	<u>\$ (22,800,367)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (540,476)	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,184,300)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (540,476)</u>	<u>\$ (2,184,300)</u>
\$ 14,047,562	\$ -	\$ 14,047,562	\$ -	\$ -
5,545,413	-	5,545,413	1,109,083	2,176,600
2,127,730	-	2,127,730	-	-
2,494,897	-	2,494,897	-	-
15,923	14,728	30,651	2,645	478
489,467	787,542	1,277,009	-	396,433
1,635,572	(1,635,572)	-	-	-
<u>26,356,564</u>	<u>(833,302)</u>	<u>25,523,262</u>	<u>1,111,728</u>	<u>2,573,511</u>
<u>(41,230)</u>	<u>2,764,125</u>	<u>2,722,895</u>	<u>571,252</u>	<u>389,211</u>
54,822,317	55,485,036	110,307,353	1,882,955	3,901,704
<u>(7,545,298)</u>	<u>(788,492)</u>	<u>(8,333,790)</u>	<u>(84,467)</u>	<u>(391,949)</u>
<u>47,277,019</u>	<u>54,696,544</u>	<u>101,973,563</u>	<u>1,798,488</u>	<u>3,509,755</u>
<u>\$ 47,235,789</u>	<u>\$ 57,460,669</u>	<u>\$ 104,696,458</u>	<u>\$ 2,369,740</u>	<u>\$ 3,898,966</u>

City of Lancaster, Texas
Balance Sheet – Governmental Funds
September 30, 2015

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 6,178,752	\$ -	\$ 12,882,207	\$ 182,349	\$ 3,122,188	\$ 22,365,496
Receivables (net of allowance for uncollectibles)						
Notes	-	-	-	9,151,950	-	9,151,950
Delinquent taxes	477,130	-	-	202,044	10,001	689,175
Accounts	972,711	-	-	-	264,233	1,236,944
Sales tax	920,335	-	-	-	-	920,335
Fines	1,088,114	-	-	-	-	1,088,114
Due from						
Other governments	4,395	-	-	-	-	4,395
Component unit	528,753	-	-	-	-	528,753
Other funds	-	-	-	483,084	-	483,084
Inventory, at cost	12,922	-	-	-	-	12,922
Prepaid items	168,302	-	-	-	7,553	175,855
	<u>\$ 10,351,414</u>	<u>\$ -</u>	<u>\$ 12,882,207</u>	<u>\$ 10,019,427</u>	<u>\$ 3,403,975</u>	<u>\$ 36,657,023</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts and contracts payable	\$ 509,767	\$ -	\$ 99,714	\$ 76,555	\$ 9,975	\$ 696,011
Accrued liabilities	581,343	-	-	-	74,590	655,933
Deposits	387,684	-	-	-	-	387,684
Due to other funds	483,084	-	-	-	-	483,084
	<u>1,961,878</u>	<u>-</u>	<u>99,714</u>	<u>76,555</u>	<u>84,565</u>	<u>2,222,712</u>
Total liabilities	<u>1,961,878</u>	<u>-</u>	<u>99,714</u>	<u>76,555</u>	<u>84,565</u>	<u>2,222,712</u>
Deferred inflows of resources	<u>1,721,243</u>	<u>-</u>	<u>-</u>	<u>9,340,245</u>	<u>9,682</u>	<u>11,071,170</u>
Fund balances						
Nonspendable for inventory and prepaid items	181,224	-	-	-	7,553	188,777
Restricted for						
Court security	25,509	-	-	-	-	25,509
Court technology	77,596	-	-	-	-	77,596
Capital projects	-	-	12,782,493	-	-	12,782,493
Debt service	-	-	-	602,627	-	602,627
Public works	-	-	-	-	1,704,102	1,704,102
Public improvement districts	-	-	-	-	443,707	443,707
Police grants	-	-	-	-	34,805	34,805
Tourism, convention centers, arts	-	-	-	-	535,168	535,168
Law enforcement purposes	-	-	-	-	584,393	584,393
Unassigned	6,383,964	-	-	-	-	6,383,964
	<u>6,668,293</u>	<u>-</u>	<u>12,782,493</u>	<u>602,627</u>	<u>3,309,728</u>	<u>23,363,141</u>
Total fund balances	<u>6,668,293</u>	<u>-</u>	<u>12,782,493</u>	<u>602,627</u>	<u>3,309,728</u>	<u>23,363,141</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,351,414</u>	<u>\$ -</u>	<u>\$ 12,882,207</u>	<u>\$ 10,019,427</u>	<u>\$ 3,403,975</u>	<u>\$ 36,657,023</u>

City of Lancaster, Texas
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
September 30, 2015

Total fund balances – governmental funds		\$ 23,363,141
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.		101,296,512
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.		(406,021)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.		1,919,220
Notes receivable are not measureable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements.		9,151,950
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 outflows of resources	1,721,779	
Employer contributions	1,273,993	
Investment return difference (GASB 68)	495,205	
Experience difference (GASB 68)	<u>(294,825)</u>	3,196,152
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	(57,025,017)	
Certificates of obligation	(14,075,105)	
Note payable	(4,710,033)	
Premiums on bond debt	(3,066,433)	
Net pension liability	(8,606,055)	
Compensated absences	(2,459,408)	
OPEB liability	(175,460)	
Capital leases	<u>(1,167,654)</u>	<u>(91,285,165)</u>
Total net position of governmental activities		<u>\$ 47,235,789</u>

