

**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.



**\$22,530,000**  
**CITY OF LANCASTER, TEXAS**  
(Dallas County)  
**GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2015**

**Dated Date: July 15, 2015**

**Due: February 15, as shown below**

**Interest Accrues from Delivery Date**

**PAYMENT TERMS** . . . Interest on the \$22,530,000 City of Lancaster, Texas, General Obligation Refunding and Improvement Bonds, Series 2015 (the "Bonds") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2016, 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 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 OBLIGATIONS - 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 OBLIGATIONS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapters 1207 and 1331, as amended, and an election held in the City on November 6, 2007, and approved by a majority of the participating voters, 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 OBLIGATIONS - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the City's outstanding debt (the "Refunded Obligations") for a debt service savings, (ii) planning, designing, constructing, reconstruction, improving, extending and expanding streets thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefor; and (iii) payment of the costs of issuance of the Bonds (see "PLAN OF FINANCING;" also see SCHEDULE I for a detailed listing of the Refunded Obligations and their redemption dates).

**MATURITY SCHEDULE**

**CUSIP Prefix<sup>(1)</sup>: 514444**

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 100,000	2016	3.00%	0.41%	YR3	\$ 1,750,000	2026	5.00%	2.87% <sup>(2)</sup>	YZ5
100,000	2017	3.00%	0.79%	YS1	1,835,000	2027	5.00%	2.96% <sup>(2)</sup>	ZA9
***	2018	***	***	***	1,560,000	2028	4.00%	3.27% <sup>(2)</sup>	ZB7
***	2019	***	***	***	1,630,000	2029	4.00%	3.42% <sup>(2)</sup>	ZC5
980,000	2020	5.00%	1.60%	YT9	1,695,000	2030	4.00%	3.54% <sup>(2)</sup>	ZD3
1,060,000	2021	5.00%	1.90%	YU6	1,760,000	2031	4.00%	3.66% <sup>(2)</sup>	ZE1
1,130,000	2022	5.00%	2.20%	YV4	1,830,000	2032	4.00%	3.71% <sup>(2)</sup>	ZF8
1,190,000	2023	5.00%	2.42%	YW2	920,000	2033	4.00%	3.75% <sup>(2)</sup>	ZG6
1,360,000	2024	5.00%	2.59%	YX0	960,000	2034	4.00%	3.79% <sup>(2)</sup>	ZH4
1,670,000	2025	5.00%	2.73%	YY8	1,000,000	2035	4.00%	3.83% <sup>(2)</sup>	ZJ0

(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 nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Priced to the February 15, 2025 optional redemption date at a price of par.

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption").

**SEPARATE ISSUES** . . . The Bonds are being offered by the City concurrently with the "City of Lancaster, Texas, Tax and Waterworks and Sewer System (Surplus) Revenue Certificates of Obligation, Series 2015" (the "Certificates") under a common Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Obligations are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters 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 LLP, Special Tax Counsel, Houston, Texas (see APPENDIX C, "Forms of Bond Counsel's Opinions" and APPENDIX D - "Forms of Special Tax Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Mahomes Bolden PC, Dallas, Texas, counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on August 27, 2015.

**SIEBERT BRANDFORD SHANK & Co., L.L.C.**

**RBC CAPITAL MARKETS**

**COASTAL SECURITIES, INC.**

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**OFFICIAL STATEMENT**

**Dated August 3, 2015**

**Ratings:**  
**Moody's: "Aa3"**  
**S&P: "AA-"**  
(See "OTHER INFORMATION - Ratings" herein)

**NEW ISSUE - Book-Entry-Only**

In the opinion of Special Tax Counsel, interest on the Certificates 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.



**\$4,080,000**  
**CITY OF LANCASTER, TEXAS**  
(Dallas County)

**TAX AND WATERWORKS AND SEWER SYSTEM (SURPLUS)**  
**REVENUE CERTIFICATES OF OBLIGATION, SERIES 2015**

**Dated Date: July 15, 2015**  
**Interest Accrues from Delivery Date**

**Due: February 15, as shown below**

**PAYMENT TERMS . . .** Interest on the \$4,080,000 City of Lancaster, Texas, Tax and Waterworks and Sewer System (Surplus) Revenue Certificates of Obligation, Series 2015 (the "Certificates") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year, commencing February 15, 2016, 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 Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See "THE OBLIGATIONS - 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 OBLIGATIONS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Lancaster, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) limited (in an amount not to exceed \$1,000) junior and subordinate pledge of the surplus net revenues of the City's combined Waterworks and Sewer System (the "System") remaining after payment of operating and maintenance expenses of the System and payments for "Prior Lien Obligations" as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance", (see "THE OBLIGATIONS - Authority for Issuance").

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for (i) the design and construction of a Fleet Maintenance Facility within the City, (ii) the design and construction of various street and roadway improvements located within the City, including road, street, sidewalks, curb, drainage and related improvements and (iii) paying the cost of professional services rendered in connection with the above listed projects and the financing thereof (see "PLAN OF FINANCING").

**MATURITY SCHEDULE**

**CUSIP Prefix<sup>(1)</sup>: 514444**

Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 80,000	2016	2.000%	0.41%	ZK7	\$ 195,000	2026	3.000%	2.89%	ZV3
80,000	2017	2.000%	0.79%	ZL5	200,000	2027	3.000%	3.12%	ZW1
80,000	2018	2.500%	1.08%	ZM3	205,000	2028	3.125%	3.26%	ZX9
80,000	2019	2.500%	1.33%	ZN1	210,000	2029	3.300%	3.42%	ZY7
80,000	2020	2.500%	1.60%	ZP6	220,000	2030	3.500%	3.54%	ZZ4
80,000	2021	2.500%	1.92%	ZQ4	225,000	2031	3.500%	3.64%	A24
80,000	2022	3.000%	2.22%	ZR2	235,000	2032	3.625%	3.71%	A32
80,000	2023	3.000%	2.44%	ZS0	520,000	2033	3.625%	3.75%	A40
80,000	2024	3.000%	2.61%	ZT8	560,000	2034	3.750%	3.79%	A57
190,000	2025	3.000%	2.75%	ZU5	600,000	2035	3.750%	3.83%	A65

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(2) Priced to the February 15, 2025 optional redemption date at a price of par.

**REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption").

**SEPARATE ISSUES . . .** The Certificates are being offered by the City concurrently with the "City of Lancaster, Texas, General Obligation Refunding and Improvement Bonds, Series 2015" (the "Bonds") under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations." The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

**LEGALITY . . .** The Certificates are offered for delivery when, as and if issued and received by the Underwriters of the Certificates 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 LLP, Special Tax Counsel, Houston, Texas (see APPENDIX C, "Forms of Bond Counsel's Opinions" and APPENDIX D - "Forms of Special Tax Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriters by Mahomes Bolden PC, Dallas, Texas counsel for the Underwriters.

**DELIVERY . . .** It is expected that the Certificates will be available for delivery through DTC on August 27, 2015.

**SIEBERT BRANDFORD SHANK & Co., L.L.C.**

**RBC CAPITAL MARKETS**

**COASTAL SECURITIES, INC.**

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This Official Statement, which includes the cover pages 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 representation, promise, or guarantee of the Financial Advisor. Any information and expressions of opinion herein contained 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 since the date hereof. See "OTHER INFORMATION - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do 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 UNDERWRITERS MAKE 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 UNDERWRITERS 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 OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE OBLIGATIONS 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 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 STATEMENTS.

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The cover pages hereof, this page, 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 Obligations 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 \$22,530,000 General Obligation Refunding and Improvement Bonds, Series 2015 are to mature on February 15 in each of the years 2016, 2017 and 2020 through 2035 (see "THE OBLIGATIONS - Description of the Obligations").
- THE CERTIFICATES**..... The \$4,080,000 Tax and Waterworks and Sewer System (Surplus) Revenue Certificates of Obligation, Series 2015 are scheduled to mature on February 15 in the years 2016 through 2035 (see "THE OBLIGATIONS - Description of the Obligations").
- PAYMENT OF INTEREST**..... Interest on the Obligations accrues from the Delivery Date, and is payable February 15, 2016, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE OBLIGATIONS - Description of the Obligations" and "THE OBLIGATIONS - Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapters 1207 and 1331, as amended and an election held on November 6, 2007, and a Bond Ordinance adopted by the City Council of the City (see "THE OBLIGATIONS - Authority for Issuance").
- The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Certificate Ordinance passed by the City Council of the City (see "THE OBLIGATIONS - Authority for Issuance").
- SECURITY FOR THE BONDS**..... The Bonds constitute direct and general obligations of the City, payable from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE OBLIGATIONS - Security and Source of Payment").
- SECURITY FOR THE CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from a combination of (i) an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) limited (in an amount not to exceed \$1,000) junior and subordinate pledge of the surplus net revenues of the City's combined Waterworks and Sewer System (the "System") remaining after payment of operating and maintenance expenses of the System and payments for "Prior Lien Obligations."
- REDEMPTION**..... The City reserves the right, at its option, to redeem Bonds or Certificates, as the case may be, having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption").
- TAX EXEMPTION**..... In the opinion of Special Tax Counsel, the interest on the Obligations is excludable from gross income for federal income tax purposes under existing law and is not included in the alternative minimum taxable income of individual, 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 for (i) refunding a portion of the City's outstanding debt (the "Refunded Obligations") for a debt service savings, (ii) planning, designing, constructing, reconstruction, improving, extending and expanding streets thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefore(see "PLAN OF FINANCING;" also see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).

Proceeds from the sale of the Certificates will be used for (i) the design and construction of a Fleet Maintenance Facility within the City, (ii) the design and construction of various street

and roadway improvements located within the City, including road, street, sidewalks, curb, drainage and related improvements (iii) to pay the cost of professional services rendered in connection with the above listed projects and the financing thereof (see "PLAN OF FINANCING").

**RATINGS** ..... The Obligations and presently outstanding tax supported debt of the City are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "AA-" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION - Ratings").

**BOOK-ENTRY-ONLY SYSTEM**..... The definitive Obligations 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 Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

**PAYMENT RECORD** ..... The City has never defaulted on the payment of its bonded indebtedness.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt <sup>(3)</sup>	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2011	36,390 <sup>(1)</sup>	\$ 1,498,202,005	\$ 41,171	\$ 84,055,000	\$ 2,310	5.61%	100.82%
2012	36,700 <sup>(1)</sup>	1,497,549,787	40,805	87,550,000	2,386	5.85%	99.72%
2013	36,980 <sup>(1)</sup>	1,461,933,722	39,533	84,315,000	2,280	5.77%	99.98%
2014	37,150 <sup>(1)</sup>	1,471,034,877	39,597	81,000,000	2,180	5.51%	102.46%
2015	38,000 <sup>(2)</sup>	1,641,866,054	43,207	85,850,000 <sup>(4)</sup>	2,259	5.23%	100.28% <sup>(5)</sup>

(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 Obligations.

(5) Collections through June 1, 2015.

For additional information regarding the City, please contact:

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

or

David K. Medanich  
 Nick Bulaich  
 First Southwest Company  
 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	7 Years	May, 2018	Business Executive
Carol Strain-Burk Councilmember, District 1	13 Years	May, 2016	Self-Employed Consultant
Stanley Jaglowski Councilmember, District 2	4 Years	May, 2017	Automotive Service Professional
Marco Mejia Councilmember, District 3	5 Years	May, 2016	Business Owner, Construction Company
James Daniels Deputy Mayor Pro Tem, District 5	11 Years	May, 2017	Retired
LaShonjia Harris Councilmember, District 4	3 Years	May, 2016	Healthcare Manager
Nina Morris Councilmember, District 6	7 Years	May, 2017	Substitute School Teacher

**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	12 Years	23 Years
Cynthia Pearson	Director of Finance	1 Year	26 Years
Sorangel O. Arenas	City Secretary	5 Years	5 Years
Bob Hager	City Attorney	38 Years	38 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 LLP Houston, Texas
Financial Advisor.....	First Southwest Company, LLC Fort Worth, Texas

## OFFICIAL STATEMENT

### RELATING TO

**\$22,530,000**  
**GENERAL OBLIGATION REFUNDING AND**  
**IMPROVEMENT BONDS, SERIES 2015**

**\$4,080,000**  
**TAX AND WATERWORKS AND SEWER SYSTEM**  
**(SURPLUS REVENUE) CERTIFICATES OF OBLIGATION, SERIES 2015**

### INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$22,530,000 City of Lancaster, Texas, General Obligation Refunding and Improvement Bonds, Series 2015 (the "Bonds") and \$4,080,000 City of Lancaster, Texas, Tax and Waterworks and Sewer System (Surplus) Revenue Certificates of Obligation, Series 2015 (the "Certificates" and together with the Bonds, collectively, the "Obligations"). The Obligations are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Bond Ordinance" and the "Certificate Ordinance") to be adopted by the City Council of the City, but are being offered and sold pursuant to a common Official Statement. While the Obligations share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders, and the covenants and agreements made with respect thereto. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance and Certificate Ordinance to be adopted on the date of sale of the Obligations (collectively, the "Ordinances"), except as otherwise indicated herein.

This Official Statement contains descriptions of the Obligations 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, First Southwest Company, LLC, Fort Worth, Texas.

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, 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 2015 population is 38,000. The City covers approximately 34 square miles.

### PLAN OF FINANCING

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the City's outstanding debt (the "Refunded Obligations") for a debt service savings, (ii) planning, designing, constructing, reconstruction, improving, extending and expanding streets thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefore and (iii) payment of the costs of issuance of the Bonds (see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).

Proceeds from the sale of the Certificates will be used for (i) the design and construction of a Fleet Maintenance Facility within the City, (ii) the design and construction of various street and roadway improvements located within the City, including road, street, sidewalks, curb, drainage and related improvements and (iii) to pay the cost of professional services rendered in connection with the above listed projects and the financing thereof.

**REFUNDED OBLIGATIONS . . .** The payments due on the Refunded Obligations are to be paid on the schedule payment and redemption dates of such Refunded Obligations from funds to be deposited pursuant to a certain 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 the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent an amount which, together with the Escrowed Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Escrowed 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 securities authorized by State law to defease the Refunded Obligations (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the Refunded Obligations.

Grant Thornton LLP, Certified Public Accountants, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds 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 Escrowed Securities will not be available to pay the Bonds (see "Other Information - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Escrowed Securities and cash of the Bonds with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with State law. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the 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 ad valorem taxes nor for the purpose of applying any limitation on the issuance of debt.

