

OFFICIAL STATEMENT

Dated September 23, 2002

Ratings:  
Moody's: "Aaa"  
S&P: "AAA"  
(Financial Guaranty Insured, see  
"Municipal Bond Insurance" and  
"Other Information - Ratings"  
herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Exemption" herein, including the alternative minimum tax on corporations.

THE BONDS HAVE NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$14,200,000  
CITY OF LANCASTER, TEXAS  
(Dallas County)  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2002

Dated Date: September 15, 2002

Due: February 15, as shown below

**PAYMENT TERMS** . . . Interest on the \$14,200,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2002 (the "Bonds") will accrue from September 15, 2002 (the "Dated Date"), will be payable February 15 and August 15 of each year commencing February 15, 2003, 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. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is JPMorgan Chase Bank, Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Texas Government Code, Chapters 1207, as amended, and are direct obligations of the City of Lancaster, Texas (the "City"), payable from a continuing 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 "Ordinance") (see "The Bonds - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to restructure the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds.



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Bonds.

**MATURITY SCHEDULE**

Amount	Maturity	Rate	Yield	Amount	Maturity	Rate	Yield
\$ 455,000	2007	3.00%	2.61%	\$ 750,000	2016	4.10%	4.18%
465,000	2008	3.00%	2.93%	930,000	2017	4.15%	4.27%
480,000	2009	3.10%	3.16%	975,000	2018	4.25%	4.37%
495,000	2010	3.30%	3.38%	1,020,000	2019	4.35%	4.47%
515,000	2011	3.45%	3.49%	1,065,000	2020	4.45%	4.59%
530,000	2012	3.50%	3.61%	1,110,000	2021	4.60%	4.67%
560,000	2013	3.65%	3.74%	1,165,000	2022	4.50%	4.76%
585,000	2014	3.80%	3.90%	1,225,000	2023	4.50%	4.85%
605,000	2015	3.90%	4.03%	1,270,000	2024	4.50%	4.88%

(Accrued Interest from September 15, 2002 to be added)

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2013, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2012, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Dallas, Texas, Counsel for the Underwriters.

**DELIVERY**. . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on October 29, 2002.

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

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

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

*The 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.*

**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 OVERALLOT 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.**

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## OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Lancaster is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City covers approximately 29 square miles (see "Introduction - Description of City").
- THE BONDS**..... The \$14,200,000 General Obligation Refunding Bonds, Series 2002 are to mature on February 15, 2007 through February 15, 2024 (see "The Bonds -Description of the Bonds").
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from September 15, 2002, and is payable February 15, 2003, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds," "The Bonds - Optional Redemption").
- AUTHORITY FOR ISSUANCE** ..... The Bonds are issued pursuant to the general laws of the State, including particularly Chapters 1207, Texas Government Code, as amended, and the Ordinance passed by the City Council of the City (see "The Bonds - Authority for Issuance").
- SECURITY FOR THE BONDS**..... The Bonds constitute direct obligations of the City, payable from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "The Bonds - Security and Source of Payment").
- REDEMPTION** ..... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2013, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2012, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").
- TAX EXEMPTION** ..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein, including the alternative minimum tax on corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to restructure the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds.
- RATINGS** ..... The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, A Division of the McGraw-Hill Companies, Inc. ("S&P") through an insurance policy to be issued by Financial Guaranty Insurance Company. The uninsured tax supported debt of the City is rated "A2" by Moody's and "A" by S&P. The City also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies (see "Other Information - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds(see "The Bonds- Book-Entry-Only System").
- PAYMENT RECORD** ..... The City has never defaulted on the payment of its tax supported indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
1998	23,300	\$ 724,493,031	\$ 31,094	\$ 24,715,000	\$ 1,061	3.41%	101.98%
1999	24,300	776,974,205	31,974	22,125,000	910	2.85%	99.61%
2000	25,894	829,500,006	32,034	30,940,000	1,195	3.73%	99.38%
2001	26,350	874,096,594	33,173	28,720,000	1,090	3.29%	98.81%
2002	26,400	983,112,539	37,239	26,450,000	1,002	2.69%	102.01% <sup>(3)</sup>
2003	26,796	1,027,361,750	38,340	27,070,000 <sup>(2)</sup>	1,010	2.63%	NA

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

(2) Projected; includes the Bonds, excludes the Refunded Bonds. Includes self-supporting debt. See Tables 1 and 10 herein and the footnotes related thereto.

(3) Collections for part year only, through August 1, 2002.

For additional information regarding the City, please contact:

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 Maria Joyner  
 City of Lancaster  
 211 North Henry Street  
 Lancaster, Texas 75146  
 (972) 218-1110

or

David K. Medanich  
 Laura Alexander  
 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>
Joe Tillotson Mayor	4 Years	May, 2004	Small Business Owner
James O'Neal Mayor Pro Tem, District 2	5 Years	May, 2004	Small Business Owner
Carol Strain-Burk Councilmember, District 1	3 Years	May, 2003	Consultant
Susan Anderson Councilmember, District 3	4 Years	May, 2003	Pharmaceuticals
Tim Speaks Councilmember, District 4	2 Years	May, 2004	Builder
Steve Sanderfer Councilmember, District 5	5 Years	May, 2003	Attorney
Kimberly Lankford Councilmember, District 6	Newly Elected	May, 2004	Consultant

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>
Denny Wheat	Interim City Manager	1 Year, 3 Months
James S. Landon <sup>(1)</sup>	Assistant City Manager	9 Months
Maria Joyner	Director of Finance	6 1/2 Years
Ashley Mitchell	City Secretary	1 Year, 3 Months
Bob Hager	City Attorney	25 Years

(1) Will assume duties of City Manager effective October 1, 2002.

**CONSULTANTS AND ADVISORS**

Certified Public Accountants.....Weaver & Tidwell L.L.P.  
Dallas, Texas

Bond Counsel ..... Fulbright & Jaworski L.L.P.  
Dallas, Texas

Financial Advisor ..... First Southwest Company  
Fort Worth, Texas

## OFFICIAL STATEMENT

### RELATING TO

**\$14,200,000  
CITY OF LANCASTER, TEXAS  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2002**

### INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$14,200,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2002 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, 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 seven Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the four Councilmembers expiring in odd-numbered years. 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, traffic and transportation, water distribution, sewer treatment, sanitation, health, recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 25,894, while the estimated 2002 population is 26,400. The City covers approximately 10.9 square miles.

### PLAN OF FINANCING

**PURPOSE . . . .** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt described in Schedule I (the "Refunded Bonds") to restructure the debt service requirements on such indebtedness and (ii) to pay the costs associated with the issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Bonds and their respective call dates at par.

**REFUNDED BONDS . . .** The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Trust Company of Florida, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds 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 direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "Other Information - Verification of Arithmetical and Mathematical Computations").

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

The City has covenanted in the Escrow Agreement 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 Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Principal Amount of Bonds	\$ 14,200,000.00
Accrued Interest	70,852.52
Total Sources of Funds	<u>\$ 14,270,852.52</u>
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 13,696,350.66
Deposit to Interest and Sinking Fund	70,852.52
Original Issue Discount	247,908.45
Costs of Issuance <sup>(1)</sup>	<u>255,740.89</u>
Total Uses of Funds	<u>\$ 14,270,852.52</u>

(1) Includes the Underwriter's Discount and Bond Insurance Premium.

### THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated September 15, 2002 and mature on February 15 in each of the years and in the amounts and bear interest at per annum rates as shown on the cover page. Interest 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, commencing February 15, 2003. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of 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 "Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly V.T.C.A. Government Code, Chapters 1207, as amended, and the Ordinance passed by the City Council.

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

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax within the limits prescribed by law sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5 of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. However, the Home Rule Charter of the City limits its tax rate to \$1.50 per \$100 Assessed Valuation for all City purposes. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection. The issuance of the Bonds does not violate this constitutional provision, the City's Home Rule Charter, or the Texas Attorney General's administrative policy.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2013, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2012, or any date thereafter, at the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION.** . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds 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 NOTWITHSTANDING ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE. If any Bond (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and, if monies for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE . . .** The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that " Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Government Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

**AMENDMENTS . . .** The City may amend the Ordinance without the consent of or notice to any registered owner 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 the holder of a majority of aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of the Bonds affected, no such amendment, addition or rescission may (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, 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, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85

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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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).