City of Lancaster, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2015

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes and fees	\$ 17,301,959	\$ -	\$ -	\$ 4,307,762	\$ 1,939,138	\$ 23,548,859
Licenses and permits	657,735	-	-	-	294,025	951,760
Intergovernmental	758,579	-	-	1,187,800	-	1,946,379
Charges for services	886,838	-	-	-	-	886,838
Fines and forfeits	1,264,493	-	172,272	-	-	1,436,765
Interest	3,918	-	9,908	665	1,432	15,923
Miscellaneous	272,160	-	202,000	-	15,307	489,467
	<u>21,145,682</u>	<u>-</u>	<u>384,180</u>	<u>5,496,227</u>	<u>2,249,902</u>	<u>29,275,991</u>
Expenditures						
Current						
General government	3,648,643	-	-	-	-	3,648,643
Public safety	14,866,020	-	-	-	112,912	14,978,932
Public works	1,655,802	-	-	-	1,055,684	2,711,486
Community development and recreation	808,467	-	-	-	236,059	1,044,526
Social and welfare	-	-	-	-	-	-
Capital outlay	1,434,754	-	774,738	-	32,936	2,242,428
Debt service						
Principal retirement	652,660	-	-	2,451,133	64,218	3,168,011
Interest and fiscal charges	338,630	-	-	2,889,821	19,713	3,248,164
Cost of issuance of bonds	-	-	67,309	226,750	-	294,059
	<u>23,404,976</u>	<u>-</u>	<u>842,047</u>	<u>5,567,704</u>	<u>1,521,522</u>	<u>31,336,249</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,259,294)</u>	<u>-</u>	<u>(457,867)</u>	<u>(71,477)</u>	<u>728,380</u>	<u>(2,060,258)</u>
Other financing sources (uses)						
Operating transfers in	1,900,157	35,952	-	56,000	-	1,992,109
Operating transfers out	(80,343)	(234,194)	-	-	(42,000)	(356,537)
Proceeds from issuance of capital lease	1,250,000	-	-	-	-	1,250,000
Proceeds from issuance of bonds	-	-	4,580,316	-	-	4,580,316
Proceeds from refunding bonds issued	-	-	-	16,934,701	-	16,934,701
Bond premium	-	-	482,784	1,684,904	-	2,167,688
Payment to refunded bond escrow agent	-	-	-	(18,399,389)	-	(18,399,389)
	<u>3,069,814</u>	<u>(198,242)</u>	<u>5,063,100</u>	<u>276,216</u>	<u>(42,000)</u>	<u>8,168,888</u>
Net Change in Fund Balances	810,520	(198,242)	4,605,233	204,739	686,380	6,108,630
Fund Balances, Beginning of Year	<u>5,857,773</u>	<u>198,242</u>	<u>8,177,260</u>	<u>397,888</u>	<u>2,623,348</u>	<u>17,254,511</u>
Fund Balances, End of Year	<u>\$ 6,668,293</u>	<u>\$ -</u>	<u>\$ 12,782,493</u>	<u>\$ 602,627</u>	<u>\$ 3,309,728</u>	<u>\$ 23,363,141</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, 2015

Net change in fund balances – total governmental funds		\$ 6,108,630
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.		2,242,428
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.		(5,465,762)
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	19,689,895	
Notes payable	531,479	
Capital leases	396,532	20,617,906
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	(16,934,701)	
Certificate of obligations bonds	(4,580,316)	
Capital lease	(1,250,000)	
Bond premium	(2,034,010)	
Deferred loss on refunding	815,814	
Amortization of deferred loss	(101,089)	
Amortization of bond premium/discount	227,897	(23,856,405)
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.		413,616
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.		(65,508)
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.		36,035
The effect of transfers involving capital assets that decreased net assets		(151,563)
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.		79,393
Change in net position of governmental activities		\$ (41,230)

City of Lancaster, Texas
Statement of Net Position
Proprietary Funds
September 30, 2015

Assets	Water and Sewer	Airport Fund	Nonmajor Enterprise Funds	Total Proprietary Funds
Current Assets				
Cash and cash equivalents	\$ 24,913,924	\$ 190	\$ 207,896	\$ 25,122,010
Receivables (net of allowance for uncollectibles)				
Accounts	835,459	14,198	103,652	953,309
Unbilled	1,019,556	-	140,718	1,160,274
Prepaid expenses	19,080	1,668	-	20,748
Inventory	-	22,158	-	22,158
	<u>26,788,019</u>	<u>38,214</u>	<u>452,266</u>	<u>27,278,499</u>
Total current assets				
Noncurrent Assets				
Restricted assets				
Cash and cash equivalents	4,677,829	-	-	4,677,829
Capital Assets				
Nondepreciable	233,926	4,458,165	349,554	5,041,645
Depreciable (net of accumulated depreciation)	36,120,883	1,365,356	1,798,455	39,284,694
	<u>41,032,638</u>	<u>5,823,521</u>	<u>2,148,009</u>	<u>49,004,168</u>
Total noncurrent assets				
Total assets	<u>67,820,657</u>	<u>5,861,735</u>	<u>2,600,275</u>	<u>76,282,667</u>
Deferred Outflows of Resources				
Deferred loss on refunding	123,876	2,733	-	126,609
Deferred pension contributions	114,188	15,355	-	129,543
Difference in projected and actual earnings on pension plan investments	44,386	5,968	-	50,354
Total deferred outflows of resources	<u>282,450</u>	<u>24,056</u>	<u>-</u>	<u>306,506</u>
Liabilities				
Current Liabilities				
Accounts and contracts payable	313,510	988,790	751,923	2,054,223
Accrued liabilities	100,490	25,434	24,809	150,733
Accrued interest	43,570	516	-	44,086
Deposits	1,014,338	-	-	1,014,338
General obligation bonds	429,810	2,810	-	432,620
Certificates of obligation	472,143	-	-	472,143
Compensated absences	7,299	-	218	7,517
	<u>2,381,160</u>	<u>1,017,550</u>	<u>776,950</u>	<u>4,175,660</u>
Total current liabilities				
Noncurrent Liabilities				
General obligation bonds	3,218,865	92,190	-	3,311,055
Certificates of obligation	10,658,769	-	-	10,658,769
Compensated absences	56,035	-	654	56,689
Net pension liability	788,512	107,840	-	896,352
	<u>14,722,181</u>	<u>200,030</u>	<u>654</u>	<u>14,922,865</u>
Total noncurrent liabilities				
Total liabilities	<u>17,103,341</u>	<u>1,217,580</u>	<u>777,604</u>	<u>19,098,525</u>
Deferred Inflows of Resources				
Difference in expected and actual experience	26,425	3,554	-	29,979
Net Position				
Net investment in capital assets	25,241,262	5,728,521	2,148,009	33,117,792
Unrestricted	25,732,079	(1,063,864)	(325,338)	24,342,877
Total net position	<u>\$ 50,973,341</u>	<u>\$ 4,664,657</u>	<u>\$ 1,822,671</u>	<u>\$ 57,460,669</u>