In the Escrow Agreement, the City covenants to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

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

	<u>The Bonds</u>	<u>The Certificates</u>
<u>Sources of Funds</u>		
Par Amount	\$ 22,530,000.00	\$ 4,080,000.00
Reoffering Premium	2,258,944.05	-
Total Sources of Funds	<u>\$ 24,788,944.05</u>	<u>\$ 4,080,000.00</u>
<u>Uses of Funds</u>		
Deposit to Escrow Fund	\$ 19,493,700.11	\$ -
Deposit to Construction Fund	5,000,000.00	4,004,008.65
Original Issue Discount	-	4,532.95
Costs of Issuance <sup>(1)</sup>	295,243.94	71,458.40
Total Uses of Funds	<u>\$ 24,788,944.05</u>	<u>\$ 4,080,000.00</u>

(1) Including Underwriters' Discount.

#### **THE OBLIGATIONS**

**DESCRIPTION OF THE OBLIGATIONS . . .** The Obligations are dated July 15, 2015 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on the cover page and page 3 hereof. Interest on the Obligations will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2016, until maturity or prior redemption. The definitive Obligations 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 ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "THE OBLIGATIONS - Book-Entry-Only System" herein.

Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method acceptable to the Paying Agent/Registrar, as requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "THE OBLIGATIONS - Book-Entry-Only System" herein. If the date for any payment on the Obligations shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapters 1207 and 1331, as amended, and the Bond Ordinance adopted by the City Council. The Bonds represent a portion of the principal amount of bonds authorized at an election held in the City on November 6, 2007. See "Table 10 - Authorized But Unissued General Obligation Bonds."

The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Certificate Ordinance passed by the City Council.

## **SECURITY AND SOURCE OF PAYMENT**

*The Bonds* . . . The principal of and interest on the Bonds is payable from a direct and continuing ad valorem tax levied by the City within the limits prescribed by law upon all taxable property in the City as provided in the Bond Ordinance.

**THE CERTIFICATES** . . . The principal of and interest on the Certificates is payable from a direct and continuing ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City. Additionally, the Certificates are payable from a limited (in an amount not to exceed \$1,000) junior and subordinate pledge of the surplus net revenues of the City's combined Waterworks and Sewer System (the "System") remaining after payment of operating and maintenance expenses of the System and payments for "Prior Lien Obligations."

**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 the Bonds or Certificates, or both, having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds or Certificates are to be redeemed, the City may select the maturities of Bonds or Certificates, as the case may be, to be redeemed. If less than all of the Bonds or Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Bonds or Certificates, or portions thereof, within such maturity to be redeemed. If a Bond or Certificate (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 Certificate (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 Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations 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 business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Obligations, unless certain prerequisites to such redemption required by the Ordinances have been met and moneys sufficient to pay the redemption price of the Obligations to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Obligations and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Obligations have not been redeemed.

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

**DEFEASANCE** . . . The City reserves the right to defease the Obligations in any manner now or hereafter permitted by law.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Obligations 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 Obligations, 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 Obligations), 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 Obligations. The Obligations 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 Obligation certificate will be issued for each maturity and series of the Obligations, 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("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 Obligations 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 Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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 register and request that copies of the notices be provided directly to them.

Redemption notices for the Obligations shall be sent to DTC. If less than all of the Obligations 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 Obligations 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations 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 of each series, 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 of each series, 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 of each series, 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 Obligations 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 Obligations 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 Obligations, 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 Ordinances 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 Underwriters.

**Effect of Termination of Book-Entry-Only System . . .** In the event that the Book-Entry-Only System of the Obligations is discontinued, printed certificates will be issued to the DTC Participants or the holder, as the case may be, and such Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "THE OBLIGATIONS - 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 Ordinances, 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 or Certificates, as the case may be, 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 Obligations. Upon any change in the Paying Agent/Registrar for the Bonds or Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations 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, with respect to the Bonds or Certificates, as the case may be, 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 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 and Certificates may be assigned by the execution of an assignment form on the respective Bonds and Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds and Certificates will be delivered by the Paying Agent/Registrar, in lieu of The Obligations 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 and Certificates issued in an exchange or transfer of Bonds and Certificates 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 Obligations 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 and Certificates 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 Obligations surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond or Certificate 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 or Certificate.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Obligations 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 Holder of an Obligation 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.

**OBLIGATIONHOLDERS' REMEDIES . . .** The Ordinances do not specify events of default with respect to the Obligations. If the City defaults in the payment of principal, interest, or redemption price on the Obligations when due, or if it fails to make payments into any fund or funds created in the Ordinances, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Ordinances, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Obligations if there is no other available remedy at law to compel performance of the Obligations or the Ordinances and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and within the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia* 197 S.W.<sup>3rd</sup> 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the Obligations or the covenants in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Obligations. 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 ad valorem 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 bondholders 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 Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

## **PROPERTY 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 the Title I of the Texas Tax Code (referred to herein as 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 that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax 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.

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.

As of January 1, 2004, 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 above the amount of tax 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, the total amount of taxes imposed on such homestead cannot be increased except for repairs or improvements required to comply with governmental requirements and such freeze 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 beginning in the 2009 tax year, a disabled veteran who receives from the 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. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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 districts, 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.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." Section 11.253 of the Tax Code defines "goods-in-transit" as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following year. A taxpayer may receive only one of the freeport exemptions or one of the goods-in-transit exemptions, but not both, 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 real 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 the agreements, a property owner 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 is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to 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 obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate per \$100 taxable value for the unit before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit 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 taxing unit for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures for the next year, and (2) a rate to fund debt service in the next year.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." 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. 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.

The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

**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 September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Disabled taxpayers and taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 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 is to compensate the taxing unit for revenue lost because of the delinquency. In addition the 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 of up to 20% of the amount of delinquent tax, penalty, and interest collected, and such fee may be added to the total tax penalty and interest charge. 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>2014 Market Value</u>	<u>2014 Tax Value</u>	<u>Year on Roll</u>
Prologis	\$ 111,445,330	\$ 111,445,330	2008
United National Foods	49,696,240	49,696,240	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**

2014/15 Market Valuation Established by Dallas Central Appraisal District		\$ 1,949,523,630
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 58,030,023	
Disabled Veterans Exemptions	9,980,330	
Freeport Exemption	55,977,560	
Capped Value Loss	11,581,663	
Pollution Control Exemption	1,020,041	
Totally Exempt Property	84,055,870	
Prorated Total Exempt	29,782	
Agricultural and Other Exemptions	<u>86,982,307</u>	<u>307,657,576</u>
2014/15 Taxable Assessed Valuation		\$ 1,641,866,054
City Funded Debt Payable from Ad Valorem Taxes (as of 6-1-15) <sup>(1)</sup>		
General Obligation Bonds	\$ 38,105,000	
Certificates of Obligation	21,245,000	
The Bonds	22,530,000	
The Certificates	<u>4,080,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 85,960,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Water and Sewer System General Obligation Debt	\$ 11,545,000 <sup>(3)</sup>	
Stormwater System General Obligation Debt	460,000 <sup>(3)</sup>	
Airport System General Obligation Debt	100,000	
Economic Development Corporation General Obligation Debt	2,175,000	
Recreational Development Corporation General Obligation Debt	<u>6,965,000 <sup>(3)</sup></u>	<u>21,245,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 64,715,000
Interest and Sinking Fund as of 6-1-15		\$ 122,257
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		5.24%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		3.94%

2015 Estimated Population - 38,000  
Per Capita Taxable Assessed Valuation - \$43,207  
Per Capita Total Funded Debt - \$2,262  
Per Capita Net Funded Debt - \$1,703

- (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 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,					
	2015		2014		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 897,187,140	46.02%	\$ 842,432,030	50.11%	\$ 862,782,940	52.41%
Real, Residential, Multi-Family	84,795,830	4.35%	76,397,010	4.54%	69,154,300	4.20%
Real, Vacant Lots/Tracts	62,311,560	3.20%	46,515,170	2.77%	47,617,110	2.89%
Real, Acreage (Land Only)	84,303,490	4.32%	82,364,920	4.90%	85,730,640	5.21%
Real, Farm and Ranch Improvements	13,521,860	0.69%	13,037,900	0.78%	11,832,790	0.72%
Real, Commercial	393,090,220	20.16%	248,424,530	14.78%	229,950,000	13.97%
Real, Industrial	30,867,460	1.58%	30,896,080	1.84%	27,900,900	1.69%
Oil, Gas and Mineral Reserves	460	0.00%	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	93,323,500	4.79%	93,784,050	5.58%	115,256,740	7.00%
Tangible Personal, Commercial	226,478,600	11.62%	183,840,280	10.94%	138,372,840	8.41%
Tangible Personal, Industrial	61,150,060	3.14%	61,527,280	3.66%	54,999,160	3.34%
Tangible Personal, Other	13,500	0.00%	13,500	0.00%	0	0.00%
Tangible Personal, Mobile Homes	674,190	0.03%	668,620	0.04%	716,760	0.04%
Special Inventory	1,805,760	0.09%	1,110,970	0.07%	1,822,120	0.11%
Total Appraised Value Before Exemptions	\$ 1,949,523,630	100.00%	\$ 1,681,012,340	100.00%	\$ 1,646,136,300	100.00%
Totally Exempt Property	-		-		-	
Total Exemptions/Reductions	(307,657,576)		(209,977,463)		(184,202,578)	
Taxable Assessed Value	\$ 1,641,866,054		\$ 1,471,034,877		\$ 1,461,933,722	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2012		2011	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 900,351,520	51.72%	\$ 905,759,510	54.27%
Real, Residential, Multi-Family	71,756,440	4.12%	74,506,500	4.46%
Real, Vacant Lots/Tracts	59,847,390	3.44%	57,268,340	3.43%
Real, Acreage (Land Only)	77,143,990	4.43%	88,313,230	5.29%
Real, Farm and Ranch Improvements	12,872,360	0.74%	15,079,790	0.90%
Real, Commercial	292,632,870	16.81%	244,442,170	14.65%
Real, Industrial	29,204,940	1.68%	18,277,640	1.10%
Real and Tangible Personal, Utilities	460	0.00%	-	0.00%
Tangible Personal, Commercial	90,043,510	5.17%	78,660,170	4.71%
Tangible Personal, Industrial	155,244,900	8.92%	137,597,940	8.24%
Tangible Personal, Other	49,641,320	2.85%	47,702,600	2.86%
Tangible Personal, Mobile Homes	-	0.00%	-	0.00%
Special Inventory	721,940	0.04%	855,740	0.05%
Total Appraised Value Before Exemptions	\$ 1,340,740	0.08%	\$ 502,170	0.03%
Totally Exempt Property	\$ 1,740,802,380	100.00%	\$ 1,668,965,800	100.00%
Total Exemptions/Reductions	(77,248,570)		-	
Taxable Assessed Value	(166,004,023)		(170,763,795)	
	\$ 1,497,549,787		\$ 1,498,202,005	

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 <sup>(3)</sup>	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2011	36,390 <sup>(1)</sup>	\$ 1,498,202,005	\$ 41,171	\$ 84,055,000	5.61%	\$ 2,310
2012	36,700 <sup>(1)</sup>	1,497,549,787	40,805	87,550,000	5.85%	2,386
2013	36,980 <sup>(1)</sup>	1,461,933,722	39,533	84,315,000	5.77%	2,280
2014	37,150 <sup>(1)</sup>	1,471,034,877	39,597	81,000,000	5.51%	2,180
2015	38,000 <sup>(2)</sup>	1,641,866,054	43,207	85,850,000 <sup>(4)</sup>	5.23%	2,259

(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 does has no plans to change such policy. In the event the City changes it 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 <sup>(1)</sup>	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2011	\$ 0.8675	\$ 0.6502	\$ 0.2173	\$ 12,996,251	97.79%	100.82%
2012	0.8675	0.6012	0.2663	13,003,960	97.96%	99.72%
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	14,243,188	98.81% <sup>(2)</sup>	100.28% <sup>(2)</sup>

(1) Calculated.

(2) Collections for partial year only, through June 1, 2015.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2014/15 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Prologis & Argent LP	Warehouse/Distribution	\$ 110,806,520	6.75%
ONCOR Electric Delivery	Utility Delivery	54,880,090	3.34%
United Natural Foods Inc.	Commercial	38,561,924	2.35%
Mobis Parts America LLC	Auto Parts Distribution	33,879,356	2.06%
Southwestern Bell Telephone	Telephone	29,777,053	1.81%
Wal-Mart	Retail	22,791,220	1.39%
BMW of North America LLC	Auto Parts Distribution	20,705,290	1.26%
Brenntag Southwest, Inc.	Industrial Chemicals	14,375,490	0.88%
Brasscraft Manufacturing	Plumbing Products	14,212,053	0.87%
Pleasant Run Courtyard	Apartments	10,900,000	0.66%
		<u>\$ 350,888,996</u>	<u>21.37%</u>

**GENERAL OBLIGATION DEBT LIMITATION** . . . Other than as described under "THE OBLIGATIONS – 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 OBLIGATIONS – Tax Rate Limitation").