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on 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, Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and *disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.*

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

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

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

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

**Effect of Termination of Book-Entry Only System.** In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the City, printed securities certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance, summarized under "The Bonds - Transfer, Exchange and Registration" below.

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

Interest on the Bonds 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 (defined below), 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 requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, 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.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the holders and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates 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 may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds 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 Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

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 ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond to be paid on the Special Payment Date that appears 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.

**BONDHOLDERS' REMEDIES . . .** The Ordinance does not establish or identify specific events of default with respect to such Bonds. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner could presumably obtain a judgment against the City if a default occurred in the payment of the principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of such Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds, as the case may be, are qualified with respect to the customary rights of debtors relative to their creditors.

## BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Bonds described in the Policy (as used under the heading, the "Bonds"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.01 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

## 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 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 market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised 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 three 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 V.T.C.A., 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: (1) 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; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$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.

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.

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 Section 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. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. 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.

**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 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. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or 103 per cent of the effective tax rate until a public hearing is held on the *proposed tax rate* following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

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

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of 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. 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 15.

**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 increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is 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.

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 Dallas County 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 tax freeport property.

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

The City has adopted a tax abatement policy and currently grants abatements to four companies for 50% and one company at 100% of the value of improvements for periods ranging from 5 to 10 years.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2002/03 Market Valuation Established by Dallas Central Appraisal District		\$ 1,151,914,320
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 36,880,958	
Disabled Veterans Exemptions	1,559,288	
Totally Exempt Property	36,444,920	
Tax Abatement Reductions	8,659,720	
Capped Value Loss	9,757,108	
Pollution Control Exemption	438,071	
Agricultural and Other Exemptions	<u>30,812,505</u>	<u>124,552,570</u>
2002/03 Taxable Assessed Valuation		\$ 1,027,361,750
City Funded Debt Payable from Ad Valorem Taxes (as of 8/1/02) <sup>(1)</sup>		
General Obligation Bonds <sup>(2)</sup>	\$ 12,425,000	
Trinity River Authority Contract Revenue Debt	1,640,000	
The Bonds	<u>14,200,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 28,265,000
Less Self-Supporting Debt: <sup>(3)</sup>		
Water and Sewer System General Obligation Debt	\$ 10,262,303	
Airport System General Obligation Debt	126,099	
Trinity River Authority Contract Revenue Debt	1,640,000	
The Bonds <sup>(4)</sup>	<u>11,928,468</u>	<u>23,956,870</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 4,308,130
Interest and Sinking Fund as of 8/1/02		\$ 1,230,809
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		2.75%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		0.42%

2003 Estimated Population - 26,796  
Per Capita Taxable Assessed Valuation - \$38,340  
Per Capita Total Funded Debt - \$1,055  
Per Capita Net Funded Debt - \$161

(1) The above statement of indebtedness does not include currently outstanding \$2,300,000 Waterworks and Sewer System Revenue Bonds, as these bonds are payable solely from the net revenues of the Waterworks and Sewer System (the "System"), as defined in the ordinances authorizing the bonds.

(2) Excludes Refunded Bonds.

(3) 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. 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.

(4) Represents \$360,940 considered to be self-supporting debt payable from the net revenues of the waterworks and sewer system, \$10,820,000 considered to be self-supporting debt payable from the proceeds of a ½ cent sales and use tax levied for park and recreational facilities, and \$26,540 considered to be self-supporting debt payable from the revenues of the City's Airport System.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2003		2002		2001	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 591,801,570	51.38%	\$ 524,001,810	49.19%	\$ 466,651,890	47.57%
Real, Residential, Multi-Family	65,924,770	5.72%	63,641,170	5.97%	65,666,590	6.69%
Real, Vacant Lots/Tracts	32,349,070	2.81%	28,305,420	2.66%	30,156,870	3.07%
Real, Acreage (Land Only)	40,427,810	3.51%	32,563,980	3.06%	30,818,840	3.14%
Real, Farm and Ranch Improvements	7,167,310	0.62%	8,190,480	0.77%	1,662,580	0.17%
Real, Commercial	175,292,820	15.22%	144,058,410	13.52%	157,465,220	16.05%
Real, Industrial	14,991,770	1.30%	14,192,720	1.33%	13,026,020	1.33%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	92,472,990	8.03%	109,792,660	10.31%	88,959,040	9.07%
Tangible Personal, Commercial	85,126,540	7.39%	81,374,570	7.64%	67,920,990	6.92%
Tangible Personal, Industrial	43,987,090	3.82%	54,160,310	5.08%	57,672,740	5.88%
Tangible Personal, Other	1,423,930	0.12%	400,570	0.04%	81,750	0.01%
Tangible Personal, Mobile Homes	948,190	0.08%	923,030	0.09%	962,730	0.10%
Special Inventory	-	0.00%	3,724,360	0.35%	-	0.00%
Total Appraised Value Before Exemptions	\$ 1,151,914,320	100.00%	\$ 1,065,329,950	100.00%	\$ 981,045,720	100.00%
Totally Exempt Property/Adjustments	-		-		(32,736,290)	
Total Exemptions/Reductions	(124,552,570)		(82,217,411)		(74,212,836)	
Taxable Assessed Value	\$ 1,027,361,750		\$ 983,112,539		\$ 874,096,594	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2000		1999	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 437,911,130	46.64%	\$ 398,501,990	45.31%
Real, Residential, Multi-Family	51,884,920	5.53%	50,490,890	5.74%
Real, Vacant Lots/Tracts	28,465,900	3.03%	28,486,480	3.24%
Real, Acreage (Land Only)	31,841,160	3.39%	34,957,500	3.97%
Real, Farm and Ranch Improvements	917,870	0.10%	880,950	0.10%
Real, Commercial	163,217,380	17.38%	148,306,070	16.86%
Real, Industrial	13,454,080	1.43%	12,762,460	1.45%
Real and Tangible Personal, Utilities	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	92,034,950	9.80%	92,602,000	10.53%
Tangible Personal, Commercial	64,937,230	6.92%	59,770,240	6.80%
Tangible Personal, Industrial	53,299,410	5.68%	51,506,010	5.86%
Tangible Personal, Other	99,100	0.01%	383,030	0.04%
Tangible Personal, Mobile Homes	867,230	0.09%	866,020	0.10%
Total Appraised Value Before Exemptions	\$ 938,930,360	100.00%	\$ 879,513,640	100.00%
Adjustments	(31,913,290)		(33,739,190)	
Total Exemptions/Reductions	(77,517,064)		(68,800,245)	
Taxable Assessed Value	\$ 829,500,006		\$ 776,974,205	

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 <sup>(1)</sup>	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
1998	23,300	\$ 724,493,031	\$ 31,094	\$ 24,715,000	3.41%	\$ 1,061
1999	24,300	776,974,205	31,974	22,125,000	2.85%	910
2000	25,894	829,500,006	32,034	30,940,000	3.73%	1,195
2001	26,350	874,096,594	33,173	28,720,000	3.29%	1,090
2002	26,400	983,112,539	37,239	26,450,000	2.69%	1,002
2003	26,796	1,027,361,750	38,340	27,070,000 <sup>(2)</sup>	2.63%	1,010

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

(2) Projected, including the Bonds, excludes the Refunded Bonds. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
1998	\$ 0.5517	\$ 0.2649	\$ 0.2868	\$ 3,999,385	97.43%	101.98%
1999	0.5517	0.2815	0.2702	4,233,054	97.33%	99.61%
2000	0.5517	0.3101	0.2416	4,594,045	97.36%	99.38%
2001	0.6717	0.4286	0.2431	5,871,578	96.22%	98.81%
2002	0.6717	0.5064	0.1653	6,603,203	99.64% <sup>(1)</sup>	102.01% <sup>(1)</sup>
2003	0.6717	0.5468	0.1249	6,900,789	N.A.	N.A.