City of Lancaster, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2015

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Funds	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 15,807,876	\$ 748,077	\$ 2,353,196	\$ 18,909,149
Intergovernmental	-	40,730	-	40,730
Miscellaneous	626,947	-	3,836	630,783
Impact fee revenue	598,767	-	-	598,767
	<u>17,033,590</u>	<u>788,807</u>	<u>2,357,032</u>	<u>20,179,429</u>
Operating Expenses				
Personnel services	1,082,645	180,531	-	1,263,176
Maintenance	447,731	92,717	191,875	732,323
Purchase of water	2,344,969	-	-	2,344,969
Materials and supplies	118,930	435,106	-	554,036
Heat, light and power	212,910	44,473	188	257,571
Depreciation	2,096,637	63,707	77,681	2,238,025
Benefit payments	345,448	53,034	-	398,482
Sewage treatment	5,073,498	-	-	5,073,498
Special services	319,981	18,346	1,947,013	2,285,340
Miscellaneous	135,197	-	-	135,197
Equipment rental	7,216	21,514	375	29,105
	<u>12,185,162</u>	<u>909,428</u>	<u>2,217,132</u>	<u>15,311,722</u>
Operating Income	<u>4,848,428</u>	<u>(120,621)</u>	<u>139,900</u>	<u>4,867,707</u>
Nonoperating Revenues (Expenses)				
Interest revenue	14,634	-	94	14,728
Interest and fiscal charges	(488,439)	(3,993)	-	(492,432)
Other nonoperating revenue	-	9,694	-	9,694
	<u>(473,805)</u>	<u>5,701</u>	<u>94</u>	<u>(468,010)</u>
Income Before Transfers	<u>4,374,623</u>	<u>(114,920)</u>	<u>139,994</u>	<u>4,399,697</u>
Transfers				
Operating transfers in	44,391	-	-	44,391
Operating transfers out	(1,466,963)	-	(213,000)	(1,679,963)
	<u>(1,422,572)</u>	<u>-</u>	<u>(213,000)</u>	<u>(1,635,572)</u>
Change in Net Position	2,952,051	(114,920)	(73,006)	2,764,125
Net Position, Beginning of Year, As Previously Reported	<u>48,714,726</u>	<u>4,874,633</u>	<u>1,895,677</u>	<u>55,485,036</u>
Change in Accounting Principle	<u>(693,436)</u>	<u>(95,056)</u>	<u>-</u>	<u>(788,492)</u>
Net Position, Beginning of Year, As Restated	<u>48,021,290</u>	<u>4,779,577</u>	<u>1,895,677</u>	<u>54,696,544</u>
Net Position, End of Year	<u>\$ 50,973,341</u>	<u>\$ 4,664,657</u>	<u>\$ 1,822,671</u>	<u>\$ 57,460,669</u>

City of Lancaster, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Fund	Total
Operating Activities				
Receipts from customers and users	\$ 16,224,601	\$ 784,844	\$ 2,354,486	\$ 19,363,931
Payments to employees	(1,465,166)	(233,629)	8,034	(1,690,761)
Payments to suppliers	(8,714,577)	(510,154)	(2,144,994)	(11,369,725)
Impact fees collected	598,767	-	-	598,767
	<u>6,643,625</u>	<u>41,061</u>	<u>217,526</u>	<u>6,902,212</u>
Net cash provided by operating activities				
Noncapital and Related Financing Activities				
Transfers to other funds	(1,466,963)	-	(213,000)	(1,679,963)
Proceeds from other nonoperating revenue	(473,805)	-	-	(473,805)
	<u>(1,940,768)</u>	<u>-</u>	<u>(213,000)</u>	<u>(2,153,768)</u>
Net cash provided by (used in) noncapital financing activities				
Capital and Related Financing Activities				
Acquisition and construction of capital assets	(308,171)	(13,499)	-	(321,670)
Principal payments on debt	(1,296,685)	(33,263)	-	(1,329,948)
Interest payments on debt	(382,549)	(3,993)	-	(386,542)
Cost of issuance of bonds	(100,000)	-	-	(100,000)
Proceeds from issuance of bonds	4,808,000	-	-	4,808,000
Utility deposits collected	46,646	-	-	46,646
	<u>2,767,241</u>	<u>(50,755)</u>	<u>-</u>	<u>2,716,486</u>
Net cash used in capital and financing activities				
Investing Activities				
Interest on investments	-	-	94	94
Proceeds from other nonoperating revenue	-	9,694	-	9,694
	<u>-</u>	<u>9,694</u>	<u>94</u>	<u>9,788</u>
Net cash provided by investing activities				
Increase in Cash and Cash Equivalents	7,470,098	-	4,620	7,474,718
Cash and Cash Equivalents, Beginning of Year	<u>22,121,655</u>	<u>190</u>	<u>203,276</u>	<u>22,325,121</u>
Cash and Cash Equivalents, End of Year	<u>\$ 29,591,753</u>	<u>\$ 190</u>	<u>\$ 207,896</u>	<u>\$ 29,799,839</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 4,848,428	\$ (120,621)	\$ 139,900	\$ 4,867,707
Item not requiring cash				
Depreciation	2,096,637	63,707	77,681	2,238,025
Changes in				
Accounts receivable	(210,222)	(3,963)	1,232	(212,953)
Inventories	-	16,988	-	16,988
Prepays	(19,080)	(1,668)	-	(20,748)
Other assets	-	-	-	-
Accounts payable	7,914	93,302	(9,321)	91,895
Accrued expenses	(42,979)	(1,699)	8,034	(36,644)
Employer contribution	(2,639)	(64)	-	(2,703)
Compensated absences	(34,434)	(4,921)	-	(39,355)
	<u>\$ 6,643,625</u>	<u>\$ 41,061</u>	<u>\$ 217,526</u>	<u>\$ 6,902,212</u>
Net cash provided by operating activities				

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

Note 1: Significant Accounting Policies

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

Reporting Entity

The City of Lancaster (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. 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, 2015

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 nonmajor funds are aggregated and presented in a single column.