**TABLE 6 – TAX ADEQUACY <sup>(1)</sup>**

2015 Principal and Interest Requirements	\$ 4,766,686
\$0.2933 Tax Rate at 99.00% Collection Produces	\$ 4,767,437
Average Annual Principal and Interest Requirements, 2015 - 2040	\$ 4,473,497
\$0.2753 Tax Rate at 99.00% Collection Produces	\$ 4,474,857
Maximum Principal and Interest Requirements, 2019	\$ 5,463,401
\$0.3362 Tax Rate at 99.00% Collection Produces	\$ 5,464,754

(1) Includes the Certificates and a portion of the Bonds, less self-supporting debt and the Refunded Obligations. Preliminary, subject to change. 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	2014/15 Taxable Assessed Value	2014/15 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt As of 6-1-15	Authorized But Unissued Debt as of 6/1/2015
City of Lancaster	\$ 1,641,866,054	\$ 0.867500	\$ 64,715,000 <sup>(1)</sup>	100.00%	\$ 64,715,000	\$ 9,550,695 <sup>(2)</sup>
Lancaster Independent School District	1,657,034,081	1.370100	96,548,846	86.86%	83,862,327	125,900,000
Dallas Independent School District	85,633,566,319	1.282100	2,514,250,000	0.04%	1,005,700	-
Dallas County	175,072,563,521	0.243100	85,510,000	0.94%	803,794	6,200,000
Dallas County Community College	182,822,509,060	0.124775	321,510,000	0.94%	3,022,194	-
Dallas County Hospital District	175,262,396,800	0.286000	728,005,000	0.94%	<u>6,843,247</u>	-
Total Direct and Overlapping Tax Debt					\$ 160,252,262	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation . . . . .					9.76%	
Per Capita Overlapping Tax Debt . . . . .					\$ 4,217.16	

(1) Includes the Certificates and 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 <sup>(1)</sup>		The Bonds <sup>(2)</sup>		The Certificates <sup>(3)</sup>		Total Outstanding Debt	Less: W&S Self-Supporting Requirements <sup>(4)</sup>	Less: Stormwater Self-Supporting Requirements <sup>(4)</sup>	Less: EDC Self-Supporting Requirements <sup>(4)</sup>	Less: LRDC Self-Supporting Requirements	Less: Airport Self-Supporting Requirements	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest								
2015	\$ 3,365,000	\$ 3,934,662	\$ -	\$ -	\$ -	\$ -	\$ 7,299,662	\$ 1,504,088	\$ 49,713	\$ 227,750	\$ 732,300	\$ 19,125	\$ 4,766,686	
2016	3,560,000	2,973,092	100,000	973,818	80,000	130,406	7,817,316	1,514,721	48,758	229,038	733,000	18,375	5,273,424	
2017	3,725,000	2,826,762	100,000	1,004,450	80,000	133,330	7,869,542	1,487,813	47,950	230,213	728,700	7,900	5,366,967	
2018	4,235,000	2,662,417	-	1,002,950	80,000	131,530	8,111,897	1,488,413	46,750	234,213	913,825	12,650	5,416,047	
2019	3,660,000	2,502,921	-	1,002,950	80,000	129,530	7,375,401	697,088	50,450	232,913	924,150	7,400	5,463,401	21.37%
2020	2,705,000	2,367,591	980,000	978,450	80,000	127,530	7,238,571	689,197	44,022	216,116	921,000	12,050	5,356,187	
2021	2,825,000	2,240,211	1,060,000	927,450	80,000	125,530	7,258,191	695,491	42,566	213,797	922,500	11,550	5,372,288	
2022	2,960,000	2,104,693	1,130,000	872,700	80,000	123,330	7,270,723	701,219	46,000	216,081	926,875	11,050	5,369,498	
2023	3,090,000	1,965,354	1,190,000	814,700	80,000	120,930	7,260,984	712,625	44,325	217,863	923,600	10,600	5,351,972	
2024	2,955,000	1,831,025	1,360,000	750,950	80,000	118,530	7,095,505	713,275	42,650	214,288	923,100	10,200	5,191,993	44.52%
2025	1,770,000	1,720,935	1,670,000	675,200	190,000	114,480	6,140,615	678,906	50,719	220,188	-	-	5,190,802	
2026	1,845,000	1,628,085	1,750,000	589,700	195,000	108,705	6,116,490	679,519	48,531	220,453	-	-	5,167,987	
2027	1,930,000	1,527,478	1,835,000	500,075	200,000	102,780	6,095,333	689,322	51,219	220,234	-	-	5,134,558	
2028	1,940,000	1,424,279	1,560,000	423,000	205,000	96,577	5,648,856	537,056	-	-	-	-	5,111,799	
2029	2,035,000	1,317,740	1,630,000	359,200	210,000	89,909	5,641,849	547,369	-	-	-	-	5,094,480	65.78%
2030	2,115,000	1,205,851	1,695,000	292,700	220,000	82,594	5,611,145	551,281	-	-	-	-	5,059,864	
2031	2,210,000	1,088,034	1,760,000	223,600	225,000	74,806	5,581,440	558,900	-	-	-	-	5,022,540	
2032	1,745,000	963,597	1,830,000	151,800	235,000	66,609	4,992,006	-	-	-	-	-	4,992,006	
2033	1,495,000	860,880	920,000	96,800	520,000	52,925	3,945,605	-	-	-	-	-	3,945,605	
2034	1,560,000	761,165	960,000	59,200	560,000	33,000	3,933,365	-	-	-	-	-	3,933,365	86.01%
2035	1,625,000	657,206	1,000,000	20,000	600,000	11,250	3,913,456	-	-	-	-	-	3,913,456	
2036	1,700,000	548,678	-	-	-	-	2,248,678	-	-	-	-	-	2,248,678	
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	97.75%
2040	2,010,000	65,606	-	-	-	-	2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 62,605,000</u>	<u>\$ 40,124,986</u>	<u>\$ 22,530,000</u>	<u>\$ 11,719,693</u>	<u>\$ 4,080,000</u>	<u>\$ 1,974,281</u>	<u>\$ 143,033,960</u>	<u>\$ 14,446,280</u>	<u>\$ 613,652</u>	<u>\$ 2,893,144</u>	<u>\$ 8,649,050</u>	<u>\$ 120,900</u>	<u>\$ 116,310,933</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 – 11.974 Years. Interest on the Bonds has been calculated at the rates shown on the cover page herein.
- (3) Average life of the issue – 13.816 Years. Interest on the Certificates has been calculated at the rates shown on page 3 herein.
- (4) Includes a portion of the Bonds.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-15 . . . . .		\$ 4,766,686
Interest and Sinking Fund Balance, 9-30-14 . . . . .	\$ 397,888	
Budgeted Interest and Sinking Fund Tax Levy . . . . .	4,086,165	
Budgeted Transfers . . . . .	283,750	
Estimated Build America Bonds Subsidy . . . . .	638,319	
Estimated Investment Earnings . . . . .	<u>2,550</u>	<u>5,408,672</u>
Estimated Balance, 9-30-15 . . . . .		\$ 641,986

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT <sup>(1)</sup>**

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-14 . . . . .	\$ 5,666,657	
Less: Revenue Bonds Requirements, 2015 Fiscal Year . . . . .		<u>0</u>
Balance Available for Other Purposes . . . . .	\$ 5,666,657	
System General Obligation Bond Requirements, 2015 Fiscal Year . . . . .		<u>1,504,088</u>
Balance . . . . .	\$ 4,162,569	
Percentage of System General Obligation Bonds, Self-Supporting . . . . .		100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-14 . . . . .	\$ 351,711	
Stormwater General Obligation Bond Requirements, 2015 Fiscal Year . . . . .		<u>49,713</u>
Balance . . . . .	\$ 301,998	
Percentage of Stormwater General Obligation Bonds, Self-Supporting . . . . .		100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-14 . . . . .	\$ 3,846,121	
EDC General Obligation Bond Requirements, 2015 Fiscal Year . . . . .		<u>227,750</u>
Balance . . . . .	\$ 3,618,371	
Percentage of LEDC General Obligation Bonds, Self-Supporting . . . . .		100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-14 . . . . .	\$ 568,647	
LRDC General Obligation Bond Requirements, 2015 Fiscal Year . . . . .		<u>732,300</u>
Balance . . . . .	\$ (163,653) <sup>(2)</sup>	
Percentage of LRDC General Obligation Bonds, Self-Supporting . . . . .		77.65%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-14 . . . . .	\$ 69,667	
Airport General Obligation Bond Requirements, 2015 Fiscal Year . . . . .		<u>19,125</u>
Balance . . . . .	\$ 50,542	
Percentage of Airport General Obligation Bonds, Self-Supporting . . . . .		100.00%

(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 2014 indicates that the ½¢ sales tax generated \$2,229,509; debt service was \$736,450, and the amount transferred from the General Fund was \$200,000. Any deficit in fiscal year 2015 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 Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Permanent Public Improvements	11/6/2007	\$ 37,545,695	\$ 22,995,000	\$ 5,000,000	\$ 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 June 1, 2015 are as follows:

Fiscal Year	Capital Leases		
	Government Activities		
	Principal	Interest	Total
2015	\$ 438,581	\$ 9,195	\$ 447,777
2016	228,322	25,453	253,775
2017	155,568	20,864	176,432
2018	159,068	17,364	176,432
2019	162,647	13,785	176,432
2020	90,000	10,125	100,125
2021	90,000	8,100	98,100
2022	90,000	6,075	96,075
2023	90,000	4,050	94,050
2024	90,000	2,025	92,025
Total	<u>\$ 1,594,186</u>	<u>\$ 117,036</u>	<u>\$ 1,711,222</u>

**PENSION FUND . . .** 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 City makes annual contributions to the plan equal to the amounts accrued for pension expense.

**Plan Description . . .** The plan provisions that have been adopted by the City are within the options available in the State statutes governing TMRS. TMRS issues a publicly available comprehensive annual 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. Such report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

In reading this section, investors should be aware that (i) the information included in this Official Statement relating to the TMRS relies on information produced by the TMRS and its independent accountant and actuary, (ii) actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the TMRS and (iii) actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the TMRS.

The plan provisions for the City are as follows:

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

**Contributions . . .** Under 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 cost 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 (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report, which can be obtained from the TMRS website. In addition, pursuant to legislation passed by the 82nd Texas Legislature and signed into law by the Texas Governor on June 17, 2011, many aspects of the laws governing TMRS and its operations were amended, including, among other changes, restructuring the TMRS internal funds and accounting and the method of calculating the annual interest rate a municipality would have to pay on past-due contributions. The changes implemented by the amendments resulted in higher actuarial value of assets for municipalities. The following table shows a three-year history of the City's actuarial accrued liability and funding progress:

Actuarial Valuation Date	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Value of Assets	\$ 52,868,495	\$ 49,578,237	\$ 46,173,703
Actuarial Accrued Liability (AAL)	\$ 66,392,037	\$ 60,064,046	\$ 57,355,776
Percentage Funded	79.6%	82.5%	80.5%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 13,523,542	\$ 10,485,809	\$ 11,182,073
Annual Covered Payroll	\$ 12,377,458	\$ 12,440,548	\$ 12,581,296
UAAL as percentage of Cover Payroll	109.3%	84.3%	88.9%
Net Pension Obligation (NPO) at Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required contribution (ARC)	\$ 1,936,570	\$ 1,892,993	\$ 1,952,302
Contribution Made	<u>(1,936,570)</u>	<u>(1,892,993)</u>	<u>(1,952,302)</u>
NPO at End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2012 and 2013 actuarial valuations. With respect to the City's contributions, the TMRS requires each city in the State to contribute a certain percentage of covered payroll each month, and allows certain cities to contribute a lesser amount by paying a "Phase-in Rate" rather than the "Full Rate." The "Phase-in Rate" period is an eight-year period that began on January 1, 2009. If a city elects to pay the "Phase-in Rate," its required monthly contribution rate will be a lesser amount during such phase-in period. However, each year that a city's actual contribution rate is less than the "Full Rate", the difference generates an actuarial loss in the following year's valuation, and therefore increases the city's required minimum contribution for the next year. Furthermore, cities that pay the "Phase-in Rate" or any rate less than the "Full Rate" are also likely to see their funding ratio decline each year.

Additional information as of the latest actuarial valuation, December 31, 2013, as follows:

	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Amortization Period	30 years/closed period	25.2 years/closed period	26 years/closed period
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
<u>Actuarial Assumptions:</u>			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	1.5%	1.5%	1.5%

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 7, page 37.

**OTHER POST-EMPLOYMENT BENEFITS . . .** In addition to providing pension benefits through the Texas Municipal Retirement System, the City has opted to provide eligible retired employees with the following post-employment benefits:

*Supplemental Death Benefits . . .* The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS (the "SDBF"), and the City provides this coverage to both current and retired employees. 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.

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

The City's contributions to SDBF for the fiscal years ended September 30, 2014, 2013 and 2012, were \$19,176, \$18,072, and \$12,185, respectively, which equaled the required contributions each year.

*Post-Employment Health Care . . .* The City offers its retired employees that meet the eligibility requirements for the TMRS plan described above post-employment health insurance under the City's retiree health plan (the "Plan"). The retiree pays 100% of the retired employees' premium, but the employees' spouses and dependents are not covered. Spouses and eligible dependents convert to COBRA coverage once the retired employee is no longer enrolled in municipal coverage. Coverage supplements Medicare once the retiree, spouse or dependent is eligible for Medicare. As of September 30, 2014, 13 retired employees participated in the Plan. Based on the latest actuarial valuation report, as of December 31, 2014, the City had an actuarial accrued liability of \$886,344, with actuarial value of assets of \$0. As of such date, the City's actuarially-determined required annual contribution, calculated by amortizing the City's unfunded actuarial accrued liability over a period of 30 years, was approximately \$82,341, based on a 3% payroll growth rate. This number will increase each year the City does not contribute the full actuarially-determined required annual contribution.

For more detailed information concerning the Plan, funding policies related thereto and related liabilities, as well as the historical unfunded actuarial accrued liability, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 8, page 41 and the Funded Status and Funding Progress, page 42.

## FINANCIAL INFORMATION

**TABLE 13 – CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 2,846,642	\$ 2,651,439	\$ 2,211,273	\$ 2,656,324	\$ 3,198,615
Operating Grants & Contributions	1,339,640	2,814,031	8,171,297	8,765,448	8,817,871
Capital Grants & Contributions	-	-	1,146,735	1,740,834	1,866,380
<b>General Revenues:</b>					
Taxes & Fees	20,586,653	20,114,364	22,554,611	20,919,755	18,566,343
Other	334,862	366,363	1,915,990	1,221,524	1,410,397
<b>Total Revenues</b>	<b>\$ 25,107,797</b>	<b>\$ 25,946,197</b>	<b>\$ 35,999,906</b>	<b>\$ 35,303,885</b>	<b>\$ 33,859,606</b>
<b>Expenses:</b>					
<b>Program Expenses:</b>					
General Government	\$ 4,055,911	\$ 4,171,973	\$ 3,722,430	\$ 4,254,835	\$ 4,603,846
Public Safety	14,898,549	14,350,239	14,232,681	14,333,669	14,829,005
Public Works	4,926,327	4,991,125	5,119,834	4,832,457	5,678,976
Community Development and Recreation	1,260,500	1,238,745	1,173,498	1,048,563	1,317,628
Social and Welfare	3,623	2,048,769	8,413,338	8,640,215	8,599,376
Interest and Fiscal Charges	3,054,899	1,836,254	2,367,927	2,837,440	2,880,768
<b>Total Expenses</b>	<b>\$ 28,199,809</b>	<b>\$ 28,637,105</b>	<b>\$ 35,029,708</b>	<b>\$ 35,947,179</b>	<b>\$ 37,909,599</b>
Increase (Decrease in Net Assets Before Transfers)	\$ (3,092,012)	\$ (2,690,908)	\$ 970,198	\$ (643,294)	\$ (4,049,993)
Transfers	1,679,963	1,856,628	-	(669,107)	2,381,236
<b>Change in Net Assets</b>	<b>\$ (1,412,049)</b>	<b>\$ (834,280)</b>	<b>\$ 970,198</b>	<b>\$ (1,312,401)</b>	<b>\$ (1,668,757)</b>
Net Assets - Beginning	56,234,366	57,760,986	56,790,788	58,103,189	61,263,965
Prior Period Adjustments	-	(692,340)	-	-	(1,492,019)
<b>Net Assets - Ending</b>	<b>\$ 54,822,317</b>	<b>\$ 56,234,366</b>	<b>\$ 57,760,986</b>	<b>\$ 56,790,788</b>	<b>\$ 58,103,189</b>

**TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

Revenues	Fiscal Year Ended September 30,				
	2014	2013	2012	2011	2010
Taxes and Fees	\$ 15,632,121	\$ 14,698,446	\$ 17,119,024	\$ 16,590,881	\$ 16,014,357
Licenses and Permits	681,212	875,112	586,567	459,717	502,940
Intergovernmental	147,090	1,022,357	202,691	413,154	295,736
Charges for Services	881,346	715,540	671,295	533,411	516,420
Fines and Forfeitures	798,272	785,089	839,766	861,273	839,868
Interest	1,807	5,885	6,045	5,021	7,073
Miscellaneous	254,112	253,973	404,762	337,881	604,188
<b>Total Revenues</b>	<b>\$ 18,395,960</b>	<b>\$ 18,356,402</b>	<b>\$ 19,830,150</b>	<b>\$ 19,201,338</b>	<b>\$ 18,780,582</b>
<b>Expenditures</b>					
General Government	\$ 3,437,170	\$ 3,375,903	\$ 3,200,473	\$ 3,792,006	\$ 3,332,021
Public Safety	13,589,450	13,267,811	13,070,881	13,215,005	13,416,346
Public Works	1,471,110	1,655,272	2,095,799	1,916,680	3,243,523
Cultural and Recreational	843,176	809,093	741,190	811,058	1,010,385
Capital Outlay	734,429	1,499,018	383,845	66,808	-
Non Departmental	-	-	-	-	360,037
Debt Service	576,704	-	-	138,184	54,254
<b>Total Expenditures</b>	<b>\$ 20,652,039</b>	<b>\$ 20,607,097</b>	<b>\$ 19,492,188</b>	<b>\$ 19,939,741</b>	<b>\$ 21,416,566</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,256,079)	\$ (2,250,695)	\$ 337,962	\$ (738,403)	\$ (2,635,984)
Transfers In	\$ 1,751,362	\$ 1,904,628	\$ 1,535,236	\$ 1,535,236	\$ 2,485,236
Transfers Out	(85,399)	-	-	-	-
Proceeds from Capital Lease	-	-	366,345	-	-
<b>Total Sources (Uses)</b>	<b>\$ 1,665,963</b>	<b>\$ 1,904,628</b>	<b>\$ 1,901,581</b>	<b>\$ 1,535,236</b>	<b>\$ 2,485,236</b>
Net Increase (Decrease)	\$ (590,116)	\$ (346,067)	\$ 2,239,543	\$ 796,833	\$ (150,748)
Beginning Fund Balance	6,447,889	6,793,956	4,554,413	3,757,580	3,908,328
Prior Period Adjustments	-	-	-	-	-
<b>Ending Fund Balance</b>	<b>\$ 5,857,773</b>	<b>\$ 6,447,889</b>	<b>\$ 6,793,956</b>	<b>\$ 4,554,413</b>	<b>\$ 3,757,580</b>

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

In addition to the sales and use tax levied by the State of Texas, 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 of Texas, 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>
<b>Total</b>	<b>8.25¢</b>

**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
2011	\$ 3,757,581	28.91%	\$ 0.2508	\$ 103
2012	4,537,723	34.89%	0.3030	124
2013	3,876,260	30.63%	0.2651	105
2014	4,155,458	32.64%	0.2825	112
2015 <sup>(1)</sup>	2,978,584	20.91%	0.1814	78

(1) Collections through June 1, 2015.

**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
2011	\$ 939,395	\$ 1,878,791	\$ 939,395
2012	1,134,431	2,268,862	1,134,431
2013	969,065	1,938,130	969,065
2014	1,038,865	2,077,729	1,038,865
2015 <sup>(1)</sup>	744,646	1,489,292	744,646

(1) Collections through June 1, 2015.

**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 and 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 . . .** Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas 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 of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas 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 and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas 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 257.041(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 have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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 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 the remaining term of 270 days or less, 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 regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio 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, and (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests 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) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

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 is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; 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 AAAM 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.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption,

(b) irrevocable letter of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body 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 is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

**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 Public Funds Investment Act. 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 during the reporting period value 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.

**ADDITIONAL PROVISIONS . . .** Under State 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 June 1, 2015, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	63.35%	\$ 29,265,144
Logic	10.67%	4,927,357
Logic 2011 CO Bond Fund	7.93%	3,661,893
Logic 2010 GO Bond Fund	14.81%	6,842,033
Texas Class	3.25%	1,500,220
	<u>100.00%</u>	<u>\$ 46,196,647</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 Obligations is subject to the opinions of Special Tax Counsel to the effect that interest on the Obligations 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. Forms of Special Tax Counsel's opinions are reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinions are based are subject to change.

Interest on the Obligations 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 opinions, Special Tax Counsel will rely upon representations and certifications of the City made in certificates dated the date of delivery of the Obligations pertaining to the use, expenditure, and investment of the proceeds of the Obligations and will assume continuing compliance by the City with the provisions of the Ordinances subsequent to the issuance of the Obligations. The Ordinances contain covenants by the City with respect to, among other matters, the use of the proceeds of the Obligations and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Obligations 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 Obligations to be includable in the gross income of the owners thereof from the date of the issuance of the Obligations.

Special Tax Counsel's opinions are not a guarantee of a result, but represent 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 opinions of Special Tax Counsel, and Special Tax Counsel's opinions are 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 Obligations is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Obligations 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 Obligations, the City may have different or conflicting interests from the owners of the Obligations. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations 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 Obligations. Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations such as the Obligations 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 Obligations to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Obligations 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 Obligations. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Obligations. Prospective purchasers of the Obligations 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 OBLIGATIONS . . .** The initial public offering price of certain Obligations (the "Discount Obligations") may be less than the amount payable on such Obligations at maturity. An amount equal to the difference between the initial public offering price of a Discount Obligation (assuming that a substantial amount of the Discount Obligations of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Obligation. A portion of such original issue discount allocable to the holding period of such Discount Obligation by the initial purchaser will, upon the disposition of such Discount Obligation (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Obligations described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Obligation, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Obligation and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Obligation by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Obligation was held) is includable in gross income.

Owners of Discount Obligations should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Obligations. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Obligations may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Obligations (the "Premium Obligations") may be greater than the amount payable on such Obligations at maturity. An amount equal to the difference between the initial public offering price of a Premium Obligation (assuming that a substantial amount of the Premium Obligations of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Obligations. The basis for federal income tax purposes of a Premium Obligation in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Obligation. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Obligations should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Obligations.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In each of the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the respective series of Obligations. The City is required to observe each agreement while it remains obligated to advance funds to pay the Obligations. Under each agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain 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](http://www.emma.msrb.org).

**ANNUAL REPORTS** . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 15. The City will update and provide this information in the numbered tables within six months after the end of each fiscal year ending in or after 2015 and audited financial statements within 12 months after the end of each fiscal year ending in or after 2015. 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. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables must be provided by March 31 in each year, and audited financial statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

**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 Obligations 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

Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, 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 its agreement described above under "Annual Reports."

For these purposes, any event described in (12) above 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](http://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 Obligations 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 Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City's continuing disclosure agreements for the Obligations 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 or Certificates, as the case may be, in the primary offering of such Obligations 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 respective Ordinances that authorizes such an amendment) of the outstanding Bonds or Certificates 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 Obligations. The City may also amend or repeal the provisions of the continuing disclosure agreements 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 Obligations in the primary offering of such Obligations. 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 Obligations and the presently outstanding tax supported debt of the City are rated "Aa3" by Moody's and "AA-" 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 Obligations.

## **LITIGATION**

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

## **REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE**

The sale of the Obligations 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); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations 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**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code), as amended provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas, Government Code, Chapter 2256), as amended the Obligations may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before the Obligations are eligible investments for sinking funds and other public funds. 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 Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

## **LEGAL MATTERS**

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the respective Initial Obligations and to the effect that the Obligations 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 Obligations 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 OBLIGATIONS" (excluding the information under the subcaptions "Book-Entry-Only System" and "Obligationholders' 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 thereof), "Registration and Qualification of Obligations 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 Obligations 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 Obligations, such information conforms to the Ordinances. 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 Obligations 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 Obligations is contingent on the sale and delivery of the Obligations. Bond and Special Tax Counsels' legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Mahomes Bolden PC, Dallas, Texas, whose fee is also contingent on the sale and delivery of the Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Obligations 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 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and ordinances. 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**

First Southwest Company, LLC is employed as Financial Advisor to the City in connection with the issuance of the Obligations. 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 Obligations. First Southwest Company, LLC, 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 Obligations, 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 2014, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the fiscal year 2014 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 Escrowed 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 yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of \$138,538.70 from the initial prices to the public as shown on the cover page hereof. The Underwriters 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 Underwriters 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 Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City at an underwriting discount of \$26,458.40 from the initial prices to the public as shown on the cover page hereof. The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriters.

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

RBC Capital Markets, LLC ("RBC"), an underwriter of the Obligations, has provided the following information for inclusion in this Official Statement: RBC and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBC and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBC and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the City. RBC and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. RBC and its respective affiliates may also

communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

**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 Ordinances authorizing the issuance of the Obligations also 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 Obligations by the Underwriters.

MARCUS E. KNIGHT

Mayor  
City of Lancaster, Texas

ATTEST:

SORANGEL O. ARENAS

City Secretary  
City of Lancaster, Texas

**SCHEDULE OF REFUNDED OBLIGATIONS****General Obligation Refunding & Improvement Bonds, 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	2/15/2020	4.125%	\$ 725,000	\$ 605,000
	2/15/2021	4.125%	800,000	670,000
	2/15/2022	4.250%	850,000	710,000
	2/15/2023	4.250%	885,000	740,000
	2/15/2024	5.000%	925,000	775,000
	2/15/2025	5.000%	975,000	815,000
	2/15/2026	5.000%	1,025,000	855,000
	2/15/2027	5.000%	1,075,000	900,000
	2/15/2028	4.600%	1,130,000	945,000
	2/15/2029	4.600%	1,185,000	990,000
	2/15/2030	4.600%	1,240,000	1,035,000
	2/15/2031	4.600%	1,300,000	1,085,000
	2/15/2032	4.600%	<u>1,360,000</u>	<u>1,135,000</u>
			\$ 13,475,000	\$ 11,260,000

The 2020-2032 maturities will be redeemed prior to original maturity on February 15, 2017 at par.

**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	2/15/2020	4.125%	\$ 645,000	\$ 540,000
	2/15/2021	4.125%	665,000	555,000
	2/15/2022	4.250%	700,000	585,000
	2/15/2023	4.250%	735,000	615,000
	2/15/2024	4.250%	765,000	640,000
	2/15/2025	4.375%	800,000	670,000
	2/15/2026	4.375%	835,000	700,000
	2/15/2027	4.375%	875,000	730,000
	2/15/2028	4.600%	455,000	380,000
	2/15/2029	4.600%	480,000	400,000
	2/15/2030	4.600%	500,000	420,000
	2/15/2031	4.600%	525,000	440,000
	2/15/2032	4.600%	<u>550,000</u>	<u>460,000</u>
			\$ 8,530,000	\$ 7,135,000

The 2020- 2032 maturities will be redeemed prior to original maturity on February 15, 2017 at par.

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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	2002	26,400
1980 Census	14,807	2003	26,796
1990 Census	22,117	2004	28,700
1991	22,189	2005	31,700
1992	22,877	2006	33,450
1993	22,877	2007	35,050
1994	22,300	2008	35,800
1995	22,300	2009	36,200
1996	23,000	2010 Census	36,361
1997	23,400	2011	36,390
1998	23,300	2012	36,700
1999	24,300	2013	36,980
2000 Census	25,894	2014	37,150
2001	26,350	2015	38,000

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<sup>(1)</sup></u>		<u>Water Customers</u>
		<u>Number</u>	<u>Value</u>	
2011	36,390	140	20,385,605	11,817
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	38,000	587	19,661,403	12,788

(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, 2014

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, 2014. 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

### Report on the Financial Statements

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, 2014, 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, 2014, 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.

### ***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, budget to actual 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The introductory statistical section 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

*BKD, LLP*

Dallas, Texas  
May 5, 2015

# City of Lancaster, Texas

## Management's Discussion and Analysis (Unaudited)

### September 30, 2014

#### ***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, 2014. 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 2014, resulting in \$110,307,353 of net position. Net position associated with governmental activities is approximately \$55 million, or 50% of the total net position of the City. Net position associated with business-type activities is approximately \$55 million, or 50% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is approximately \$85 million.
- Unrestricted net position, which may be used to meet the City's future obligations, consists of approximately \$24 million, or 22% of the City's total net position. Unrestricted net position for governmental activities is approximately \$6 million, or 12% of total net position for governmental activities. Unrestricted net position for business-type activities is approximately \$17 million or 31% of total net position for business-type activities.
- As of the close of fiscal year 2014, the City's Governmental Funds reported a combined ending fund balance of \$17,254,511, a decrease of \$818,334 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$5,857,773. 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 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.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
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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)**  
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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, 2014, City assets and deferred outflows of resources exceeded its liabilities resulting in \$110,307,353 of net position.