(1) Collections for part year only, through August 1, 2002.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2002/03 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Southwestern Bell Telephone Material Distribution Center	Telephone Equipment, Cables and Supplies	\$ 64,254,450	6.25%
TU Electric System Operating Services	Electric Utility	34,346,630	3.34%
Brasscraft Western Co., Inc.	Plumbing Products	20,447,700	1.99%
SBC Telecom	Telecommunications	15,324,240	1.49%
Frankel, Edward B. Trustee	Real Estate	11,771,980	1.15%
Abh Number One	Real Estate	9,212,170	0.90%
Wal Mart	Retail	8,213,670	0.80%
Creekwood Place	Development	6,867,000	0.67%
Tire Centers	Plastic Beverage Cups	6,235,000	0.61%
Pleasant Run Development	Real Estate	5,725,000	0.56%
		<u>\$ 182,397,840</u>	<u>17.75%</u>

**GENERAL OBLIGATION DEBT LIMITATION** . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY (1)**

2002 Principal and Interest Requirements	\$ 1,919,949
\$0.1888 Tax Rate at 99.00% Collection Produces	\$ 1,920,262
Average Annual Principal and Interest Requirements, 2002 - 2024	\$ 461,393
\$0.0454 Tax Rate at 99.00% Collection Produces	\$ 461,758
Maximum Principal and Interest Requirements, 2002	\$ 1,919,949
\$0.1888 Tax Rate at 99.00% Collection Produces	\$ 1,920,262

(1) Includes the Bonds, excludes the Refunded Bonds. The amount shown represents general obligation debt less that portion of general obligation debt that is considered to be self-supporting debt payable from certain system revenues. See Tables 1 and 10 and accompanying footnotes.

**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 bonds ("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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2001/02 Taxable Assessed Value	2001/02 Tax Rate	Total G.O. Debt	Estimated % Applicable	City's Overlapping G.O. Debt As of 8-1-02	Authorized But Unissued Debt as of 8-1-02
City of Lancaster	\$ 983,112,539	\$ 0.6717	\$ 4,308,130 <sup>(1)</sup>	100.00%	\$ 4,308,130	\$ -
Lancaster Independent School District	953,883,757	1.6700	15,144,257	95.09%	14,400,674	-
Wilmer-Hutchins Independent School District	443,053,579	1.5584	2,560,595	4.46%	114,203	-
Dallas County	123,661,472,213	0.1960	264,007,395	0.80%	2,112,059	6,200,000
Dallas County Community College	127,870,716,165	0.0600	-	0.80%	-	-
Dallas County Hospital District	123,661,472,213	0.2540	-	0.80%	-	-
Total Direct and Overlapping G.O. Debt					\$ 20,935,066	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					2.13%	
Per Capita Overlapping G.O. Debt					781.28	

(1) Includes the Bonds, excludes the Refunded Bonds. The amount shown represents general obligation debt less that portion of general obligation debt that is considered to be self-supporting debt payable from certain system revenues. See Tables 1 and 10 and accompanying footnotes.

**DEBT INFORMATION**

**TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 9/30	Outstanding Debt <sup>(1)</sup>		The Bonds <sup>(2)</sup>		Total Outstanding Debt	Self-Supporting Requirements <sup>(3)</sup>	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest				
2002	\$ 2,270,000	\$ 1,465,409			\$ 3,735,409	\$ 1,815,459	\$ 1,919,949	
2003	1,195,000	681,541		\$ 531,394	2,407,935	1,440,465	967,470	
2004	1,250,000	623,781		579,703	2,453,484	1,477,399	976,084	
2005	1,190,000	565,006		579,703	2,334,709	1,466,845	867,864	
2006	625,000	517,895		579,703	1,722,598	1,465,612	256,985	21.39%
2007	660,000	481,096	\$ 455,000	572,878	2,168,974	1,911,161	257,813	
2008	785,000	443,541	465,000	559,078	2,252,619	1,943,907	308,711	
2009	840,000	404,130	480,000	544,663	2,268,793	1,957,256	311,537	
2010	880,000	361,824	495,000	529,055	2,265,879	1,954,914	310,964	
2011	925,000	316,843	515,000	512,004	2,268,846	1,958,985	309,861	42.67%
2012	745,000	274,551	530,000	493,845	2,043,396	1,732,407	310,989	
2013	785,000	235,071	560,000	474,350	2,054,421	1,741,292	313,129	
2014	825,000	193,118	585,000	453,015	2,056,133	1,743,275	312,857	
2015	875,000	148,659	605,000	430,103	2,058,761	1,742,453	316,308	
2016	900,000	102,493	750,000	402,930	2,155,423	1,842,114	313,308	66.12%
2017	770,000	60,000	930,000	368,258	2,128,258	1,806,378	321,880	
2018	815,000	20,375	975,000	328,241	2,138,616	1,813,650	324,967	
2019			1,020,000	285,338	1,305,338	985,998	319,340	
2020			1,065,000	239,456	1,304,456	983,769	320,687	
2021			1,110,000	190,230	1,300,230	983,506	316,724	88.01%
2022			1,165,000	138,488	1,303,488	986,735	316,753	
2023			1,225,000	84,713	1,309,713	985,457	324,256	
2024			1,270,000	28,575	1,298,575	984,963	313,612	100.00%
	<u>\$ 16,335,000</u>	<u>\$ 6,895,333</u>	<u>\$ 14,200,000</u>	<u>\$ 8,905,718</u>	<u>\$ 46,336,050</u>	<u>\$ 35,724,001</u>	<u>\$ 10,612,049</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations. Excludes the Refunded Bonds.

(2) Average life of the issue - 14.767 years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.

(3) The amounts shown represent general obligation debt that is considered to be self-supported debt payable from certain system revenues. See Tables 1 and 10 and accompanying footnotes.

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

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9/30/02		\$ 1,919,949 <sup>(1)</sup>
Interest and Sinking Fund, 9/30/01	\$ 646,382	
Interest and Sinking Fund Tax Levy	1,692,922	
Budgeted Transfers	235,600	
Estimated Investment Earnings	<u>31,107</u>	<u>2,606,011</u>
Estimated Balance, 9/30/02		\$ 686,062

(1) Excludes self-supported debt payable from certain system revenues. See Tables 1 and 10 and accompanying footnotes.

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT**

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-01 . . . . .	\$ 2,668,155
Less: Revenue Bonds Requirements, 2002 Fiscal Year . . . . .	<u>548,310</u>
Balance Available for Other Purposes . . . . .	\$ 2,119,845
System General Obligation Bond Requirements, 2002 Fiscal Year . . . . .	<u>864,649</u>
Balance . . . . .	\$ 1,255,196
Percentage of System General Obligation Bonds, Self-Supporting . . . . .	100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-01 . . . . .	\$ 124,033 <sup>(1)</sup>
Airport General Obligation Bond Requirements, 2002 Fiscal Year . . . . .	<u>39,352</u>
Balance . . . . .	\$ 84,681
Percentage of Airport General Obligation Bonds, Self-Supporting . . . . .	100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-01 . . . . .	\$ 4,386,240 <sup>(2)</sup>
LRDC General Obligation Bond Requirements, 2002 Fiscal Year . . . . .	<u>911,458</u>
Balance . . . . .	\$ 3,474,783
Percentage of LRDC General Obligation Bonds, Self-Supporting . . . . .	100.00%

(1) Includes transfer from airport operating fund.

(2) Represents the fund balance available to pay debt service on debt that is considered self-supported debt payable from the proceeds of the ½ cent sales and use tax levied on behalf of the Lancaster Recreational Development Corporation. See Table 14 for a description of sales and use taxes.

**TABLE 11 – VOTED BUT UNISSUED GENERAL OBLIGATION BONDS**

The City does not have any voted but unissued general obligation debt.