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

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

HUD Fund* – The HUD Fund was used to account for funds from grants received from the U.S. Department of Housing and Urban Development and transactions relating to the Lancaster Housing Agency. The Lancaster Housing Agency provided housing assistance to low income families. The Program ceased operation in 2015.

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.

*The City has permanently designated this fund as a major governmental fund.

City of Lancaster, Texas

Notes to Basic Financial Statements

September 30, 2015

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.

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.

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.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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, 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), fines and forfeits, 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 Flows Statement

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

Investments

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

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

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

Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2015, were \$734,030 for uncollectible taxes, \$2,429,163 for water and sewer billings, \$362,705 for court fees and fines and \$487,617 for ambulance fees.

City of Lancaster, Texas
Notes to Basic Financial Statements
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Inventory

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

Prepaid Items

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

Interfund Receivables and Payables

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

Transactions Between Funds

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

Capital Assets

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

All items purchased with a price of \$5,000 or greater and a useful life exceeding one year is placed on the fixed 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	25 years
Other structures	10 – 50 years
Machinery and equipment	6 – 10 years

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Notes to Basic Financial Statements
September 30, 2015

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 amortized 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 amortized over a closed five year period.

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.

- 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.
- 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.

Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts

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, 2015, 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.

City of Lancaster, Texas
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New Financial Reporting Requirements

The GASB has issued the following statement, which became effective for fiscal year 2015. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* – This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer’s financial statements for any actuarially unfunded portion of pension benefits earned to date.

Adoption of GASB 68 resulted in the following adjustments to beginning net position at October 1, 2014:

	Government-wide Statement of Activities			
	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Net position at September 30, 2014, as previously reported	\$ 54,822,317	\$ 55,485,036	\$ 1,882,955	\$ 3,901,704
Recording of net pension liability as of September 30, 2014	(8,759,063)	(915,332)	(98,055)	(454,999)
Deferral for pension contributions made after the measurement date	<u>1,213,765</u>	<u>126,840</u>	<u>13,588</u>	<u>63,050</u>
Net position at September 30, 2014, as restated	<u>\$ 47,277,019</u>	<u>\$ 54,696,544</u>	<u>\$ 1,798,488</u>	<u>\$ 3,509,755</u>

Pensions

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’s 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.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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, 2015, the City invested in TexCLASS, TexPool, and LOGIC, which are investment pools authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

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

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

City of Lancaster, Texas
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Cash equivalents at year-end are shown below:

	Carrying Amount	Fair Value	Weighted- Average Maturity (Years)
Primary Government			
TexPool	\$ 24,676,975	\$ 24,676,975	0.003
LOGIC	22,117,570	22,117,570	0.003
Texas Class	1,358,243	1,358,243	0.003
Total primary government	<u>48,152,788</u>	<u>48,152,788</u>	
Component Units			
TexPool	2,594,743	2,594,743	0.003
LOGIC	2,325,626	2,325,626	0.003
Texas Class	142,817	142,817	0.003
Total component units	<u>5,063,186</u>	<u>5,063,186</u>	
Total	<u><u>\$ 53,215,974</u></u>	<u><u>\$ 53,215,974</u></u>	

Note 3: Property Taxes

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1, and are due and payable on or before January 31, of the following year. All unpaid taxes become delinquent February 1, of the following year. Tax collections for the year ended September 30, 2015, were 96.68% 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, 2015, 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.

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.

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

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

Note 4: Interfund Transactions

Interfund Transfers

At September 30, 2015, interfund balances and transactions, excluding discretely presented component units were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,900,157	\$ 80,343
HUD Fund	35,952	234,194
General Obligation Debt Service Fund	56,000	-
Nonmajor Governmental Funds	-	42,000
Water and Sewer Fund	44,391	1,466,963
Nonmajor Enterprise Funds	-	213,000
	\$ 2,036,500	\$ 2,036,500

The interfund transfer to the General Fund from the Nonmajor 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
Notes to Basic Financial Statements
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Interfund Assets/Liabilities

Interfund balances reflect payments made by one fund on behalf of another fund for which cash settlement has not been made as of the end of the accounting period. Amounts due to and from other funds will be settled within the next accounting period. As of September 30, 2015, the only interfund balances outstanding were between the General and Debt Service funds as follows:

	Due to Other Funds	Due from Other Funds
General Fund	\$ 483,084	\$ -
General Obligation Debt Service Fund	-	483,084
	\$ 483,084	\$ 483,084

The advances between the General Fund and Debt Service Fund are the result of the Debt Service Fund lending funds to cover debt payments.

Note 5: Fixed Assets

Governmental Funds

Capital assets of the Governmental Activities are as follows:

	Balance September 30, 2014	Increases	Transfers	Balance September 30, 2015
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 13,214,268	\$ -	\$ -	\$ 13,214,268
Construction in progress	19,396,744	708,091	(11,880,768)	8,224,067
		-	-	
Total capital assets not being depreciated	32,611,012	708,091	(11,880,768)	21,438,335
Capital assets being depreciated				
Buildings	24,487,196	-	-	24,487,196
Infrastructure and improvements	96,068,552	223,080	11,880,768	108,172,400
Equipment and furniture	17,122,344	1,159,694	-	18,282,038
Total capital assets being depreciated	137,678,092	1,382,774	11,880,768	150,941,634
Less accumulated depreciation	65,617,695	5,465,762	-	71,083,457
Total capital assets being depreciated, net	72,060,397	(4,082,988)	11,880,768	79,858,177
Governmental activities capital assets, net	\$ 104,671,409	\$ (3,374,897)	\$ -	\$ 101,296,512