The largest portion of the City's net position, 77%, 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)**  
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An additional portion of the City's net position, 1%, represents resources that are subject to external restriction on how they may be used. The remaining balance (unrestricted net position) \$23,757,389 or 22% 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 2014	Business-type Activities 2014	Total 2014	Governmental Activities 2013	Business-type Activities 2013	Total 2013
Current and other assets	\$ 30,237,709	\$ 24,264,897	\$ 54,502,606	\$ 31,315,924	\$ 22,573,575	\$ 53,889,499
Capital assets	104,671,409	46,242,694	150,914,103	107,215,372	47,225,576	154,440,948
Total assets	<u>134,909,118</u>	<u>70,507,591</u>	<u>205,416,709</u>	<u>138,531,296</u>	<u>69,799,151</u>	<u>208,330,447</u>
Deferred outflows of resources	999,404	98,916	1,098,320	1,100,493	113,593	1,214,086
Long-term liabilities	75,182,225	10,808,924	85,991,149	81,384,765	13,221,363	94,606,128
Other liabilities	5,903,980	4,312,547	10,216,527	2,012,658	2,959,600	4,972,258
Total liabilities	<u>81,086,205</u>	<u>15,121,471</u>	<u>96,207,676</u>	<u>83,397,423</u>	<u>16,180,963</u>	<u>99,578,386</u>
Net position						
Net investment in capital assets	46,504,601	38,224,476	84,729,077	46,231,794	37,933,467	84,165,261
Restricted	1,820,887	-	1,820,887	1,793,302	-	1,793,302
Unrestricted	6,496,829	17,260,560	23,757,389	8,209,270	15,798,314	24,007,584
Total net position	<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>	<u>\$ 56,234,366</u>	<u>\$ 53,731,781</u>	<u>\$ 109,966,147</u>

By far, the largest portion of the City's net position (77%) 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 (1.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$23,757,389 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, 2014. Overall, the City had an increase in net position of \$341,206.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2014**

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

	Governmental Activities 2014	Business-type Activities 2014	Total 2014	Governmental Activities 2013	Business-type Activities 2013	Total 2013
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 2,846,642	\$ 17,350,050	\$ 20,196,692	\$ 2,651,439	\$ 17,259,044	\$ 19,910,483
Operating grant and contribution	1,339,640	-	1,339,640	2,814,031	-	2,814,031
<b>General Revenue</b>						
Taxes and fees	20,586,653	-	20,586,653	20,114,364	-	20,114,364
Other	334,862	425,212	760,074	366,363	538,018	904,381
Total revenues	<u>25,107,797</u>	<u>17,775,262</u>	<u>42,883,059</u>	<u>25,946,197</u>	<u>17,797,062</u>	<u>43,743,259</u>
<b>Program Expenses</b>						
General government	4,055,911	-	4,055,911	4,171,973	-	4,171,973
Public safety	14,898,549	-	14,898,549	14,350,239	-	14,350,239
Public works	4,926,327	-	4,926,327	4,991,125	-	4,991,125
Community development and recreation	1,260,500	-	1,260,500	1,238,745	-	1,238,745
Social and welfare	3,623	-	3,623	2,048,769	-	2,048,769
Interest and fiscal charges	3,054,899	-	3,054,899	1,836,254	-	1,836,254
Water and sewer	-	11,215,515	11,215,515	-	9,945,611	9,945,611
Refuse	-	2,153,859	2,153,859	-	2,050,731	2,050,731
Airport	-	886,065	886,065	-	852,874	852,874
Golf course	-	86,605	86,605	-	108,196	108,196
Total expenses	<u>28,199,809</u>	<u>14,342,044</u>	<u>42,541,853</u>	<u>28,637,105</u>	<u>12,957,412</u>	<u>41,594,517</u>
<b>Increase (Decrease in Net Position Before Transfers)</b>						
	(3,092,012)	3,433,218	341,206	(2,690,908)	4,839,650	2,148,742
Transfers	<u>1,679,963</u>	<u>(1,679,963)</u>	<u>-</u>	<u>1,856,628</u>	<u>(1,856,628)</u>	<u>-</u>
<b>Change in Net Position</b>	<u>(1,412,049)</u>	<u>1,753,255</u>	<u>341,206</u>	<u>(834,280)</u>	<u>2,983,022</u>	<u>2,148,742</u>
<b>Net Position, As Previously Reported</b>	-	-	-	57,760,986	51,077,009	108,837,995
<b>Change in Accounting Principle</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(692,340)</u>	<u>(328,250)</u>	<u>(1,020,590)</u>
<b>Net Position, Beginning of Year</b>	<u>56,234,366</u>	<u>53,731,781</u>	<u>109,966,147</u>	<u>57,068,646</u>	<u>50,748,759</u>	<u>107,817,405</u>
<b>Net Position, Ending of Year</b>	<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>	<u>\$ 56,234,366</u>	<u>\$ 53,731,781</u>	<u>\$ 109,966,147</u>

**Governmental Activities.** Governmental activities decreased the City's net position by \$1,412,049. Total revenue for the governmental activities (excluding transfers) decreased from the previous year by \$838,400. General revenue had a net increase of \$440,788. Sales tax collections increased \$115,067 as a result of new business openings and continued growth in the local economy. Franchise tax revenue increased \$367,918 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 decreased \$1,279,188, primarily resulting from decreased revenue associated with the HUD project, which ended in FY2013. Social and welfare decreased \$2,045,146 as a result to the HUD project ending in FY2013.

**Business-type Activities.** Net position from business-type activities increased by \$1,753,255. Total revenue for the business-type activities decreased from the previous year by \$21,800 primarily due to a decrease in interest on investments. Overall business-type expenses increased \$1,384,632, some of which are due 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, 2014**

**Financial Analysis of the Government's Funds**

**Governmental Funds**

The focus of the City's Governmental Funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 \$17,254,511, a decrease of \$818,334 from the prior year. This amount includes fund balance restricted for Public Improvement Districts of \$324,233, restricted for Capital Projects of \$8,177,260, restricted for Public Works of \$1,395,072, Police Grants, Law Enforcement Purposes and Tourism of \$900,524. The net unassigned fund balance was \$5,676,223, a decrease of approximately \$700,000 from prior year.

In the General Fund, the original budget projected an \$13,594 increase in fund balance this fiscal year; however, the actual decrease was \$590,116. Total revenues were \$899,276 over budget and total expenditures were over budget by \$1,067,096, for a total deficiency of revenues under expenditures of \$167,820. The increase in expense from the budget is majority related to Public Works, due to an increase in capital outlay improvement.

The HUD Fund has a total fund balance of \$198,242, a decrease of \$3,376 from the prior year.

**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 \$17,260,560. The total increase in net position was approximately \$1.8 million from the prior year.

**Capital Assets**

The City's capital assets for its governmental and business-type activities as of September 30, 2014, amount to \$150,914,103 (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	
	2013	2014	2013	2014	2013	2014
Land	\$ 13,214,268	\$ 13,214,268	\$ 4,879,781	\$ 4,971,266	\$ 18,094,049	\$ 18,185,534
Buildings	24,487,196	24,487,196	4,950,436	4,950,436	29,437,632	29,437,632
Equipment	16,633,597	17,122,344	2,803,307	2,812,062	19,436,904	19,934,406
Construction in progress	18,412,625	19,396,744	8,480,489	-	26,893,114	19,396,744
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	3,071,457	3,536,717	56,339,591	65,739,374	59,411,048	69,276,091
Streets and bridges	85,199,216	85,199,216	-	-	85,199,216	85,199,216
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	(61,135,606)	(65,617,695)	(34,602,214)	(36,604,630)	(95,737,820)	(102,222,325)
Total	\$ 107,215,372	\$ 104,671,409	\$ 47,225,576	\$ 46,242,694	\$ 154,440,948	\$ 150,914,103

There was no significant capital asset activities during 2014 other than depreciation of existing assets.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2014**

**Long-term Debt**

At the end of the current fiscal year, the City had total bonds outstanding of \$81,000,000, all being tax supported. The City also has approximately \$5,573,617 of additional debt through notes payable and capital leases.

	Governmental Activities		Business-type Activities		Totals	
	2013	2014	2013	2014	2013	2014
General Obligation Bonds	\$ 49,790,000	\$ 48,315,000	\$ 4,030,000	\$ 3,335,000	\$ 53,820,000	\$ 51,650,000
Certificates of Obligation	21,580,000	20,960,000	8,915,000	8,390,000	30,495,000	29,350,000
Notes Payable	5,690,060	5,241,512	37,998	17,703	5,728,058	5,259,215
Capital Leases	385,543	314,186	-	-	385,543	314,186
Total	<u>\$ 77,445,603</u>	<u>\$ 74,830,698</u>	<u>\$ 12,982,998</u>	<u>\$ 11,742,703</u>	<u>\$ 90,428,601</u>	<u>\$ 86,573,401</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 2015 budget, General Fund revenues are budgeted to increase by 4.8% from the 2014 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 48% of budgeted revenues and sales tax make up about 22% of budgeted revenues.

**Request for Information**

For additional information please contact Director of Finance, Cynthia Pearson, at 972-218-1306 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email [cpearson@lancaster-tx.com](mailto:cpearson@lancaster-tx.com).

## **Basic Financial Statements**

**City of Lancaster, Texas**  
**Statement of Net Position**  
**September 30, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
<b>Assets</b>					
Cash and cash equivalents	\$ 15,924,027	\$ 17,484,348	\$ 33,408,375	\$ 3,657,186	\$ 950,538
Receivables (net of allowance)					
Notes	9,746,950	-	9,746,950	-	-
Delinquent taxes	685,268	-	685,268	-	-
Accounts	1,306,309	1,900,630	3,206,939	-	-
Sales tax	894,164	-	894,164	178,833	368,431
Fines	479,690	-	479,690	-	-
Due from other governments	4,395	-	4,395	-	-
Due from component unit	1,011,837	-	1,011,837	-	-
Prepaid expenses	157,282	-	157,282	12,083	9,303
Inventory	27,787	39,146	66,933	-	-
Restricted assets					
Cash and cash equivalents	-	4,840,773	4,840,773	-	-
Capital assets					
Land and construction in progress	32,611,012	4,971,266	37,582,278	100,378	989,118
Other capital assets, net of accumulated depreciation	72,060,397	41,271,428	113,331,825	-	10,072,977
Total assets	<u>134,909,118</u>	<u>70,507,591</u>	<u>205,416,709</u>	<u>3,948,480</u>	<u>12,390,367</u>
<b>Deferred Outflows of Resources</b>					
Deferred loss on refunding	999,404	98,916	1,098,320	-	-
Total deferred outflows of resources	<u>999,404</u>	<u>98,916</u>	<u>1,098,320</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>					
Accounts payable and contracts payable	661,743	1,962,328	2,624,071	-	88,264
Accrued liabilities	596,000	182,716	778,716	1,981	122,433
Accrued interest	442,056	49,777	491,833	11,594	34,038
Due to primary government	-	-	-	-	528,753
Deposits	726,028	967,692	1,693,720	-	-
General obligation bonds	1,545,000	730,000	2,275,000	-	-
Certificates of obligation	695,000	395,000	1,090,000	-	-
Notes payable	875,452	17,703	893,155	-	-
Compensated absences	243,864	7,331	251,195	-	-
Capital leases	118,837	-	118,837	135,000	460,000
Noncurrent liabilities					
General obligation bonds	46,770,000	2,605,000	49,375,000	-	-
Certificates of obligation	20,265,000	7,995,000	28,260,000	-	-
Notes payable	4,366,060	-	4,366,060	-	-
Premiums on bond debt	1,260,320	146,566	1,406,886	-	-
Compensated absences	2,194,772	62,358	2,257,130	-	-
OPEB liability	130,724	-	130,724	-	-
Capital leases	195,349	-	195,349	1,916,950	7,235,000
Total liabilities	<u>81,086,205</u>	<u>15,121,471</u>	<u>96,207,676</u>	<u>2,065,525</u>	<u>8,468,488</u>
<b>Deferred Inflows of Resources</b>					
Deferred revenue	-	-	-	-	20,175
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,175</u>
<b>Net Position</b>					
Net investment in capital assets	46,504,601	38,224,476	84,729,077	100,378	3,367,095
Restricted for					
Housing and Urban development	198,242	-	198,242	-	-
Debt service	397,888	-	397,888	-	-
Public improvement districts	324,233	-	324,233	-	-
Tourism, convention centers, arts	433,318	-	433,318	-	-
Law enforcement purposes	467,206	-	467,206	-	-
Unrestricted	<u>6,496,829</u>	<u>17,260,560</u>	<u>23,757,389</u>	<u>1,782,577</u>	<u>534,609</u>
Total net position	<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>	<u>\$ 1,882,955</u>	<u>\$ 3,901,704</u>

**City of Lancaster, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2014**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/program				
Primary government				
Governmental activities				
General government	\$ 4,055,911	\$ -	\$ -	\$ -
Public safety	14,898,549	990,079	-	-
Public works	4,926,327	1,856,563	-	-
Community development and recreation	1,260,500	-	-	-
Social and welfare	3,623	-	1,339,640	-
Interest and fiscal charges	3,054,899	-	-	-
Total governmental activities	<u>28,199,809</u>	<u>2,846,642</u>	<u>1,339,640</u>	<u>-</u>
Business-type activities				
Water and sewer	11,215,515	14,291,481	-	-
Refuse	2,153,859	2,190,122	-	-
Airport	886,065	788,602	-	-
Golf course	86,605	79,845	-	-
Total business-type activities	<u>14,342,044</u>	<u>17,350,050</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 42,541,853</u>	<u>\$ 20,196,692</u>	<u>\$ 1,339,640</u>	<u>\$ -</u>
Component units				
Lancaster Economic Development Corporation	\$ 416,483	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	2,685,548	494,080	13,079	-
Total component units	<u>\$ 3,102,031</u>	<u>\$ 494,080</u>	<u>\$ 13,079</u>	<u>\$ -</u>
General revenues				
Taxes				
Property taxes				
Sales taxes				
Franchise taxes				
Other local taxes				
Interest on investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
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
\$ (4,055,911)	\$ -	\$ (4,055,911)	\$ -	\$ -
(13,908,470)	-	(13,908,470)	-	-
(3,069,764)	-	(3,069,764)	-	-
(1,260,500)	-	(1,260,500)	-	-
1,336,017	-	1,336,017	-	-
(3,054,899)	-	(3,054,899)	-	-
<u>(24,013,527)</u>	<u>-</u>	<u>(24,013,527)</u>	<u>-</u>	<u>-</u>
-	3,075,966	3,075,966	-	-
-	36,263	36,263	-	-
-	(97,463)	(97,463)	-	-
-	(6,760)	(6,760)	-	-
<u>-</u>	<u>3,008,006</u>	<u>3,008,006</u>	<u>-</u>	<u>-</u>
<u>\$ (24,013,527)</u>	<u>\$ 3,008,006</u>	<u>\$ (21,005,521)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (416,483)	\$ -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,178,389)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (416,483)</u>	<u>\$ (2,178,389)</u>
\$ 12,240,385	\$ -	\$ 12,240,385	\$ -	\$ -
4,960,391	-	4,960,391	1,121,016	2,229,509
3,337,767	-	3,337,767	-	-
48,110	-	48,110	-	-
10,241	9,682	19,923	2,343	291
324,621	415,530	740,151	-	103,429
1,679,963	(1,679,963)	-	-	-
<u>22,601,478</u>	<u>(1,254,751)</u>	<u>21,346,727</u>	<u>1,123,359</u>	<u>2,333,229</u>
(1,412,049)	1,753,255	341,206	706,876	154,840
<u>56,234,366</u>	<u>53,731,781</u>	<u>109,966,147</u>	<u>1,176,079</u>	<u>3,746,864</u>
<u>\$ 54,822,317</u>	<u>\$ 55,485,036</u>	<u>\$ 110,307,353</u>	<u>\$ 1,882,955</u>	<u>\$ 3,901,704</u>