**TABLE 12 - OTHER OBLIGATIONS**

The City has entered into lease-purchase arrangements for various equipment purchases. Payments for the various leases that are allocated to the General Fund are as follows:

FYE	
<u>30-Sep</u>	
2002	\$ 250,810
2003	235,600
2004	<u>112,606</u>
Total	\$ 599,016
Less amount representing interest	<u>44,564</u>
Present value of future minimum payments	<u><u>\$ 554,452</u></u>

**PENSION FUND . . .** The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report".)

**FINANCIAL INFORMATION**

**TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

<u>Revenues</u>	Fiscal Year Ended September 30,				
	2001	2000	1999	1998	1997
Taxes and Fees	\$ 9,559,283	\$ 10,306,765	\$ 10,758,861	\$ 11,314,025	\$ 10,399,022
Licenses and Permits	679,287	415,934	259,989	292,832	134,928
Intergovernmental	45,805	144,994	102,411	39,922	118,940
Charges for Services	346,126	242,531	144,670	195,668	174,389
Fines and Forfeitures	718,857	671,377	589,772	523,299	495,722
Interest	259,659	283,696	322,181	286,083	237,117
Miscellaneous	114,582	60,465	41,500	95,565	84,876
<b>Total Revenues</b>	<b>\$ 11,723,599</b>	<b>\$ 12,125,762</b>	<b>\$ 12,219,384</b>	<b>\$ 12,747,394</b>	<b>\$ 11,644,994</b>
<u>Expenditures</u>					
General Government	\$ 1,050,523	\$ 1,603,494	\$ 1,437,705	\$ 2,052,712	\$ 1,792,317
Public Safety	6,834,078	8,087,409	7,197,802	7,287,930	5,965,869
Public Works	998,773	1,019,287	1,309,242	1,895,661	1,450,191
Cultural and Recreational	797,007	836,887	754,105	1,207,784	1,013,596
Community Service	762,158	1,090,198	1,054,200	-	-
Non Departmental	1,069,139	1,063,943	1,134,298	-	-
Insurance	-	-	-	361,620	719,661
<b>Total Expenditures</b>	<b>\$ 11,511,678</b>	<b>\$ 13,701,218</b>	<b>\$ 12,887,352</b>	<b>\$ 12,805,707</b>	<b>\$ 10,941,634</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 211,921	\$ (1,575,456)	\$ (667,968)	\$ (58,313)	\$ 703,360
Transfers In	\$ 725,000	\$ 580,000	\$ 653,530	\$ 576,156	\$ 1,069,103
Transfers Out	(345,233)	(235,600)	(235,941)	(163,926)	(402,076)
Proceeds from Capital Lease	-	-	-	536,000	-
Transfer from Component Unit	44,021	230,127	194,202	130,000	-
<b>Total Sources (Uses)</b>	<b>\$ 423,788</b>	<b>\$ 574,527</b>	<b>\$ 611,791</b>	<b>\$ 1,078,230</b>	<b>\$ 667,027</b>
Net Increase (Decrease)	\$ 635,709	\$ (1,000,929)	\$ (56,177)	\$ 1,019,917	\$ 1,370,387
Beginning Fund Balance	5,105,819	6,106,748	5,774,657	5,260,332	3,595,828
Prior Period Adjustments	-	-	-	-	288,488
Residual Equity Transfer	-	-	388,268	(505,592)	5,629
<b>Ending Fund Balance</b>	<b>\$ 5,741,528</b>	<b>\$ 5,105,819</b>	<b>\$ 6,106,748</b>	<b>\$ 5,774,657</b>	<b>\$ 5,260,332</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.

**DISTRIBUTION OF SALES AND USE TAXES**

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

**GENERAL FUND SALES AND USE TAX**

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
1998	\$ 6,346,045	158.68%	\$ 0.8759	\$ 272
1999	5,706,263	134.80%	0.7344	235
2000	5,108,750	111.20%	0.6159	197
2001	3,405,037	57.99%	0.3895	129
2002 <sup>(1)</sup>	2,033,511	30.80%	0.2068	77

(1) Collections for part year only, through August 1, 2002.

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

Fiscal Year Ended Collected	Economic Development Tax Collected	Recreational Development Tax Collected	Property Reduction Tax Collected
1998	\$ 1,586,511	\$ 3,173,023	\$ 1,586,511
1999	1,426,566	2,853,132	1,426,566
2000	1,277,188	2,554,375	1,277,188
2001	851,259	1,702,518	851,259
2002 <sup>(1)</sup>	508,378	1,016,756	508,378

(1) Collections for part year only, through August 1, 2002.

## 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% of the Fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the bond ordinances.

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

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

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

## INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City of Lancaster. 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 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 and interest of which is 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; (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 issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain 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 with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and 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 Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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 repurchase agreement; (7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 15 - CURRENT INVESTMENTS**

As of August 1, 2002, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Book Value</u>
TexPool	\$ 25,863,787

## TAX MATTERS

**TAX EXEMPTION . . .** The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (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. A form of Bond Counsel's opinion is reproduced as Appendix C. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, 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, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

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

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

**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . .** The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (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 Bonds 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 Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original 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 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 Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds 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 Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds 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 Bonds. The basis for federal income tax purposes of a Premium Bond 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 Bond. 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 Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

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

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

**ANNUAL REPORTS** . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2002. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

**MATERIAL EVENT NOTICES . . .** The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Ordinance makes any provision for debt service reserves, credit enhancement or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, credit enhancement or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

**AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID . . .** The City has agreed to provide the foregoing information only to NRMSIRs and the SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

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

The City may amend its continuing disclosure agreement 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, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds, as the case may be, consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds, as the case may be. The City may also amend or repeal the provisions of this continuing disclosure agreements if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 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 Bonds in the primary offering thereof. If the City so amends the agreement, it has agreed to 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 financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** The City became obligated to file annual reports with the state information depository ("SID") and each nationally recognized municipal securities information repository ("NRMSIR") beginning in 1997. The City filed all of the required reports, but certain of the reports were filed late. The City has filed a notice of late filing, and the City and its financial advisor have implemented procedures to ensure timely filing in the future.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds are rated "Aaa" by Moody's and "AAA" by S&P through an insurance policy to be issued by Financial Guaranty Insurance Company. The uninsured tax supported debt of the City is rated "A2" by Moody's and "A" by S&P. The City also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

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 BONDS FOR SALE**

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

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "Other Information – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds or the Contractual Obligations are legal investments for various institutions in those states.

## **LEGAL OPINIONS**

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "Plan of Financing", "The Bonds" (exclusive of subcaptions "Book-Entry-Only System"), "Tax Matters" and "Continuing Disclosure of Information" (exclusive of "Compliance with Prior Undertaking") and the subcaptions "Legal Opinions," "Registration and Qualification of Bonds for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins, L.L.P., Dallas, Texas, Counsel to the Underwriters. The fee of Vinson & Elkins L.L.P. is contingent on the sale and delivery of the Bonds.

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

## **FINANCIAL ADVISOR**

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

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

## VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by First Southwest Company on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Federal Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields of the Refunding Bonds and the restricted Federal Securities were verified by Grant Thornton, LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by First Southwest Company on behalf of the City. Grant Thornton, LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$95,410.00. 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 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, its 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.

## 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 financial data and other information contained herein have been obtained from the City's 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

/s/ JOE TILLOTSON  
Mayor  
City of Lancaster, Texas

ATTEST:

/s/ ASHLEY MITCHELL  
City Secretary

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## SCHEDULE OF REFUNDED BONDS

**\$1,160,000 General Obligation Bonds, Series 1993**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
12/1/1993	8/15/2003	5.00%	\$ 15,000
	8/15/2004	7.00%	110,000
	8/15/2005	6.25%	110,000
	8/15/2006	5.00%	110,000
	8/15/2007	5.00%	110,000
	8/15/2008	5.10%	110,000
	8/15/2009	5.20%	110,000
	8/15/2010	5.20%	110,000
	8/15/2011	5.25%	110,000
	8/15/2012	5.25%	110,000
	8/15/2013	5.25%	155,000

The 2003 maturity will be paid at maturity. The 2004 - 2013 maturities will be redeemed prior to original maturity on August 15, 2003 at par.

**\$445,000 General Obligation Refunding and Improvement Bonds, Series 1995**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/15/1995	2/15/2003	4.60%	\$ 130,000 <sup>(1)</sup>
	2/15/2004	4.70%	140,000 <sup>(1)</sup>
	2/15/2005	4.80%	55,000 <sup>(1)</sup>
	2/15/2006	4.90%	60,000 <sup>(1)</sup>
	2/15/2007	5.00%	60,000 <sup>(1)</sup>

The 2003 - 2005 maturities will be payable at maturity.

The amounts due in 2006 - 2007 maturities will be redeemed prior to original maturity on February 15, 2005 at par.

(1) Represents partial amounts being refunded.

**\$835,000 General Obligation Refunding and Improvement Bonds, Series 1996**

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
6/1/1996	2/15/2003	4.90%	\$ 355,000
	2/15/2004	5.05%	125,000
	2/15/2005	5.15%	125,000
	2/15/2006	5.25%	130,000
	2/15/2007	5.40%	100,000

The 2003 - 2006 maturities will be payable at maturity.

The 2007 maturity will be redeemed prior to original maturity on February 15, 2006 at par.