City of Lancaster, Texas
Notes to Basic Financial Statements
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Depreciation expense was charged as a direct expense to programs of the primary government as follows:

General and administrative	\$ 446,954
Public safety	1,561,728
Public works	3,275,876
Community development and recreation	<u>181,204</u>
Total depreciation expense – governmental activities	<u><u>\$ 5,465,762</u></u>

Enterprise Funds

Capital assets of the Enterprise Funds are as follows:

	Balance September 30, 2014	Increases	Balance September 30, 2015
Business-type Activities			
Capital assets not being depreciated			
Land	\$ 4,971,266	\$ -	\$ 4,971,266
Construction in progress	<u>-</u>	<u>70,379</u>	<u>70,379</u>
Total capital assets not being depreciated	<u>4,971,266</u>	<u>70,379</u>	<u>5,041,645</u>
Capital assets being depreciated			
Plants and buildings	4,950,436	-	4,950,436
Other improvements	65,739,374	90,670	65,830,044
Runways and taxiways	3,422,564	-	3,422,564
Other structures	951,622	-	951,622
Machinery and equipment	<u>2,812,062</u>	<u>160,621</u>	<u>2,972,683</u>
Total capital assets being depreciated	77,876,058	251,291	78,127,349
Less accumulated depreciation	<u>36,604,630</u>	<u>2,238,025</u>	<u>38,842,655</u>
Total capital assets being depreciated, net	<u>41,271,428</u>	<u>(1,986,734)</u>	<u>39,284,694</u>
Business-type activities capital assets, net	<u><u>\$ 46,242,694</u></u>	<u><u>\$ (1,916,355)</u></u>	<u><u>\$ 44,326,339</u></u>

City of Lancaster, Texas
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Depreciation expense was charged as a direct expense to programs of the primary government as follows:

Water and Sewer	\$	2,096,637
Airport		63,707
Golf		<u>77,681</u>
Total depreciation expense – business-type activities	\$	<u><u>2,238,025</u></u>

Discretely Presented Component Units

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

	<u>Balance September 30, 2014</u>	<u>Increases</u>	<u>Balance September 30, 2015</u>
Lancaster Economic Development Corporation Capital assets not being depreciated			
Land	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ 100,378</u>
Total capital assets not being depreciated	<u><u>\$ 100,378</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,378</u></u>

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

	Balance September 30, 2014	Increases	Balance September 30, 2015
Lancaster Recreational Development Corporation Capital assets not being depreciated			
Land	<u>\$ 989,118</u>	<u>\$ -</u>	<u>\$ 989,118</u>
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	<u>449,124</u>	<u>151,563</u>	<u>600,687</u>
Total capital assets being depreciated	20,212,293	151,563	20,363,856
Less accumulated depreciation	<u>10,139,316</u>	<u>412,056</u>	<u>10,551,372</u>
Total capital assets being depreciated, net	<u>10,072,977</u>	<u>(260,493)</u>	<u>9,812,484</u>
Lancaster Recreational Development Corporation capital assets, net	<u><u>\$ 11,062,095</u></u>	<u><u>\$ (260,493)</u></u>	<u><u>\$ 10,801,602</u></u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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Note 6: Long-term Liabilities

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

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 48,315,000	\$ 21,515,017	\$ (12,805,000)	57,025,017	\$ 2,107,380
Certificates of obligation	20,960,000	-	(6,884,895)	14,075,105	727,857
Notes payable	5,241,512	-	(531,479)	4,710,033	504,512
Premiums on bond debt	1,260,320	2,167,688	(361,575)	3,066,433	-
Compensated absences	2,438,636	646,526	(625,754)	2,459,408	245,941
OPEB liability	130,724	44,736	-	175,460	-
Net pension liability	8,759,063	-	(153,008)	8,606,055	-
Capital leases	314,186	1,250,000	(396,532)	1,167,654	227,282
Total governmental activities	<u>\$ 87,419,441</u>	<u>\$ 25,623,967</u>	<u>\$ (21,758,243)</u>	<u>\$ 91,285,165</u>	<u>\$ 3,812,972</u>
Business-type Activities					
General obligation bonds	\$ 3,335,000	\$ 1,014,983	\$ (730,000)	\$ 3,619,983	\$ 432,620
Notes payable	17,703	-	(17,703)	-	-
Certificates of obligation	8,390,000	4,080,000	(1,340,104)	11,129,896	472,143
Premiums on bond debt	146,566	91,259	(113,117)	124,708	-
Net pension liability	915,332	-	(18,980)	896,352	-
Compensated absences	69,689	51,051	(49,278)	71,461	7,517
Total business-type activities	<u>\$ 12,874,290</u>	<u>\$ 5,237,293</u>	<u>\$ (2,269,182)</u>	<u>\$ 15,842,400</u>	<u>\$ 912,280</u>
Discretely Presented Component Units					
Notes payable to primary government	\$ 9,746,950	\$ -	\$ (595,000)	\$ 9,151,950	\$ 610,000
Net pension liability	553,054	-	(13,594)	539,460	-
Total discretely presented component units	<u>\$ 10,300,004</u>	<u>\$ -</u>	<u>\$ (608,594)</u>	<u>\$ 9,691,410</u>	<u>\$ 610,000</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 2015, the City executed a current refunding in the amount of \$22,530,000 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 \$22,530,000 Series 2015 General Obligation Refunding and Improvement Bonds dated July 15, 2015, bearing interest rates ranging from 3.00% to 5.00%. The Bonds were issued at a premium of \$2,258,944 and incurred issuance costs of \$295,244. As a result of the current refunding, the City increased total debt service payments over the next 10 years by \$579,995, and recorded a deferred loss on refunding of \$868,064.

City of Lancaster, Texas
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The City also issued Series 2015 Tax and Waterworks and Sewer System Revenue Certificates of Obligation in the amount of \$4,080,000 dated July 15, 2015 bearing interest rates of 2.00% to 3.75%. The Certificates incurred issuance cost of \$75,991. These bonds were issued to 1) construct and improve streets and roads, including related drainage and required utility lines, landscaping, lighting, and signage related thereto; 2) purchasing a radio communication system for the public safety department; 3) purchasing a new fire apparatus and related equipment for the fire department and 4) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects.