**City of Lancaster, Texas**  
**Balance Sheet – Governmental Funds**  
**September 30, 2014**

**Assets**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 5,032,548	\$ 234,244	\$ 8,177,260	\$ -	\$ 2,479,975	\$ 15,924,027
Receivables (net of allowance for uncollectibles)						
Notes	-	-	-	9,746,950	-	9,746,950
Delinquent taxes	489,776	-	-	189,800	5,692	685,268
Accounts	750,278	-	-	321,366	234,665	1,306,309
Sales tax	894,164	-	-	-	-	894,164
Fines	479,690	-	-	-	-	479,690
Due from						
Other governments	4,395	-	-	-	-	4,395
Component unit	528,753	-	-	483,084	-	1,011,837
Inventory, at cost	27,787	-	-	-	-	27,787
Prepaid items	153,763	-	-	-	3,519	157,282
<b>Total assets</b>	<b>\$ 8,361,154</b>	<b>\$ 234,244</b>	<b>\$ 8,177,260</b>	<b>\$ 10,741,200</b>	<b>\$ 2,723,851</b>	<b>\$ 30,237,709</b>

**Liabilities, Deferred Inflows  
of Resources and Fund Balances**

<b>Liabilities</b>						
Accounts and contracts payable	\$ 198,584	\$ 11,315	\$ -	\$ 414,964	\$ 36,880	\$ 661,743
Accrued liabilities	513,063	24,687	-	-	58,250	596,000
Deposits	726,028	-	-	-	-	726,028
<b>Total liabilities</b>	<b>1,437,675</b>	<b>36,002</b>	<b>-</b>	<b>414,964</b>	<b>95,130</b>	<b>1,983,771</b>
Deferred inflows of resources	1,065,706	-	-	9,928,348	5,373	10,999,427
<b>Fund balances</b>						
Nonspendable for inventory and prepaid items	181,550	-	-	-	3,519	185,069
Restricted for						
Housing and Urban development	-	198,242	-	-	-	198,242
Capital projects	-	-	8,177,260	-	-	8,177,260
Debt service	-	-	-	397,888	-	397,888
Public works	-	-	-	-	1,395,072	1,395,072
Public improvement districts	-	-	-	-	324,233	324,233
Police grants	-	-	-	-	50,137	50,137
Tourism, convention centers, arts	-	-	-	-	433,318	433,318
Law enforcement purposes	-	-	-	-	417,069	417,069
Unassigned	5,676,223	-	-	-	-	5,676,223
<b>Total fund balances</b>	<b>5,857,773</b>	<b>198,242</b>	<b>8,177,260</b>	<b>397,888</b>	<b>2,623,348</b>	<b>17,254,511</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 8,361,154</b>	<b>\$ 234,244</b>	<b>\$ 8,177,260</b>	<b>\$ 10,741,200</b>	<b>\$ 2,723,851</b>	<b>\$ 30,237,709</b>

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Position**  
**September 30, 2014**

Total fund balances – governmental funds	\$ 17,254,511
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.	104,671,409
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.	(442,056)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.	1,252,477
Notes receivable are not measureable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements.	9,746,950
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 and related deferred outflows of resources at year-end consist of:	
General obligation bonds	(48,315,000)
Certificates of obligation	(20,960,000)
Note payable	(5,241,512)
Premiums on bond debt	(1,260,320)
Deferred outflows of resources	999,404
Compensated absences	(2,438,636)
OPEB liability	(130,724)
Capital leases	(314,186)
Total net position of governmental activities	\$ 54,822,317

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**For the Year Ended September 30, 2014**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes and fees	\$ 15,632,121	\$ -	\$ -	\$ 3,886,785	\$ 1,750,271	\$ 21,269,177
Licenses and permits	681,212	-	-	-	294,005	975,217
Intergovernmental	147,090	-	-	1,192,550	-	1,339,640
Charges for services	881,346	-	-	-	-	881,346
Fines and forfeits	798,272	-	191,807	-	-	990,079
Interest	1,807	79	7,429	252	674	10,241
Miscellaneous	254,112	168	-	-	70,341	324,621
<b>Total revenues</b>	<b>18,395,960</b>	<b>247</b>	<b>199,236</b>	<b>5,079,587</b>	<b>2,115,291</b>	<b>25,790,321</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	3,437,170	-	-	-	-	3,437,170
Public safety	13,589,450	-	-	-	62,939	13,652,389
Public works	1,471,110	-	-	-	975,257	2,446,367
Community development and recreation	843,176	-	-	-	250,013	1,093,189
Social and welfare	-	3,623	-	-	-	3,623
Capital outlay	734,429	-	764,749	-	438,947	1,938,125
Debt service						
Principal retirement	448,548	-	-	2,136,357	30,000	2,614,905
Interest and fiscal charges	128,156	-	-	2,953,781	20,913	3,102,850
<b>Total expenditures</b>	<b>20,652,039</b>	<b>3,623</b>	<b>764,749</b>	<b>5,090,138</b>	<b>1,778,069</b>	<b>28,288,618</b>
Excess (deficiency) of revenues over (under) expenditures	(2,256,079)	(3,376)	(565,513)	(10,551)	337,222	(2,498,297)
<b>Other financing sources (uses)</b>						
Operating transfers in	1,751,362	-	-	56,000	-	1,807,362
Operating transfers out	(85,399)	-	-	-	(42,000)	(127,399)
<b>Total other financing sources (uses)</b>	<b>1,665,963</b>	<b>-</b>	<b>-</b>	<b>56,000</b>	<b>(42,000)</b>	<b>1,679,963</b>
<b>Net Change in Fund Balances</b>	<b>(590,116)</b>	<b>(3,376)</b>	<b>(565,513)</b>	<b>45,449</b>	<b>295,222</b>	<b>(818,334)</b>
<b>Fund Balances, Beginning of Year</b>	<b>6,447,889</b>	<b>201,618</b>	<b>8,742,773</b>	<b>352,439</b>	<b>2,328,126</b>	<b>18,072,845</b>
<b>Fund Balances, End of Year</b>	<b>\$ 5,857,773</b>	<b>\$ 198,242</b>	<b>\$ 8,177,260</b>	<b>\$ 397,888</b>	<b>\$ 2,623,348</b>	<b>\$ 17,254,511</b>

**City of Lancaster, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2014**

Net change in fund balances – total governmental funds		\$ (818,334)
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.		1,938,125
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.		(4,482,089)
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	2,095,000	
Notes payable	448,548	
Capital leases	<u>71,357</u>	2,614,905
Government funds report the effect of premiums, discounts and similar items when debt is first issued, whereas the amount are deferred and amortized in the statement of activities.		
Amortization of refunding loss	(101,089)	
Amortization of bond premium/discount	<u>139,565</u>	38,476
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.		(30,083)
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.		9,475
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year.		<u>(682,524)</u>
Change in net position of governmental activities		<u><u>\$ (1,412,049)</u></u>

**City of Lancaster, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2014**

<b>Assets</b>	<b>Water and Sewer</b>	<b>Airport Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Proprietary Funds</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 17,280,882	\$ 190	\$ 203,276	\$ 17,484,348
Receivables (net of allowance for uncollectibles)				
Accounts	829,184	10,235	115,563	954,982
Unbilled	815,609	-	130,039	945,648
Inventory	-	39,146	-	39,146
	<u>18,925,675</u>	<u>49,571</u>	<u>448,878</u>	<u>19,424,124</u>
<b>Noncurrent Assets</b>				
Restricted assets				
Cash and cash equivalents	4,840,773	-	-	4,840,773
<b>Capital Assets</b>				
Nondepreciable	177,046	4,444,666	349,554	4,971,266
Depreciable (net of accumulated depreciation)	37,966,229	1,429,063	1,876,136	41,271,428
	<u>42,984,048</u>	<u>5,873,729</u>	<u>2,225,690</u>	<u>51,083,467</u>
Total noncurrent assets	<u>42,984,048</u>	<u>5,873,729</u>	<u>2,225,690</u>	<u>51,083,467</u>
Total assets	<u>61,909,723</u>	<u>5,923,300</u>	<u>2,674,568</u>	<u>70,507,591</u>
<b>Deferred Outflows of Resources</b>				
Deferred loss on refunding	96,052	2,864	-	98,916
Total deferred outflows of resources	<u>96,052</u>	<u>2,864</u>	<u>-</u>	<u>98,916</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts and contracts payable	305,596	895,488	761,244	1,962,328
Accrued liabilities	143,469	22,472	16,775	182,716
Accrued interest	49,261	516	-	49,777
Deposits	967,692	-	-	967,692
General obligation bonds	715,000	15,000	-	730,000
Notes payable	-	17,703	-	17,703
Certificates of obligation	395,000	-	-	395,000
Compensated absences	7,113	-	218	7,331
	<u>2,583,131</u>	<u>951,179</u>	<u>778,237</u>	<u>4,312,547</u>
Total current liabilities	<u>2,583,131</u>	<u>951,179</u>	<u>778,237</u>	<u>4,312,547</u>
<b>Noncurrent Liabilities</b>				
General obligation bonds	2,520,000	85,000	-	2,605,000
Notes payable	-	-	-	-
Certificates of obligation	7,995,000	-	-	7,995,000
Premiums on bond debt	135,793	10,773	-	146,566
Compensated absences	57,125	4,579	654	62,358
	<u>10,707,918</u>	<u>100,352</u>	<u>654</u>	<u>10,808,924</u>
Total noncurrent liabilities	<u>10,707,918</u>	<u>100,352</u>	<u>654</u>	<u>10,808,924</u>
Total liabilities	<u>13,291,049</u>	<u>1,051,531</u>	<u>778,891</u>	<u>15,121,471</u>
<b>Net Position</b>				
Net investment in capital assets	30,258,112	5,740,674	2,225,690	38,224,476
Unrestricted	18,456,614	(866,041)	(330,013)	17,260,560
Total net position	<u>\$ 48,714,726</u>	<u>\$ 4,874,633</u>	<u>\$ 1,895,677</u>	<u>\$ 55,485,036</u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2014**

	<b>Water and Sewer Fund</b>	<b>Airport Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Proprietary Funds</b>
<b>Operating Revenues</b>				
Charges for services	\$ 14,291,481	\$ 788,602	\$ 2,269,967	\$ 17,350,050
Intergovernmental	-	98,140	-	98,140
Miscellaneous	309,632	-	3,216	312,848
Impact fee revenue	415,726	-	-	415,726
Total operating revenues	<u>15,016,839</u>	<u>886,742</u>	<u>2,273,183</u>	<u>18,176,764</u>
<b>Operating Expenses</b>				
Personnel services	1,037,837	169,164	-	1,207,001
Maintenance	325,730	36,441	195,325	557,496
Purchase of water	2,481,301	-	-	2,481,301
Materials and supplies	76,467	463,365	-	539,832
Heat, light and power	174,763	42,824	-	217,587
Depreciation	1,855,745	68,990	77,681	2,002,416
Benefit payments	432,359	60,712	-	493,071
Sewage treatment	4,268,784	-	-	4,268,784
Special services	391,688	23,223	1,967,058	2,381,969
Miscellaneous	162,402	-	-	162,402
Equipment rental	8,439	21,346	400	30,185
Total operating expenses	<u>11,215,515</u>	<u>886,065</u>	<u>2,240,464</u>	<u>14,342,044</u>
<b>Operating Income</b>	<u>3,801,324</u>	<u>677</u>	<u>32,719</u>	<u>3,834,720</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	9,588	-	94	9,682
Interest and fiscal charges	(422,763)	(6,074)	-	(428,837)
Other nonoperating revenue	-	17,653	-	17,653
Total nonoperating revenues (expenses)	<u>(413,175)</u>	<u>11,579</u>	<u>94</u>	<u>(401,502)</u>
<b>Income Before Transfers</b>	<u>3,388,149</u>	<u>12,256</u>	<u>32,813</u>	<u>3,433,218</u>
<b>Transfers</b>				
Operating transfers out	<u>(1,466,963)</u>	<u>-</u>	<u>(213,000)</u>	<u>(1,679,963)</u>
Total transfers out	<u>(1,466,963)</u>	<u>-</u>	<u>(213,000)</u>	<u>(1,679,963)</u>
<b>Change in Net Position</b>	1,921,186	12,256	(180,187)	1,753,255
<b>Net Position, Beginning of Year</b>	<u>46,793,540</u>	<u>4,862,377</u>	<u>2,075,864</u>	<u>53,731,781</u>
<b>Net Position, End of Year</b>	<u>\$ 48,714,726</u>	<u>\$ 4,874,633</u>	<u>\$ 1,895,677</u>	<u>\$ 55,485,036</u>

**City of Lancaster, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2014**

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Fund	Total
<b>Operating Activities</b>				
Receipts from customers and users	\$ 14,618,312	\$ 888,056	\$ 2,288,264	\$ 17,794,632
Payments to employees	(1,470,196)	(229,876)	(30,824)	(1,730,896)
Payments to suppliers	(7,844,422)	(538,736)	(2,033,967)	(10,417,125)
Impact fees collected	415,726	-	-	415,726
Net cash provided by operating activities	<u>5,719,420</u>	<u>119,444</u>	<u>223,473</u>	<u>6,062,337</u>
<b>Noncapital and Related Financing Activities</b>				
Transfers to other funds	(1,466,963)	-	(213,000)	(1,679,963)
Net cash provided by (used in) noncapital financing activities	<u>(1,466,963)</u>	<u>-</u>	<u>(213,000)</u>	<u>(1,679,963)</u>
<b>Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(919,534)	(100,000)	-	(1,019,534)
Principal payments on debt	(1,308,002)	(30,945)	-	(1,338,947)
Interest payments on debt	(337,144)	(6,152)	-	(343,296)
Utility deposits collected	70,488	-	-	70,488
Net cash used in capital and financing activities	<u>(2,494,192)</u>	<u>(137,097)</u>	<u>-</u>	<u>(2,631,289)</u>
<b>Investing Activities</b>				
Interest on investments	9,588	-	94	9,682
Proceeds from other nonoperating revenue	-	17,653	-	17,653
Net cash provided by investing activities	<u>9,588</u>	<u>17,653</u>	<u>94</u>	<u>27,335</u>
<b>Increase in Cash and Cash Equivalents</b>	1,767,853	-	10,567	1,778,420
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>20,353,802</u>	<u>190</u>	<u>192,709</u>	<u>20,546,701</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 22,121,655</u>	<u>\$ 190</u>	<u>\$ 203,276</u>	<u>\$ 22,325,121</u>
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</b>				
Operating income	\$ 3,801,324	\$ 677	\$ 32,719	\$ 3,834,720
Item not requiring cash Depreciation	1,855,745	68,990	77,681	2,002,416
Changes in Accounts receivable	17,199	1,314	15,745	34,258
Inventories	-	52,840	-	52,840
Accounts payable	11,093	(15,145)	128,152	124,100
Accrued expenses	34,059	10,768	(30,824)	14,003
Net cash provided by operating activities	<u>\$ 5,719,420</u>	<u>\$ 119,444</u>	<u>\$ 223,473</u>	<u>\$ 6,062,337</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**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, 2014**

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 not properly included among program revenues are reported instead as general revenues.