**\$9,945,000 Tax and Waterworks and Sewer System (Limited Pledge)  
Revenue Certificates of Obligation, Series 1999**

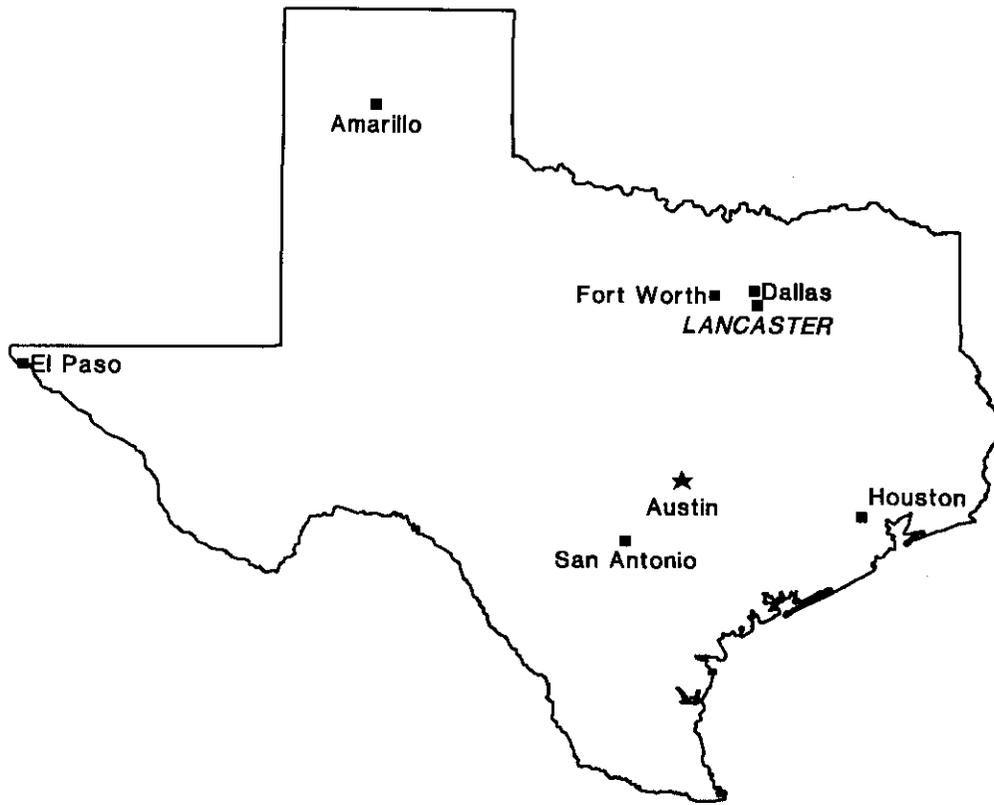
<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
9/1/1999	2/15/2003	6.00%	\$ 365,000
	2/15/2004	6.00%	390,000
	2/15/2005	6.00%	410,000
	2/15/2006	6.00%	430,000
	2/15/2007	6.00%	455,000
	2/15/2008	6.00%	480,000
	2/15/2009	5.00%	510,000
	2/15/2010	5.10%	535,000
	2/15/2011	5.10%	565,000
	2/15/2012	5.25%	595,000
	2/15/2013	5.30%	630,000
	2/15/2014	5.40%	665,000
	2/15/2015	5.50%	700,000
	2/15/2016	5.50%	740,000
	2/15/2017	5.50%	780,000
	2/15/2018	5.60%	825,000
	2/15/2019	5.60%	870,000

The 2003 - 2009 maturities will be payable at maturity.  
The 2010 - 2019 maturities will be redeemed prior to original maturity on February 15, 2009 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	1992	22,877
1980 Census	14,807	1993	22,877
1982	15,700	1994	22,300
1983	16,200	1995	22,300
1984	17,700	1996	23,000
1985	18,750	1997	23,400
1986	20,750	1998	23,300
1987	20,850	1999	24,300
1988	23,000	2000 Census	25,894
1989	23,000	2001	26,350
1990 Census	22,117	2002	26,400
1991	22,189		

**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 new 5,000 foot runway, 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.

Some of the primary employers in the City are listed below.

<u>Company</u>	<u>Type of Business</u>	<u>Estimated Number of Employees</u>
Lancaster Independent School District	Public Education	689
Wal-Mart Stores, Inc.	Retail Store	525
Brasscraft Western Company	Brass Plumbing Fixtures	410
American Homestar, Inc.	Manufactured Housing Production and Distribution	280
Medical Center at Lancaster	Medical Facility	273
City of Lancaster	Local Government	212
Lasco Bathware, Tomkins, Inc.	Fiberglass Bath Fixtures, Tubs and Shower Stalls	200
Southwestern Bell Telephone	Telephone Equipment, Cables and Supplies	184
FFE Transportation Servies	Trucking	150
Bentwood Companies	Wood Kitchen and Bathroom Cabinets	135

Located in Dallas County, much of the City's labor force is employed in the economically significant Dallas Consolidated Metropolitan Statistical Area. The following was taken from the August 30, 2001 publication of Sales Management Survey for Dallas County:

Total Population	2,246,400
% of Population Whose Age is:	
18-24	9.5%
25-34	17.3%
35-49	24.0%
50 and Over	22.2%
Households	851,300
Median Household Effective Buying Income	\$ 45,542
Total Effective Buying Income	\$ 50,073,444,000
% of Households by EBI Group	
\$20,000 - \$34,999	19.4%
\$35,000 - \$49,999	16.7%
\$50,000 and Over	45.5%
Total Retail Sales	\$ 38,131,266,000

#### EMPLOYMENT STATISTICS

	June 2002	Average Annual 2001	Average Annual 2000	Average Annual 1999	Average Annual 1998	Average Annual 1997
<b>Lancaster</b>						
Civilian Labor Force	15,060	14,568	14,271	13,922	13,783	13,542
Total Employed	14,006	13,905	13,848	13,502	13,348	13,056
Total Unemployed	1,054	663	423	420	435	486
Percent of Unemployed	7.00%	4.55%	2.96%	3.02%	3.16%	3.59%
<b>Dallas County</b>						
Civilian Labor Force	1,313,486	1,265,215	1,235,879	1,205,832	1,194,074	1,174,101
Total Employed	1,206,739	1,198,041	1,193,084	1,163,317	1,149,996	1,124,837
Total Unemployed	106,747	67,174	42,795	42,515	44,078	49,264
Percent of Unemployed	8.13%	5.31%	3.46%	3.53%	3.69%	4.20%

Source: Texas Employment Commission, Austin, Texas.

**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 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 35-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, Texas Christian 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 25 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**

Fiscal Year	Population	Building Permits <sup>(1)</sup>		Water Customers
		Number	Value	
1997	23,400	360	\$ 40,084,379	7,026
1998	23,300	425	46,807,165	6,980
1999	24,300	304	15,453,262	7,515
2000	25,894	350	17,792,000	7,600
2001	26,350	195	17,301,147	8,400

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

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF LANCASTER, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2001

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Annual Financial Report for the Year Ended September 30, 2001, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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L.L.P.

CERTIFIED PUBLIC  
ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Lancaster, Texas as of and for the year ended September 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lancaster, Texas at September 30, 2001, and the results of its operations and cash flows of its proprietary funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 7, beginning fiscal year 2001, the City implemented Government Accounting Standards Board No. 33, Accounting and Financial Reporting of Nonexchange Transactions.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Lancaster, Texas. The individual fund and account group financial statements and schedules have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on such data.

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INTERNATIONAL

  
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
March 29, 2002

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**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**CITY OF LANCASTER, TEXAS**

**GENERAL PURPOSE FINANCIAL STATEMENTS -  
GENERAL PURPOSE FINANCIAL STATEMENTS OVERVIEW**

These basic financial statements provide a summary overview of the financial position of all funds and account groups as well as the operating results of all funds.

**Governmental Funds**                      Those through which most Governmental functions are typically financed. The measurement focus is upon determination of financial position and changes in financial position. The Governmental funds within the City are: the General, Special Revenue, Debt Service and Capital Projects Funds.

**Proprietary Funds**                      To account for the financing, acquisition and maintenance of Governmental facilities and services that are supported by user charges. The measurement focus is upon determination of net income, financial position and cash flows. The Proprietary Fund within the City is the Enterprise Fund.