General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2015, consist of the following:

	Governmental Activities	Water and Sewer	Airport	Total Primary Government
<u>General Obligation Bonds</u>				
\$24,300,000, 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% – 5.00%	\$ 4,360,000	\$ 2,270,000	\$ 15,000	\$ 6,645,000
\$22,995,000, 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	21,010,000	-	-	21,010,000
\$12,240,000, 2012 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 2.00% – 5.00%	10,140,000	250,000	70,000	10,460,000
\$22,530,000, 2015 General Obligation Refunding Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	<u>21,515,017</u>	<u>1,014,983</u>	-	<u>22,530,000</u>
	<u>\$ 57,025,017</u>	<u>\$ 3,534,983</u>	<u>\$ 85,000</u>	<u>\$ 60,645,000</u>
<u>Certificates of Obligation</u>				
\$14,565,000, 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% – 4.375%	\$ 3,105,104	\$ 624,896	\$ -	\$ 3,730,000
\$12,000,000, 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	10,970,000	-	-	10,970,000
\$7,585,000, 2011 Certificate of Obligation Bonds, due in annual installments through August 15, 2031, 2.00% – 3.50%	-	6,425,000	-	6,425,000
\$4,080,000, 2015 Certificate of Obligation Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	<u>-</u>	<u>4,080,000</u>	<u>-</u>	<u>4,080,000</u>
	<u>\$ 14,075,104</u>	<u>\$ 11,129,896</u>	<u>\$ -</u>	<u>\$ 25,205,000</u>

City of Lancaster, Texas
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	Governmental Activities	Total Primary Government	Discretely Presented Component Units
<u>Note Payable</u>			
\$11,650,000 note payable, due in annual installments through February 15, 2024; 3.00% – 4.50%	\$ -	\$ -	\$ 7,235,000
\$3,035,000 note payable, due in annual installments through February 15, 2027; 4.00% – 4.375%	-	-	1,916,950
\$5,690,000 note payable, due in annual installments beginning October 2013 through October 2022; 7.00%	<u>4,710,033</u>	<u>4,710,033</u>	<u>-</u>
	<u>\$ 4,710,033</u>	<u>\$ 4,710,033</u>	<u>\$ 9,151,950</u>
<u>Capital Leases</u>			
\$366,345 Lease Purchase Agreement due in monthly installments through November 4, 2016; 2.15%	\$ 87,430	\$ 87,430	\$ -
\$1,250,000 Lease Purchase Agreement due in monthly installments through January 15, 2024; 2.08%	<u>1,080,224</u>	<u>1,080,224</u>	<u>-</u>
	<u>\$ 1,167,654</u>	<u>\$ 1,167,654</u>	<u>\$ -</u>

Capital leases represent the remaining principal amounts payable under lease purchase agreements for the acquisition of equipment through the General and Water and Sewer Funds.

As of September 30, 2015, property and equipment under capital leases is carried at \$2,106,777, with \$827,174 in accumulated depreciation.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

The annual requirements to amortize the long-term debt as of September 30, 2015, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 2,107,380	\$ 2,799,776	\$ 4,907,156	\$ 432,620	\$ 155,886	\$ 588,506
2017	2,209,415	2,744,333	4,953,748	455,584	135,462	591,046
2018	2,539,375	2,644,031	5,183,406	495,625	112,300	607,925
2019	2,156,486	2,523,098	4,679,584	258,514	94,035	352,549
2020	2,809,587	2,382,138	5,191,725	125,413	84,717	210,130
2021-2025	15,071,924	9,903,305	24,975,229	708,075	338,267	1,046,342
2026-2030	12,678,628	6,454,303	19,132,931	701,373	170,996	872,369
2031-2035	11,377,222	3,351,274	14,728,496	442,779	31,882	474,661
2036-2040	6,075,000	1,025,058	7,100,058	-	-	-
Total	\$ 57,025,017	\$ 33,827,316	\$ 90,852,333	\$ 3,619,983	\$ 1,123,545	\$ 4,743,528

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 727,857	\$ 787,574	\$ 1,515,431	\$ 472,143	\$ 334,080	\$ 806,223
2017	754,506	757,495	1,512,001	485,493	327,252	812,745
2018	780,318	725,218	1,505,536	499,682	315,348	815,030
2019	811,130	690,890	1,502,020	513,870	302,877	816,747
2020	392,409	663,879	1,056,288	437,591	291,837	729,428
2021-2025	2,204,478	2,982,954	5,187,432	2,535,520	1,281,488	3,817,008
2026-2030	2,508,720	2,297,879	4,806,599	3,476,280	825,491	4,301,771
2031-2035	2,715,686	1,478,865	4,194,551	2,709,317	258,861	2,968,178
2036-2040	3,180,000	535,949	3,715,949	-	-	-
Total	\$ 14,075,104	\$ 10,920,703	\$ 24,995,807	\$ 11,129,896	\$ 3,937,234	\$ 15,067,130

Note Payable						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 504,512	\$ 305,624	\$ 810,136	\$ -	\$ -	\$ -
2017	539,828	270,308	810,136	-	-	-
2018	577,616	232,520	810,136	-	-	-
2019	618,049	192,087	810,136	-	-	-
2020	661,313	148,824	810,137	-	-	-
2021 - 2022	1,808,714	155,532	1,964,246	-	-	-
Total	\$ 4,710,032	\$ 1,304,895	\$ 6,014,927	\$ -	\$ -	\$ -

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

Note Payable			
Fiscal Year	Discretely Presented Component Units		
	Principal	Interest	Total
2016	\$ 610,000	\$ 350,250	\$ 960,250
2017	625,000	330,250	955,250
2018	840,000	304,375	1,144,375
2019	880,000	273,400	1,153,400
2020	915,000	223,647	1,138,647
2021-2025	4,340,000	496,859	4,836,859
2026-2027	941,950	19,469	961,419
Total	<u>\$ 9,151,950</u>	<u>\$ 1,998,250</u>	<u>\$ 11,150,200</u>

Capital Leases			
Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2016	\$ 240,154	\$ 23,635	\$ 263,789
2017	155,901	19,292	175,193
2018	159,144	16,049	175,193
2019	162,454	12,739	175,193
2020	90,000	9,360	99,360
2021-2025	360,000	18,720	378,720
Total	<u>\$ 1,167,653</u>	<u>\$ 99,795</u>	<u>\$ 1,267,448</u>

Note 7: 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.