***Fund Financial Statements***

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

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

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

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

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

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

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

***Measurement Focus***

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

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

**City of Lancaster, Texas**  
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Governmental Fund financial statements are reported using the current financial resources measurement focus, which means only current assets and current liabilities are generally included on their balance sheets.

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

***Basis of Accounting***

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

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

Governmental Fund financial statements are reported using the modified accrual basis for accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; *i.e.*, when they become both measurable and available. Ad valorem, franchise and sales tax revenues recorded in the General Fund are considered to be susceptible to accrual. Licenses and permits, charges for services (except for sanitation services), fines and forfeits and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings and intergovernmental revenue are recorded as earned since they are measurable and available.

***Cash Flows Statement***

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

***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, 2014, were \$714,340 for uncollectible taxes, \$1,864,929 for water and sewer billings, \$319,793 for court fees and fines and \$294,654 for ambulance fees.

***Inventory***

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

***Prepaid Items***

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

***Interfund Receivables and Payables***

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

***Transactions Between Funds***

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**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 \$3,000 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

**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 government only has one item that qualifies for reporting in this category, the deferred loss on refunding, reported in the government-wide and proprietary fund statement of net position. 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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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. In the General Fund, deferred inflows of resources consist of unavailable revenues related to delinquent property taxes receivable of \$465,547, delinquent courts receivable of \$454,743, and delinquent ambulance receivable of \$145,416. In the General Obligation Debt Service Fund, deferred inflows of resources consist of \$9,746,950 related to the note receivable from the discretely presented component units that is considered unavailable and unavailable revenues related to delinquent property taxes receivable of \$181,398. Deferred inflows of \$5,373, related to unavailable revenues related to delinquent property taxes receivable are reported on the Public Improvement Districts Fund. Deferred inflows of \$20,175 related to unavailable revenues related to recreational fees are reported on the Lancaster Recreation Development Corporation.

***Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts***

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

The liability for unused vested vacation leave as of September 30, 2014, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the Proprietary Funds. The amount to be paid from current available financial resources is not considered significant.

**Note 2: Cash and Investments**

At year-end, the carrying amount of the City's bank deposits was \$1,991,525 (composed of \$1,970,592 related to the primary government and \$20,933 related to discretely presented component units) and the bank balances were \$2,066,554. The bank balances on September 30, 2014, were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and municipal pools. During the year ended September 30, 2014, the City did not own any types of securities other than those permitted by the statute.

The government 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.

**City of Lancaster, Texas**  
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State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

During the year ended September 30, 2014, the City invested in TexPool and LOGIC funds. TexPool and LOGIC are investment funds authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool and LOGIC operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and LOGIC use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool and LOGIC is the same as the market value of TexPool and LOGIC shares. TexPool and LOGIC are rated as an AAA money market fund by Standard and Poor's and Moody's.

***Interest Rate Risk***

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

***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**  
**Notes to Basic Financial Statements**  
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Investments at year-end are shown below:

	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Weighted- Average Maturity (Years)</b>
<b>Primary Government</b>			
TexPool	\$ 23,387,426	\$ 23,387,426	0.003
LOGIC	12,891,130	12,891,130	0.003
Total primary government	<u>36,278,556</u>	<u>36,278,556</u>	
<b>Component Units</b>			
TexPool	2,956,932	2,956,932	0.003
LOGIC	1,629,859	1,629,859	0.003
Total component units	<u>4,586,791</u>	<u>4,586,791</u>	
Total	<u>\$ 40,865,347</u>	<u>\$ 40,865,347</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, 2014, were 97.85% 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. 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, 2014, 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**

At September 30, 2014, interfund balances and transactions, excluding discretely presented component units were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 1,751,362	\$ 85,399
General Obligation Debt Service Fund	56,000	-
Nonmajor Governmental Funds	-	42,000
Water and Sewer Fund	-	1,466,963
Nonmajor Enterprise Funds	-	213,000
	\$ 1,807,362	\$ 1,807,362

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**  
**September 30, 2014**

**Note 5: Fixed Assets**

**Governmental Funds**

Capital assets of the Governmental Activities are as follows:

	Balance September 30, 2013	Increases	Transfers	Balance September 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 13,214,268	\$ -	\$ -	\$ 13,214,268
Construction in progress	18,412,625	1,258,506	(274,387)	19,396,744
		-	-	
Total capital assets not being depreciated	<u>31,626,893</u>	<u>1,258,506</u>	<u>(274,387)</u>	<u>32,611,012</u>
Capital assets being depreciated				
Buildings	24,487,196	-	-	24,487,196
Infrastructure and improvements	95,603,292	190,873	274,387	96,068,552
Equipment and furniture	16,633,597	488,747	-	17,122,344
Total capital assets being depreciated	136,724,085	679,620	274,387	137,678,092
Less accumulated depreciation	<u>61,135,606</u>	<u>4,482,089</u>	<u>-</u>	<u>65,617,695</u>
Total capital assets being depreciated, net	<u>75,588,479</u>	<u>(3,802,469)</u>	<u>274,387</u>	<u>72,060,397</u>
Governmental activities capital assets, net	<u>\$ 107,215,372</u>	<u>\$ (2,543,963)</u>	<u>\$ -</u>	<u>\$ 104,671,409</u>

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

General and administrative	\$ 588,658
Public safety	1,246,160
Public works	2,479,960
Community development and recreation	167,311
	<u>167,311</u>
Total depreciation expense – governmental activities	<u>\$ 4,482,089</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Enterprise Funds**

Capital assets of the Enterprise Funds are as follows:

	Balance September 30, 2013	Increases	Decreases	Balance September 30, 2014
<b>Business-type Activities</b>				
Capital assets not being depreciated		-		
Land	\$ 4,879,781	\$ 91,485	\$ -	\$ 4,971,266
Construction in progress	<u>8,480,489</u>	<u>(8,480,489)</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>13,360,270</u>	<u>(8,389,004)</u>	<u>-</u>	<u>4,971,266</u>
Capital assets being depreciated		-		
Plants and buildings	4,950,436	-	-	4,950,436
Other improvements	56,339,591	9,399,783	-	65,739,374
Runways and taxiways	3,422,564	-	-	3,422,564
Other structures	951,622	-	-	951,622
Machinery and equipment	<u>2,803,307</u>	<u>8,755</u>	<u>-</u>	<u>2,812,062</u>
Total capital assets being depreciated	68,467,520	9,408,538	-	77,876,058
Less accumulated depreciation	<u>34,602,214</u>	<u>2,002,416</u>	<u>-</u>	<u>36,604,630</u>
Total capital assets being depreciated, net	<u>33,865,306</u>	<u>7,406,122</u>	<u>-</u>	<u>41,271,428</u>
Business-type activities capital assets, net	<u>\$ 47,225,576</u>	<u>\$ (982,882)</u>	<u>\$ -</u>	<u>\$ 46,242,694</u>

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

Water and sewer	\$ 1,855,745
Airport	68,990
Golf	<u>77,681</u>
Total depreciation expense – business-type activities	<u>\$ 2,002,416</u>

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

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

	<b>Balance September 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2014</b>
Lancaster Economic Development Corporation Capital assets not being depreciated				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	<b>Balance September 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2014</b>
Lancaster Recreational Development Corporation Capital assets not being depreciated				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	<u>449,124</u>	<u>-</u>	<u>-</u>	<u>449,124</u>
Total capital assets being depreciated	20,212,293	-	-	20,212,293
Less accumulated depreciation	<u>9,737,734</u>	<u>401,582</u>	<u>-</u>	<u>10,139,316</u>
Total capital assets being depreciated, net	<u>10,474,559</u>	<u>(401,582)</u>	<u>-</u>	<u>10,072,977</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 11,463,677</u>	<u>\$ (401,582)</u>	<u>\$ -</u>	<u>\$ 11,062,095</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, 2013	Additions	Retirements	Balance September 30, 2014	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 49,790,000	\$ -	\$ (1,475,000)	\$ 48,315,000	\$ 1,545,000
Certificates of obligation	21,580,000	-	(620,000)	20,960,000	695,000
Notes payable	5,690,060	-	(448,548)	5,241,512	875,452
Premiums on bond debt	1,399,885	-	(139,565)	1,260,320	-
Compensated absences	2,417,543	650,035	(628,942)	2,438,636	243,864
OPEB liability	121,734	8,990	-	130,724	-
Capital leases	385,543	-	(71,357)	314,186	118,837
Total governmental activities	<u>\$ 81,384,765</u>	<u>\$ 659,025</u>	<u>\$ (3,383,412)</u>	<u>\$ 78,660,378</u>	<u>\$ 3,478,153</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 4,030,000	\$ -	\$ (695,000)	\$ 3,335,000	\$ 730,000
Notes payable	37,998	-	(20,295)	17,703	17,703
Certificates of obligation	8,915,000	-	(525,000)	8,390,000	395,000
Premiums on bond debt	174,982	-	(28,416)	146,566	-
Compensated absences	63,383	50,092	(43,786)	69,689	7,331
Total business-type activities	<u>\$ 13,221,363</u>	<u>\$ 50,092</u>	<u>\$ (1,312,497)</u>	<u>\$ 11,958,958</u>	<u>\$ 1,150,034</u>
<b>Discretely Presented</b>					
<b>Component units</b>					
Notes payable to primary government	<u>\$ 10,560,000</u>	<u>\$ -</u>	<u>\$ (813,050)</u>	<u>9,746,950</u>	<u>\$ 595,000</u>
Total discretely presented component units	<u>\$ 10,560,000</u>	<u>\$ -</u>	<u>\$ (813,050)</u>	<u>\$ 9,746,950</u>	<u>\$ 595,000</u>

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

**City of Lancaster, Texas**  
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**September 30, 2014**

General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2014, consist of the following:

	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>
<b><u>General Obligation Bonds</u></b>				
\$24,300,000, 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% – 5.00%	\$ 16,115,000	\$ 2,895,000	\$ 30,000	\$ 19,040,000
\$22,995,000, 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	21,520,000	-	-	21,520,000
\$12,240,000, 2012 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 2.00% – 5.00%	<u>10,680,000</u>	<u>340,000</u>	<u>70,000</u>	<u>11,090,000</u>
	<u>\$ 48,315,000</u>	<u>\$ 3,235,000</u>	<u>\$ 100,000</u>	<u>\$ 51,650,000</u>
<b><u>Certificates of Obligation</u></b>				
\$14,565,000, 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% – 4.375%	\$ 9,725,000	\$ 1,670,000	\$ -	\$ 11,395,000
\$12,000,000, 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	11,235,000	-	-	11,235,000
\$7,585,000, 2011 Certificate of Obligation Bonds, due in annual installments through August 15, 2031, 2.00% – 3.50%	<u>-</u>	<u>6,720,000</u>	<u>-</u>	<u>6,720,000</u>
	<u>\$ 20,960,000</u>	<u>\$ 8,390,000</u>	<u>\$ -</u>	<u>\$ 29,350,000</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

<u>Note Payable</u>	<u>Governmental Activities</u>	<u>Airport</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
\$11,650,000 note payable, due in annual installments through February 15, 2024; 3.00% – 4.50%	\$ -	\$ -	\$ -	\$ 7,695,000
\$3,035,000 note payable, due in annual installments through February 15, 2027; 4.00% – 4.375%	-	-	-	2,051,950
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	17,703	17,703	-
\$5,690,000 note payable, due in annual installments beginning October 2013 through October 2022; 7.00%	<u>5,241,512</u>	<u>-</u>	<u>5,241,512</u>	<u>-</u>
	<u>\$ 5,241,512</u>	<u>\$ 17,703</u>	<u>\$ 5,259,215</u>	<u>\$ 9,746,950</u>
 <b><u>Capital Leases</u></b>				
\$500,000 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	\$ 23,662	\$ -	\$ 23,662	\$ -
\$265,987 Lease Purchase Agreement due in annual installments through September 30, 2015; 5.00%	131,737	-	131,737	-
\$366,345 Lease Purchase Agreement due in monthly installments through November 4, 2016; 2.15%	<u>158,787</u>	<u>-</u>	<u>158,787</u>	<u>-</u>
	<u>\$ 314,186</u>	<u>\$ -</u>	<u>\$ 314,186</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, 2014, property and equipment under capital leases is carried at \$1,026,117, with \$725,815 in accumulated depreciation.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

The annual requirements to amortize the long-term debt as of September 30, 2014, are as follows:

<b>General Obligation Bonds</b>						
<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 1,545,000	\$ 2,449,263	\$ 3,994,263	\$ 730,000	\$ 144,750	\$ 874,750
2016	1,665,000	2,393,577	4,058,577	775,000	108,475	883,475
2017	1,795,000	2,325,528	4,120,528	770,000	70,025	840,025
2018	2,220,000	2,242,615	4,462,615	815,000	30,975	845,975
2019	2,380,000	2,148,593	4,528,593	35,000	10,300	45,300
2020 – 2024	13,755,000	8,905,102	22,660,102	210,000	23,400	233,400
2025 – 2029	9,205,000	6,054,992	15,259,992	-	-	-
2030 – 2034	8,610,000	3,399,467	12,009,467	-	-	-
2035 – 2039	5,820,000	1,413,311	7,233,311	-	-	-
2040	1,320,000	43,085	1,363,085	-	-	-
<b>Total</b>	<b>\$ 48,315,000</b>	<b>\$ 31,375,533</b>	<b>\$ 79,690,533</b>	<b>\$ 3,335,000</b>	<b>\$ 387,925</b>	<b>\$ 3,722,925</b>

<b>Certificates of Obligation</b>						
<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 695,000	\$ 1,087,187	\$ 1,782,187	\$ 395,000	\$ 253,463	\$ 648,463
2016	715,000	1,059,630	1,774,630	405,000	243,463	648,463
2017	740,000	1,030,099	1,770,099	420,000	233,163	653,163
2018	770,000	998,318	1,768,318	430,000	222,563	652,563
2019	800,000	964,419	1,764,419	445,000	211,663	656,663
2020 – 2024	4,495,000	4,228,864	8,723,864	2,510,000	865,422	3,375,422
2025 – 2029	4,970,000	3,023,424	7,993,424	2,730,000	430,844	3,160,844
2030 – 2034	4,035,000	1,746,994	5,781,994	1,055,000	55,181.00	1,110,181.00
2035 – 2039	3,050,000	739,296	3,789,296	-	-	-
2040	690,000	22,522	712,522	-	-	-
<b>Total</b>	<b>\$ 20,960,000</b>	<b>\$ 14,900,753</b>	<b>\$ 35,860,753</b>	<b>\$ 8,390,000</b>	<b>\$ 2,515,762</b>	<b>\$ 10,905,762</b>

<b>Note Payable</b>						
<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 875,452	\$ 338,630	\$ 1,214,082	\$ 17,703	\$ 97	\$ 17,800
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 – 2022	2,126,055	304,355	2,430,410	-	-	-
<b>Total</b>	<b>\$ 5,241,512</b>	<b>\$ 1,643,524</b>	<b>\$ 6,885,036</b>	<b>\$ 17,703</b>	<b>\$ 97</b>	<b>\$ 17,800</b>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

<b>Note Payable</b>			
<b>Fiscal Year</b>	<b>Discretely Presented Component Units</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 595,000	\$ 365,050	\$ 960,050
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 – 2024	5,050,000	696,772	5,746,772
2025 – 2027	<u>1,146,950</u>	<u>43,203</u>	<u>1,190,153</u>
Total	<u>\$ 9,746,950</u>	<u>\$ 2,363,300</u>	<u>\$ 12,110,250</u>

<b>Capital Leases</b>			
<b>Fiscal Year</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 238,009	\$ 3,336	\$ 241,345
2016	<u>76,177</u>	<u>1,166</u>	<u>77,343</u>
Total	<u>\$ 314,186</u>	<u>\$ 4,502</u>	<u>\$ 318,688</u>

**Note 7: Retirement Plan**

***Plan Description***

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS.