**Account Groups**                      Used to establish accounting control and accountability for the City's general fixed assets and unmatured principal of the City's general long-term debt.

**CITY OF LANCASTER, TEXAS**  
**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS**  
**AND DISCRETELY PRESENTED COMPONENT UNITS**  
**SEPTEMBER 30, 2001**  
**(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2000)**

	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
<b>ASSETS AND OTHER DEBITS</b>					
Cash and certificates of deposit	\$ 1,123,581	\$ 782,440	\$ 10,206	\$ 432,954	\$ 374,655
Investments	4,215,547	590,121	398,454	28,408	11,556,057
Receivables (net, where applicable, of allowances for uncollectibles):					
Delinquent taxes	377,706	-	253,908	-	-
Accounts	247,678	-	-	-	981,397
Unbilled	-	-	-	-	322,302
Sales tax	558,870	-	-	-	-
Due from:					
Other funds	23,251	-	-	-	1,163,842
Other governments	-	-	2,122	-	-
Component unit	785,467	-	-	-	-
Inventory	10,018	-	-	-	-
Prepaid items	36,329	-	235,600	-	400
Deferred bond issuance costs	-	-	-	-	325,703
Restricted assets					
Cash	-	-	-	-	2,779
Investments	-	-	-	-	475,325
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	32,804,425
Amount available in debt service fund	-	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-
	<b>\$ 7,378,447</b>	<b>\$ 1,372,561</b>	<b>\$ 900,290</b>	<b>\$ 461,362</b>	<b>\$ 48,006,885</b>
<b>TOTAL ASSETS AND OTHER DEBITS</b>					

The accompanying notes are an integral part of the financial statements.

Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
General Fixed Assets	General Long-Term Debt	Primary Government			Reporting Entity	
		2001	2000		2001	2000
\$ -	\$ -	\$ 2,723,836	\$ 1,894,401	\$ 67,323	\$ 2,791,159	\$ 1,898,659
-	-	16,788,587	16,650,517	8,487,912	25,276,499	32,270,277
-	-	631,614	490,118	-	631,614	490,118
-	-	1,229,075	1,090,692	16,589	1,245,664	1,137,075
-	-	322,302	376,075	-	322,302	376,075
-	-	558,870	970,322	335,322	894,192	1,552,515
-	-	1,187,093	3,561,201	-	1,187,093	3,561,201
-	-	2,122	833	-	2,122	833
-	-	785,467	2,865,222	-	785,467	2,865,222
-	-	10,018	22,232	-	10,018	22,232
-	-	272,329	257,165	-	272,329	257,165
-	-	325,703	365,116	-	325,703	365,116
-	-	2,779	10,636	-	2,779	10,636
-	-	475,325	469,000	-	475,325	469,000
55,378,864	-	88,183,289	84,866,040	21,085,905	109,249,194	100,344,505
-	644,703	644,703	567,881	182,729	827,432	667,201
-	7,959,628	7,959,628	9,590,038	10,112,271	18,071,899	20,115,718
<u>\$ 55,378,864</u>	<u>\$ 8,604,331</u>	<u>\$ 122,102,740</u>	<u>\$ 124,047,289</u>	<u>\$ 40,268,051</u>	<u>\$ 162,370,791</u>	<u>\$ 166,403,348</u>

**CITY OF LANCASTER, TEXAS**  
**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS**  
**AND DISCRETELY PRESENTED COMPONENT UNITS**  
**SEPTEMBER 30, 2001**  
**(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2000)**

	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
<b>LIABILITIES</b>					
Accounts and contracts payable	\$ 412,871	\$ -	\$ -	\$ 5,951	\$ 1,258,688
Accrued liabilities	258,507	-	-	708	236,114
Deposits	100,375	-	-	-	316,786
Payable from restricted assets:					
Accrued interest	-	-	-	-	80,422
General obligation bonds payable, current	-	-	-	-	198,227
Revenue bonds payable, current	-	-	-	-	470,000
Certificates of obligation, current	-	-	-	-	365,000
Capital lease, current	-	-	-	-	140,000
Due to:					
Other funds	468,322	-	-	-	718,771
Primary government	-	-	-	-	-
Other governments	-	-	-	-	-
Deferred revenue	396,844	1,157,238	253,908	-	1,205,106
General obligation bonds payable	-	-	-	-	9,128,381
Revenue bonds payable	-	-	-	-	965,000
Deferred amount on refunding	-	-	-	-	(232,399)
Certificates of obligation	-	-	-	-	-
Compensated absences	-	-	-	-	47,494
Capital leases	-	-	-	-	1,640,000
<b>Total liabilities</b>	<b>1,636,919</b>	<b>1,157,238</b>	<b>253,908</b>	<b>6,659</b>	<b>16,537,590</b>
<b>EQUITY AND OTHER CREDITS</b>					
Contributed capital	-	-	-	-	11,382,343
Investment in general fixed assets	-	-	-	-	-
Retained earnings:					
Reserved for revenue bond retirement	-	-	-	-	1,336,497
Reserved for capital projects	-	-	-	-	3,918,605
Unreserved	-	-	-	-	14,831,850
Fund balances:					
Reserved for capital projects	-	-	-	454,703	-
Reserved for debt service	-	-	646,382	-	-
Reserved for inventory and prepaid items	46,347	-	-	-	-
Designated for capital projects	-	-	-	-	-
Designated for equipment replacement	523,810	-	-	-	-
Unreserved and undesignated	5,171,371	215,323	-	-	-
<b>Total equity and other credits</b>	<b>5,741,528</b>	<b>215,323</b>	<b>646,382</b>	<b>454,703</b>	<b>31,469,295</b>
<b>TOTAL LIABILITIES, EQUITY AND ANY OTHER CREDITS</b>	<b>\$ 7,378,447</b>	<b>\$ 1,372,561</b>	<b>\$ 900,290</b>	<b>\$ 481,362</b>	<b>\$ 48,006,885</b>

The accompanying notes are an integral part of the financial statements.

Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
General Fixed Assets	General Long-Term Debt	Primary Government			Reporting Entity	
		2001	2000		2001	2000
\$ -	\$ -	\$ 1,677,510	\$ 1,750,251	\$ 968,111	\$ 2,645,621	\$ 3,633,132
-	-	495,329	370,126	46,582	541,911	386,694
-	-	417,161	389,349	-	417,161	389,349
-	-	80,422	108,059	-	80,422	108,059
-	-	198,227	200,340	-	198,227	200,340
-	-	470,000	445,000	-	470,000	445,000
-	-	365,000	330,000	-	365,000	330,000
-	-	140,000	130,000	-	140,000	130,000
-	-	1,187,093	3,561,201	-	1,187,093	3,561,201
-	-	-	-	785,467	785,467	2,865,222
-	-	-	19,137	-	-	19,137
-	-	3,013,096	1,831,541	-	3,013,096	1,831,541
-	6,908,391	16,036,772	17,424,658	-	16,036,772	17,424,658
-	-	965,000	1,435,000	-	965,000	1,435,000
-	-	(232,399)	(265,599)	-	(232,399)	(265,599)
-	45,000	45,000	450,000	10,295,000	10,340,000	11,075,000
-	1,096,488	1,143,982	1,199,673	-	1,143,982	1,199,673
-	554,452	2,194,452	2,602,904	-	2,194,452	2,602,904
	<u>8,604,331</u>	<u>28,196,645</u>	<u>31,981,640</u>	<u>12,095,160</u>	<u>40,291,805</u>	<u>47,371,311</u>
-	-	11,382,343	11,787,025	-	11,382,343	11,787,025
55,378,864	-	55,378,864	55,095,921	21,065,905	76,444,769	70,574,386
-	-	1,338,497	1,151,145	-	1,336,497	1,151,145
-	-	3,918,605	8,163,248	-	3,918,605	8,163,248
-	-	14,831,850	9,511,928	-	14,831,850	9,511,928
-	-	454,703	565,300	-	454,703	565,300
-	-	646,382	567,881	182,729	829,111	667,201
-	-	46,347	42,278	-	46,347	42,278
-	-	-	-	1,922,405	1,922,405	6,324,850
-	-	523,810	647,351	-	523,810	647,351
-	-	5,386,694	4,533,572	5,001,852	10,388,546	9,597,325
<u>55,378,864</u>		<u>93,906,095</u>	<u>92,065,649</u>	<u>28,172,891</u>	<u>122,078,986</u>	<u>119,032,037</u>
<u>\$ 55,378,864</u>	<u>\$ 8,604,331</u>	<u>\$ 122,102,740</u>	<u>\$ 124,047,289</u>	<u>\$ 40,268,051</u>	<u>\$ 162,370,791</u>	<u>\$ 166,403,348</u>