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
September 30, 2015

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:

	December 31,	
	2015	2014
Deposit rate	7%	7%
Matching ratio (City to employee)	2 – 1	2 – 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI Repeating	50% of CPI Repeating

At the December 31, 2014, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	159
Inactive employees entitled to but not yet receiving benefits	188
Active employees	223
	570

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, 2015, were \$2,012,259, 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
September 30, 2015

Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2014, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0% 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 Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010, valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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	Expected Real Rate of Return
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.00%	

Discount Rate:

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute, and was projected over a period of 100 years. 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 10/1/2014	\$ 66,392,037	\$ 56,164,588	\$ 10,227,449
Changes for the year:			
Service cost	1,754,296	-	1,754,296
Interest on total pension liability	4,600,939	-	4,600,939
Effect of plan changes	-	-	-
Effect of difference in expected and actual experience	(470,634)	-	(470,634)
Benefit payments	(3,082,997)	(3,082,997)	-
Administrative expenses	-	(33,545)	33,545
Member contributions	-	943,452	(943,452)
Net investment income	-	3,212,784	(3,212,784)
Employer contributions	-	1,950,250	(1,950,250)
Other	-	(2,758)	2,758
Net changes	2,801,604	2,987,186	(185,582)
Balances as of 9/30/15	\$ 69,193,641	\$ 59,151,774	\$ 10,041,867

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease (6.00%)	Current Single Rate Assumption (7.00%)	1% Increase (8.00%)
City's net pension liability	\$ 20,755,493	\$ 10,041,866	\$ 1,389,027

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 Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$1,532,003.

At September 30, 2015, the City 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	\$ -	\$ (342,327)
Difference between projected and actual earnings on pension plan investments	574,990	-
Contributions subsequent to the measurement date	1,479,252	-
	\$ 2,054,242	\$ (342,327)

For the year ended September 30, 2015, the City reported \$1,479,252 as deferred outflows of resources related to pensions resulting from City 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, 2016.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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

2015	\$ 15,439
2016	15,439
2017	58,038
2018	143,747
	<u>\$ 232,663</u>

Supplemental Death Benefit Fund

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

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

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

The City’s contributions to SDBF for the fiscal years ended September 30, 2015, 2014 and 2013, were \$21,234, \$19,176 and \$18,072, respectively, which equaled the required contributions each year.

Note 8: Other Post-employment Benefits

Plan Description

The City provides post-employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City’s group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process.

Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

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.

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 City's annual OPEB cost and the related information are as follows at September 30, 2015, 2014 and 2013:

	September 30,		
	2015	2014	2013
Annual required contribution	\$ 74,211	\$ 82,341	\$ 79,943
Interest on prior year net OPEB obligation	5,883	5,478	20,509
Adjustment to annual required contribution	<u>(5,450)</u>	<u>(5,075)</u>	<u>(4,586)</u>
Annual OPEB cost	74,644	82,744	95,866
Contributions made	<u>(29,908)</u>	<u>(73,754)</u>	<u>(68,578)</u>
Increase in net OPEB obligation	44,736	8,990	27,288
Net obligation, beginning of year	<u>130,724</u>	<u>121,734</u>	<u>94,446</u>
Net obligation, end of year	<u>\$ 175,460</u>	<u>\$ 130,724</u>	<u>\$ 121,734</u>
Percentage of OPEB costs contributed	40.1%	89.1%	71.5%

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2014, was as follows:

Actuarial accrued liability	\$	876,821
Actuarial value of plan assets		-
Unfunded actuarial accrued liability	\$	876,821
Funded ratio		0.00%
Covered payroll	\$	13,863,623
Unfunded actuarial accrued liability as a percentage of covered payroll		6.3%

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, 2014, 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 9: 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 paying \$2.1 million dollars over a 20 year period to repay 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 is currently not set for trial and a motion for summary judgment is currently pending.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2015

Note 10: Commitments and Contingencies

Risk Management

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

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2015, was \$4,743,589, for the Ten Mile Creek Regional Wastewater System and \$110,389, 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, 2015.

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, 2015, 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.

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Required Supplementary Information

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

	2015
Total Pension Liability:	
Service cost	\$ 1,754,296
Interest (on the Total Pension Liability)	4,600,939
Changes in benefit terms	-
Differences between expected and actual experience	(470,634)
Benefit payments, including refunds of employee contributions	(3,082,997)
Net change in total pension liability	2,801,604
Total pension liability – Beginning	66,392,037
Total pension liability – Ending (a)	\$ 69,193,641
Plan Fiduciary Net Position:	
Contributions – employer	\$ 1,950,250
Contributions – employee	943,452
Net investment income	3,212,784
Benefit payments, including refunds of employee contributions	(3,082,997)
Administrative expense	(33,545)
Other	(2,758)
Net change in plan fiduciary net position	2,987,186
Plan fiduciary net position – Beginning	56,164,588
Plan fiduciary net position – Ending (b)	\$ 59,151,774
City’s net pension liability – Ending (a) – (b)	\$ 10,041,867
Plan fiduciary net position as a percentage of the total pension liability	85.49%
Covered employee payroll	\$ 13,477,886
City’s net pension liability as a percentage of covered employee payroll	74.51%

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

	Fiscal Year 2015
Actuarially determined contribution	\$ 2,012,259
Contributions in relation to the actuarially determined contribution	2,012,259
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 13,863,623
Contributions as a percentage of covered-payroll	14.51%

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	3.00%
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	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 the City's most recent fiscal year-end (September 30).