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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,	
	2014	2013
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

**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 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, 2014).

**Annual Pension Cost**

Contributions by the City were \$1,936,570 or 15.65% of the covered payroll of \$12,377,458 as required by the actuarial valuation.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

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

	<b>December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b><u>Actuarial Information</u></b>			
Actuarial cost method	Entry Age Normal	Project Unit Credit	Project Unit Credit
Amortization method	Level %	Level %	Level %
Amortization period	30.0 years-closed period	25.2 years-closed period	26.0 years-closed period
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Assumption			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost of living adjustment	1.5%	1.5%	1.5%
City specific assumptions			
Payroll growth assumption	3.00%	3.00%	3.00%
Withdrawal rates for male/female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High
<b><u>Schedule of Funding Information</u></b>			
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Actuarial value of assets	\$ 52,868,495	\$ 49,578,237	\$ 46,173,703
Actuarial accrued liability	\$ 66,392,037	\$ 60,064,046	\$ 57,355,776
Unfunded (over funded) Actuarial Accrued Liability (UAAL)	\$ 13,523,542	\$ 10,485,809	\$ 11,182,073
Funded ratio	79.6%	82.5%	80.5%
Annual covered payroll	\$ 12,377,458	\$ 12,440,548	\$ 12,581,296
UAAL as a percentage of covered payroll	109.3%	84.3%	88.9%

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

The City's net pension obligation (NPO) for TMRS at December 31, 2013, 2012 and 2011, is calculated as follows:

Actuarial valuation date	December 31,		
	2013	2012	2011
NPO, beginning of year	\$ -	\$ -	\$ -
Annual pension cost	1,936,570	1,892,993	1,952,302
Annual required contribution (ARC)	(1,936,570)	(1,892,993)	(1,952,302)
Contributions made	<u>-</u>	<u>-</u>	<u>-</u>
NPO, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Supplemental Death Benefit Fund**

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

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2014, 2013 and 2012, were \$19,176, \$18,072 and \$12,185, respectively, which equaled the required contributions each year.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**Note 8: Other Post-employment Benefits**

***Plan Description***

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

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

***Benefits Provided***

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

1. The retiree must have been covered for medical benefits under the City Health Plan as an employee immediately prior to termination of employment.
2. Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

As of September 30, 2014, membership consisted of:

Retirees and beneficiaries receiving benefits	13
Active employees	<u>204</u>
Total	<u><u>217</u></u>

***Funding Policy***

The plan’s premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

**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, 2014, 2013 and 2012:

	<b>September 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Annual required contribution	\$ 82,341	\$ 79,943	\$ 115,634
Interest on prior year net OPEB obligation	5,478	20,509	3,785
Adjustment to annual required contribution	<u>(5,075)</u>	<u>(4,586)</u>	<u>(3,507)</u>
Annual OPEB cost	82,744	95,866	115,912
Contributions made	<u>(73,754)</u>	<u>(68,578)</u>	<u>(68,557)</u>
Increase in net OPEB obligation	8,990	27,288	47,355
Net obligation, beginning of year	<u>121,734</u>	<u>94,446</u>	<u>47,091</u>
Net obligation, end of year	<u>\$ 130,724</u>	<u>\$ 121,734</u>	<u>\$ 94,446</u>
Percentage of OPEB costs contributed	89.1%	71.5%	59.1%

**Funded Status and Funding Progress**

The funded status of the plan as of actuarial measurement date of December 31, 2013, was as follows:

Actuarial accrued liability	\$ 886,344
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 886,344</u>
Funded ratio	0.00%
Covered payroll	\$ 12,581,296
Unfunded actuarial accrued liability as a percentage of covered payroll	7.0%

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

***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, 2013, 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: 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 that they will materially affect the City's operations or financial position. The amount of ultimate loss, if any, could differ materially.

**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, 2014, was \$4,447,932, for the Ten Mile Creek Regional Wastewater System and \$94,104, 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, 2014.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2014**

***Federal and State Programs***

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2014, 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.

## **Required Supplementary Information**

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Funding Progress for Participation in Texas**  
**Municipal Retirement System**  
**September 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	[1]	[2]	[3] [1]/[2]	[4] [2]-[1]	[5]	[6] [4]/[5]
12/31/2008	\$ 26,431,828	\$ 42,814,837	61.7%	\$ 16,383,009	\$ 14,507,867	112.9%
12/31/2009	\$ 29,362,600	\$ 45,558,535	64.5%	\$ 16,195,935	\$ 13,887,238	116.6%
12/31/2010	\$ 43,023,260	\$ 58,639,756	73.4%	\$ 15,616,496	\$ 13,835,321	112.9%
12/31/2011	\$ 46,173,703	\$ 57,355,776	80.5%	\$ 11,182,073	\$ 12,581,296	88.9%
12/31/2012	\$ 49,578,237	\$ 60,064,046	82.5%	\$ 10,485,809	\$ 12,440,548	84.3%
12/31/2013	\$ 52,868,495	\$ 66,392,037	79.6%	\$ 13,523,542	\$ 12,377,458	109.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The December 31, 2013, actuarial valuation included three actuarial changes adopted by the TMRS Board of Trustees in accordance with the current strategic goal to “maintain the actuarial soundness of the retirement program by examining actuarial assumptions and methodologies and making changes where appropriate.”

The first was regarding post-retirement mortality assumptions. The mortality tables used in calculating the Annuity Purchase Rate (APR) were updated. This was necessary due to increasing life expectancies. The second was a change to the Entry Age Normal Actuarial Cost Method (EAN). The EAN cost method produces contribution rates that are more predictable and that exhibit less volatility than those produced under the method previously used, Projected Unit Method (PUC). Even though the EAN cost method will result in higher initial Actuarial Accrued Liabilities and lower funded ratios than under the previous PUC method, a primary goal of TMRS is to minimize contribution volatility. A change to the EAN cost method for funding purposes is another step toward accomplishing this policy. A secondary reason for changing to the EAN cost method is that, beginning in 2014, under Governmental Accounting Standards (GASB) Statement No. 67 and No. 68, EAN is the required actuarial cost method to be used for reporting purposes. The third change was regarding the amortization policy. In order to minimize the impact on contribution rates resulting from the changes in the retiree mortality assumptions and the actuarial cost method, individual employer amortization periods were adjusted to the extent necessary and allowable under current TMRS statutes and Board rules. The Board also elected to close the amortization period for all employers and to ladder the amortization of future liabilities over the respective 25 or 30 year amortization period.

A more detailed discussion of all these actuarial assumption can be found in the TMRS comprehensive annual financial report. This report may be obtained from TMRS’ website at [www.TMRS.org](http://www.TMRS.org).

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Employees' Other Post-employment Benefits Plan**  
**Analysis of Funding Progress**  
**(Unaudited)**  
**September 30, 2014**

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] [1]/[2]	[4] [2]-[1]	[5]	[6] [4]/[5]
2008	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 14,507,867	3.4%
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%

**City of Lancaster, Texas**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2014**

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes and fees	\$ 15,811,326	\$ 15,246,376	\$ 15,632,121	\$ 385,745
Licenses and permits	602,308	602,308	681,212	78,904
Intergovernmental	213,000	213,000	147,090	(65,910)
Charges for services	659,850	659,850	881,346	221,496
Fines and forfeits	690,500	690,500	798,272	107,772
Interest	4,000	4,000	1,807	(2,193)
Miscellaneous	80,650	80,650	254,112	173,462
<b>Total revenues</b>	<b>18,061,634</b>	<b>17,496,684</b>	<b>18,395,960</b>	<b>899,276</b>
<b>Expenditures</b>				
Current				
General government	3,686,203	3,686,203	3,437,170	249,033
Public safety	12,870,813	12,870,813	13,589,450	(718,637)
Public works	416,402	416,402	1,471,110	(1,054,708)
Community development and recreation	823,967	823,967	843,176	(19,209)
Capital outlay	1,787,558	1,787,558	734,429	1,053,129
Debt service				
Principal retirement	-	-	448,548	(448,548)
Interest and fiscal charges	-	-	128,156	(128,156)
<b>Total expenditures</b>	<b>19,584,943</b>	<b>19,584,943</b>	<b>20,652,039</b>	<b>(1,067,096)</b>
Excess (deficiency) of revenues over (under) expenditures	(1,523,309)	(2,088,259)	(2,256,079)	(167,820)
Other financing sources (uses)				
Operating transfers in	1,736,903	1,736,903	1,751,362	14,459
Operating transfers out	(200,000)	(200,000)	(85,399)	114,601
<b>Total other financing sources (uses)</b>	<b>1,536,903</b>	<b>1,536,903</b>	<b>1,665,963</b>	<b>129,060</b>
<b>Net Change in Fund Balances</b>	<b>13,594</b>	<b>(551,356)</b>	<b>(590,116)</b>	<b>(38,760)</b>
<b>Fund Balance, Beginning of Year</b>	<b>6,447,889</b>	<b>6,447,889</b>	<b>6,447,889</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b>\$ 6,461,483</b>	<b>\$ 5,896,533</b>	<b>\$ 5,857,773</b>	<b>\$ (38,760)</b>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**Stormwater Drainage Fund**  
**For the Year Ended September 30, 2014**

	<u>Budgeted Amounts</u>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes and fees	\$ 1,300,000	\$ 1,300,000	\$ 1,377,575	\$ 77,575
Interest	-	-	305	305
	<u>1,300,000</u>	<u>1,300,000</u>	<u>1,377,880</u>	<u>77,880</u>
Total revenues				
<b>Expenditures</b>				
Current				
Public works	1,104,074	1,104,074	975,257	128,817
Debt service				
Principal retirement	30,000	30,000	30,000	-
Interest and fiscal charges	20,913	20,913	20,913	-
	<u>1,154,987</u>	<u>1,154,987</u>	<u>1,026,170</u>	<u>128,817</u>
Total expenditures				
Excess of revenues over expenditures	<u>145,013</u>	<u>145,013</u>	<u>351,710</u>	<u>206,697</u>
Other financing uses				
Operating transfers out	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Total other financing sources	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	103,013	103,013	309,710	206,697
<b>Fund Balance, Beginning of Year</b>	<u>1,088,881</u>	<u>1,088,881</u>	<u>1,088,881</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,191,894</u>	<u>\$ 1,191,894</u>	<u>\$ 1,398,591</u>	<u>\$ 206,697</u>

**City of Lancaster, Texas**  
**Notes to Required Supplementary Information**  
**September 30, 2014**

***Budgets and Budgetary Accounting***

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

An operating budget for the General Fund and Stormwater Drainage 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.

**APPENDIX C**

FORMS OF BOND COUNSEL'S OPINIONS

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FORM OF BOND COUNSEL'S OPINION - GOs

\_\_\_\_\_, 2015

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 AND IMPROVEMENT BONDS, SERIES 2015, dated July 15, 2015, in the aggregate principal amount of \$22,530,000, maturing on February 15 in the years 2016 through and including. 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,

FORM OF BOND COUNSEL'S OPINION - COs

\_\_\_\_\_, 2015

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 "*Certificates*") described as follows:

CITY OF LANCASTER, TEXAS TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2015, dated July 15, 2015, in the aggregate principal amount of \$4,080,000, maturing on February 15 in the years 2016 through and including 2035. The Certificates 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 Certificates 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 Certificates 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 Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; 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 Certificates. We have also examined executed Certificate No. I-1.

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 Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates 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 Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates 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 Certificates 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 Certificates have been authorized and delivered in accordance with law;

(2) The Certificates 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 Certificates; and

(3) The revenues to be derived from the operation of the City's combined waterworks and sewer system, after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), are pledged to the payment of the principal of and interest on the Certificates; provided, however, that such pledge is limited (not to exceed \$1,000) and subordinate in all respects to the pledge of Net Revenues to the payment of any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of Net Revenues to the payment of the Certificates.

The City has reserved the right to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of net revenues securing the Certificates.

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

Respectfully submitted,

**APPENDIX D**

FORMS OF SPECIAL TAX COUNSEL'S OPINIONS

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August 27, 2015

WE HAVE ACTED as Special Tax Counsel in connection with issuance by the City of Lancaster, Texas (the "City") of its Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2015, in the aggregate original principal amount of \$4,080,000 (the "Certificates"), with a dated date of July 15, 2015 and in connection with the issuance by the City of its General Obligation Refunding and Improvement Bonds, Series 2015, in the aggregate original principal amount of \$22,530,000 (the "Bonds," and together with the Certificates, the "Obligations"), with a dated date of July 15, 2015.

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 Obligations 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 Certificates and the Ordinance authorizing the issuance of the Bonds (together, the "Ordinances"); a transcript of certain certified proceedings of the City Council of the City pertaining to the issuance of the Obligations; certain certifications and representations concerning the use of proceeds of the Obligations, 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 Obligations 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 Obligations and certain United States Treasury and Agency securities allocated to proceeds of the Obligations; and certain other customary documents and instruments authorizing and relating to the issuance of the Obligations, 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 Obligations.

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 Obligations (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 Obligations 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 Obligations. Ownership of tax-exempt obligations such as the Obligations 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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