**CITY OF LANCASTER, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**  
**AND DISCRETELY PRESENTED COMPONENT UNITS**  
**YEAR ENDED SEPTEMBER 30, 2001**  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2001)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>REVENUES</b>				
Taxes and fees	\$ 9,559,283	\$ -	\$ 2,111,278	\$ -
Licenses and permits	679,287	-	-	-
Intergovernmental	45,805	3,942,651	-	-
Charges for services	346,126	-	-	-
Fines and forfeits	718,857	-	-	-
Interest	259,859	20,131	25,811	42,477
Miscellaneous	114,582	-	-	-
<b>Total revenues</b>	<u>11,723,599</u>	<u>3,962,782</u>	<u>2,137,089</u>	<u>42,477</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,050,523	-	-	-
Public safety	6,834,078	-	-	-
Public works	998,773	-	-	-
Community development and recreation	797,007	-	-	-
Community services	762,158	-	-	-
Non departmental	1,069,139	-	-	-
Social and welfare	-	3,864,841	-	-
Capital outlay	-	-	-	153,074
Debt service:				
Principal retirement	-	-	1,491,703	-
Interest and fiscal charges	-	-	394,032	-
<b>Total expenditures</b>	<u>11,511,678</u>	<u>3,864,841</u>	<u>1,885,735</u>	<u>153,074</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>211,921</u>	<u>97,941</u>	<u>251,354</u>	<u>(110,597)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	725,000	-	255,233	-
Operating transfers out	(345,233)	-	(428,086)	-
Operating transfer from component unit	44,021	-	-	-
Operating transfer to primary government	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>423,788</u>	<u>-</u>	<u>(172,853)</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>635,709</u>	<u>97,941</u>	<u>78,501</u>	<u>(110,597)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>5,105,819</u>	<u>117,382</u>	<u>567,881</u>	<u>565,300</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 5,741,528</u>	<u>\$ 215,323</u>	<u>\$ 646,382</u>	<u>\$ 454,703</u>

The accompanying notes are an integral part of the financial statements.

Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
Primary Government			Reporting Entity	
2001	2000		2001	2000
\$ 11,670,561	\$ 12,413,115	\$ 2,583,622	\$ 14,254,183	\$ 16,248,942
679,287	415,934	-	679,287	415,934
3,988,456	3,062,300	950,000	4,938,456	3,062,300
346,126	242,531	-	346,126	242,531
718,857	671,377	-	718,857	671,377
348,078	394,639	611,016	959,094	1,519,825
114,582	76,665	-	114,582	77,460
<u>17,865,947</u>	<u>17,276,561</u>	<u>4,144,638</u>	<u>22,010,585</u>	<u>22,238,369</u>
1,050,523	1,603,494	1,065	1,051,588	1,604,549
6,834,078	8,087,409	-	6,834,078	8,087,409
998,773	1,019,287	-	998,773	1,019,287
797,007	836,887	1,942,214	2,739,221	2,686,444
762,158	1,090,198	-	762,158	1,090,198
1,069,139	1,063,943	-	1,069,139	1,063,943
3,864,841	2,899,682	-	3,864,841	2,899,682
153,074	651,914	5,593,917	5,746,991	12,474,668
1,491,703	1,447,954	330,000	1,821,703	1,787,954
394,032	477,464	581,858	975,890	1,052,215
<u>17,415,328</u>	<u>19,178,232</u>	<u>8,449,054</u>	<u>25,864,382</u>	<u>33,776,349</u>
450,619	(1,901,671)	(4,304,416)	(3,853,797)	(11,537,980)
980,233	882,320	-	980,233	882,320
(773,319)	(701,070)	-	(773,319)	(701,070)
44,021	230,127	-	44,021	230,127
-	-	(76,521)	(76,521)	(230,127)
<u>250,935</u>	<u>411,377</u>	<u>(76,521)</u>	<u>174,414</u>	<u>181,250</u>
701,554	(1,490,294)	(4,380,937)	(3,679,383)	(11,356,730)
<u>6,356,382</u>	<u>7,846,676</u>	<u>11,487,923</u>	<u>17,844,305</u>	<u>29,201,035</u>
<u>\$ 7,057,936</u>	<u>\$ 6,356,382</u>	<u>\$ 7,106,986</u>	<u>\$ 14,164,922</u>	<u>\$ 17,844,305</u>

**CITY OF LANCASTER, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES-BUDGET AND ACTUAL - GENERAL,**  
**SPECIAL REVENUE, AND DEBT SERVICES FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2001**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Taxes and fees	\$ 8,554,703	\$ 9,559,283	\$ 1,004,580
Licenses and permits	402,200	679,287	277,087
Intergovernmental	-	45,805	45,805
Charges for services	504,500	346,126	(158,374)
Fines and forfeitures	743,452	718,857	(24,595)
Interest	209,000	259,659	50,659
Miscellaneous	37,700	114,582	76,882
<b>Total revenues</b>	<u>10,451,555</u>	<u>11,723,599</u>	<u>1,272,044</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,060,954	1,050,523	10,431
Public safety	7,185,656	6,834,078	351,578
Public works	987,985	998,773	(10,788)
Community development and recreation	885,232	797,007	88,225
Community services	810,254	762,158	48,096
Non departmental	1,061,874	1,069,139	(7,265)
Social and welfare	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
<b>Total expenditures</b>	<u>11,991,955</u>	<u>11,511,678</u>	<u>480,277</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,540,400)</u>	<u>211,921</u>	<u>1,752,321</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	725,000	725,000	
Operating transfers out	(325,600)	(345,233)	(19,633)
Transfer from component unit	44,021	44,021	-
<b>Total other financing sources (uses)</b>	<u>443,421</u>	<u>423,788</u>	<u>(19,633)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(1,096,979)</u>	<u>635,709</u>	<u>1,732,688</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>5,105,819</u>	<u>5,105,819</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 4,008,840</u>	<u>\$ 5,741,528</u>	<u>\$ 1,732,688</u>

The accompanying notes are an integral part of the financial statements.

Special Revenue Fund			Debt Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 2,037,651	\$ 2,111,278	\$ 73,627
-	-	-	-	-	-
4,250,301	3,942,651	(307,650)	-	-	-
-	-	-	-	-	-
4,500	20,131	15,631	55,920	25,811	(30,109)
7,636	-	(7,636)	-	-	-
<u>4,262,437</u>	<u>3,962,782</u>	<u>(299,655)</u>	<u>2,093,571</u>	<u>2,137,089</u>	<u>43,518</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,379,894	3,864,841	515,053	-	-	-
-	-	-	-	-	-
-	-	-	1,498,111	1,491,703	6,408
-	-	-	395,494	394,032	1,462
<u>4,379,894</u>	<u>3,864,841</u>	<u>515,053</u>	<u>1,893,605</u>	<u>1,885,735</u>	<u>7,870</u>
<u>(117,457)</u>	<u>97,941</u>	<u>215,398</u>	<u>199,966</u>	<u>251,354</u>	<u>51,388</u>
-	-	-	235,600	255,233	19,633
-	-	-	(395,156)	(428,086)	(32,930)
-	-	-	-	-	-
-	-	-	(159,556)	(172,853)	(13,297)
(117,457)	97,941	215,398	40,410	78,501	38,091
<u>117,382</u>	<u>117,382</u>	<u>-</u>	<u>567,881</u>	<u>567,881</u>	<u>-</u>
\$ <u>(75)</u>	\$ <u>215,323</u>	\$ <u>215,398</u>	\$ <u>608,291</u>	\$ <u>646,382</u>	\$ <u>38,091</u>

**CITY OF LANCASTER, TEXAS**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN RETAINED EARNINGS - PROPRIETARY FUND TYPE**  
**YEAR ENDED SEPTEMBER 30, 2001**  
**(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2000)**