City of Lancaster, Texas
Required Supplementary Information
Employees' Other Post-employment Benefits Plan
Analysis of Funding Progress
September 30, 2015

Fiscal Year	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAI (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	[1]	[2]	[3]	[4]	[5]	[6]
			[1]/[2]	[2]-[1]		[4]/[5]
2009	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 13,887,238	3.6%
2010	\$ -	\$ 1,138,842	0.0%	\$ 1,138,842	\$ 13,835,321	8.2%
2011	\$ -	\$ 1,138,842	0.0%	\$ 1,138,842	\$ 12,581,296	9.1%
2012	\$ -	\$ 886,334	0.0%	\$ 886,334	\$ 12,440,548	7.1%
2013	\$ -	\$ 886,334	0.0%	\$ 886,334	\$ 12,377,458	7.2%
2014	\$ -	\$ 876,821	0.0%	\$ 876,821	\$ 13,863,623	6.3%

City of Lancaster, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended September 30, 2015

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and fees	\$ 16,438,366	\$ 16,438,366	\$ 17,301,959	\$ 863,593
Licenses and permits	681,700	681,700	657,735	(23,965)
Intergovernmental	-	-	758,579	758,579
Charges for services	717,850	717,850	886,838	168,988
Fines and forfeits	675,300	675,300	1,264,493	589,193
Interest	4,000	4,000	3,918	(82)
Grant and other income	478,240	478,240	-	(478,240)
Miscellaneous	56,050	56,050	272,160	216,110
	<u>19,051,506</u>	<u>19,051,506</u>	<u>21,145,682</u>	<u>2,094,176</u>
Expenditures				
Current				
General government	3,773,776	3,773,776	3,648,643	125,133
Public safety	14,142,267	14,142,267	14,866,020	(723,753)
Public works	412,836	412,836	1,655,802	(1,242,966)
Community development and recreation	1,659,781	1,659,781	808,467	851,314
Capital outlay	1,155,553	1,155,553	1,434,754	(279,201)
Debt service				
Principal retirement	-	-	652,660	(652,660)
Interest and fiscal charges	-	-	338,630	(338,630)
	<u>21,144,213</u>	<u>21,144,213</u>	<u>23,404,976</u>	<u>(2,260,763)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,092,707)</u>	<u>(2,092,707)</u>	<u>(2,259,294)</u>	<u>(166,587)</u>
Other financing sources (uses)				
Operating transfers in	1,736,903	1,736,903	1,900,157	163,254
Capital leases issued	-	-	1,250,000	1,250,000
Operating transfers out	(200,000)	(200,000)	(80,343)	119,657
	<u>1,536,903</u>	<u>1,536,903</u>	<u>3,069,814</u>	<u>1,532,911</u>
Net Change in Fund Balances	(555,804)	(555,804)	810,520	1,366,324
Fund Balance, Beginning of Year	<u>5,857,773</u>	<u>5,857,773</u>	<u>5,857,773</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 5,301,969</u>	<u>\$ 5,301,969</u>	<u>\$ 6,668,293</u>	<u>\$ 1,366,324</u>

City of Lancaster, Texas
Notes to Required Supplementary Information
September 30, 2015

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.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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FORM OF BOND COUNSEL'S OPINION

_____, 2016

WE HAVE ACTED as Bond Counsel for the CITY OF LANCASTER, TEXAS, a municipal corporation of the State of Texas (the “City”) in connection with an issue of certificates of obligation (the “Bonds”) described as follows:

CITY OF LANCASTER, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016, dated October 15, 2016, in the aggregate principal amount of \$6,575,000 maturing on February 15 in the years 2017 through and including year 2032. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Bonds and in the ordinance (the “Ordinance”) adopted by the City Council of the City (the “City Council”) authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the obligations that are being refunded (the “Refunded Obligations”) with the proceeds of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City, The Bank of New York Mellon Trust Company, N.A. (the “Escrow Agent”) and the report (the “Report”) of Grant Thornton LLP, which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Obligations and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds, certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking arrangements for the discharge and final payment of the Refunded Obligations. We have also examined executed Bond No. I-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the

Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and

(3) The escrow agreement between the City and the Escrow Agent (the "*Escrow Agreement*") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; the Refunded Obligations, having been discharged and paid are no longer outstanding, and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Obligations only out of the funds provided therefor now held for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefor the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payment due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

Respectfully submitted,

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION

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_____, 2016

WE HAVE ACTED as Special Tax Counsel in connection with issuance by the City of Lancaster, Texas (the “City”) of its General Obligation Refunding Bonds, Series 2016, in the aggregate original principal amount of \$6,575,000 (the “Bonds”), with a dated date of October 15, 2016.

WE HAVE ACTED as Special Tax Counsel for the sole purpose of rendering an opinion with respect to the status of the interest on the Bonds under federal income tax law. In such capacity we have examined, and we rely upon, relevant provisions of the Constitution and laws of the State of Texas and of federal income tax law; the Ordinance authorizing the issuance of the Bonds (the “Ordinance”); a transcript of certain certified proceedings of the City Council of the City pertaining to the issuance of the Bonds; certain certifications and representations concerning the use of proceeds of the Bonds, the use of other funds of the City, and other material facts within the knowledge and control of the City; the opinions of the Attorney General of Texas and West & Associates L.L.P., Bond Counsel, as to the legality and validity of the Bonds under the Constitution and laws of the State of Texas; the report of Grant Thornton LLP dated the date hereof verifying the yield on the Bonds and certain United States Treasury and Agency securities allocated to proceeds of the Bonds; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds, including an executed Bond. We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds.

BASED ON SUCH EXAMINATION, it our opinion that pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance by the City with the provisions of the Ordinance after the date hereof, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income for federal income tax purposes of the owners thereof who are individuals or, except as described below, corporations.

WE CALL TO YOUR ATTENTION THAT, with respect to our opinion in clause (2) of the previous paragraph, interest on the Bonds owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit (REMIC), a real estate investment trust (REIT), or a financial asset securitization investment trust (FASIT). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual

of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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