	Enterprise Funds	
	2001	2000
<b>OPERATING REVENUES</b>		
Charges for services	\$ 7,711,199	\$ 7,801,164
Miscellaneous	50,495	7,986
<b>Total operating revenues</b>	<b>7,761,694</b>	<b>7,809,150</b>
<b>OPERATING EXPENSES</b>		
Personnel services	884,890	837,948
Maintenance	154,741	175,157
Purchase of water	941,293	960,723
Materials and supplies	183,039	208,317
Heat, light and power	241,248	159,935
Depreciation	1,252,822	1,247,965
Bad debts	85,523	29,366
Benefit payments	266,971	250,516
Sewage treatment	2,689,021	2,701,485
Special services	322,642	151,616
Miscellaneous	3,873	4,486
Insurance	55,690	45,864
Equipment rental	26,511	15,483
<b>Total operating expenses</b>	<b>7,118,264</b>	<b>6,788,861</b>
<b>OPERATING INCOME</b>	<b>643,430</b>	<b>1,020,289</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest revenue	688,004	1,034,651
Interest and fiscal charges	(921,819)	(1,028,556)
Intergovernmental	372,748	-
Impact Fees	250,000	200,000
<b>Total nonoperating revenues (expenses)</b>	<b>386,933</b>	<b>206,095</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>1,030,363</b>	<b>1,226,384</b>
<b>TRANSFERS</b>		
Operating transfers in	428,086	398,750
Operating transfers out	(635,000)	(580,000)
Operating transfer from component unit	32,500	-
<b>Total transfers</b>	<b>(174,414)</b>	<b>(181,250)</b>
<b>NET INCOME</b>	<b>855,949</b>	<b>1,045,134</b>
<b>DEPRECIATION ALLOCATED TO CONTRIBUTED CAPITAL</b>	<b>404,682</b>	<b>404,682</b>
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<b>18,826,321</b>	<b>17,376,505</b>
<b>RETAINED EARNINGS END OF YEAR</b>	<b>\$ 20,086,952</b>	<b>\$ 18,826,321</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF LANCASTER, TEXAS**  
**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE**  
**YEAR ENDED SEPTEMBER 30, 2001**  
**(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2001)**

	<u>Enterprise Funds</u>	
	<u>2001</u>	<u>2000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 643,430	\$ 1,020,289
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,252,822	1,247,965
Provision for bad debts	85,523	29,366
Change in assets and liabilities:	39,413	39,414
(Increase) decrease in accounts receivable	(171,785)	(70,318)
(Increase) decrease in due to/ from other funds	222,767	(812,695)
(Increase) decrease in other receivables	39,508	(26,881)
(Increase) decrease in prepaid items	1,119	(376)
Increase (decrease) in accounts and contracts payable	(64,700)	614,600
Increase (decrease) in accrued liabilities	83,890	(17,793)
Increase (decrease) in deposits	11,045	29,747
Increase (decrease) in compensated absences	(214)	10,285
Net cash provided by operating activities	<u>2,142,618</u>	<u>2,063,603</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(4,287,129)	(4,871,463)
Proceeds from capital grant	372,748	485,147
Principal payments on debt	(975,424)	(923,349)
Interest payments on debt	(704,428)	(751,913)
Principal payments on capital lease	(130,000)	(125,000)
Interest payments on capital lease	(211,827)	(233,546)
Impact fees	417,297	239,693
Net cash provided by (used in) capital and related financing activities	<u>(5,518,763)</u>	<u>(6,180,431)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</b>		
Operating transfers in from other funds	428,086	398,750
Operating transfers out to other funds	(635,000)	(580,000)
Operating transfers from component unit	32,500	-
Net cash provided by (used in) noncapital financing activities	<u>(174,414)</u>	<u>(181,250)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	<u>686,004</u>	<u>1,034,651</u>
Net cash provided by investing activities	<u>686,004</u>	<u>1,034,651</u>
Net increase in cash and cash equivalents	(2,864,555)	(3,283,427)
Cash and cash equivalents, beginning of year	<u>15,273,371</u>	<u>18,536,798</u>
Cash and cash equivalents, end of year	<u>\$ 12,408,816</u>	<u>\$ 15,273,371</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:</b>		
Contribution of Capital Assets	<u>\$ -</u>	<u>\$ 81,181</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**Note 1. Significant Accounting Policies**

The general purpose 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. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

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

The City of Lancaster's general purpose 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 Governmental Accounting Standards (GASB) Statement 14. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (A) the primary government must be able to impose its will, or (B) the primary government may potentially benefit financially or be financially responsible for the component unit.

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

**B. Fund Accounting**

The City's accounting system is organized and operated on the basis of fund accounting with each fund and account group being an independent fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types and account groups are used by the City:

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

B. Fund Accounting - continued

**Governmental Fund Types**

General Fund is the general operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund is utilized to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include a fund for grants from the Department of Housing and Urban Development for Section 8 Housing Assistance.

Debt Service Fund is utilized to account for the accumulation of financial resources (primarily property tax levies) for, and the payment of, principal, interest, and related costs of general and long-term debt. Debt service of revenue bonds is provided by user fees of the appropriate Enterprise Fund and reflected in the appropriate Enterprise Fund.

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

**Proprietary Fund Type**

Enterprise Fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's water and sewer system, regional airport operations and golf course operations are accounted for through these funds.

**Account Groups**

General Fixed Assets Account Group represents a summary of the fixed assets of the City, other than assets of the Proprietary Fund Type. Capital outlays in funds other than the Proprietary Fund-Type are recorded as expenditures of those funds at the time of purchase and subsequently recorded for control purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group represents a summary of the long-term debt of the City, to be paid principally by taxes levied by the City, and which includes general obligation bonds, certificates of obligation, certain notes payable, capital lease obligations and accrued vacation leave. This account group does not include debt accounted for in the Proprietary Fund Type.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

C. Measurement Focus

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

All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing resources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Fixed assets used in governmental fund type operations and long-term liabilities expected to be financed from governmental funds are accounted for in the General Fixed Assets and General Long-Term Debt Account Groups. The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

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

D. Basis of Accounting

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

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due, and liabilities for accrued compensated absences, which are recognized when payable from current available financial resources.

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

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

D. Basis of Accounting - continued

In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

The accrual basis of accounting is utilized for the Proprietary Fund Type. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Unbilled receivables for water and sewer utility, airport service and the golf course are recorded at year end.

Under the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the City has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

E. Budgets and Budgetary Accounting

The City Manager submits to the City Council, at least sixty days prior to the beginning of each fiscal year, a proposed budget for all funds of the City. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes to be published a notice of the budget hearing. After the budget hearing the budget may be adopted by a favorable vote of the majority of the members of the City Council. Upon adoption the budget is filed with the City Secretary.

The City Manager may transfer budgeted amounts from one expenditure account to another within a fund. Expenditures should not exceed appropriations at the fund level. During 2001, the City did not have any expenditures over appropriations at the legal level of control. The City Council must approve increases in a funds total appropriations. Supplemental appropriations to amend the budget during the year were not material to total appropriations. The final amended version of the budget was utilized in this report. Unused appropriations lapse at the end of each fiscal year.

The budgets for the general fund, special revenue funds, and debt service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The final amended versions of these budgets are used in this report.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

E. Budgets and Budgetary Accounting - continued

Control over the expenditures for the capital projects funds are maintained through general obligation bond indenture agreements, and authorized construction contracts. Accordingly, formal budgetary integration is not employed for the capital projects funds.

F. 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.

G. Investments

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

H. 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 for uncollectible taxes and water and sewer billings at September 30, 2001 was \$467,645.

I. Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

J. Inventory

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

K. Fixed Assets

Water and Sewer System, Airport Operations and Golf Course Operations

Property, plant and equipment is recorded at historical cost, or, if contributed property, fair market value at the date of contribution. 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 as follows:

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

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred. No interest was capitalized in the Water and Sewer Fund, Airport Fund or Golf Course Fund during fiscal year 2001, as construction activity of qualified assets was not significant during 2001.

General Fixed Assets

General fixed assets are recorded as expenditures in the General, Special Revenue and Capital Projects Funds when acquired. Such assets are capitalized at historical cost in the General Fixed Assets Account Group. Significant gifts or contributions of assets are recorded in the General Fixed Assets Accounts Group at the fair market value at the date of acquisition. Public domain (infrastructure) general fixed assets consisting of streets, curbs, sidewalks, bridges, gutters and drainage systems, are capitalized along with other general fixed assets. No depreciation is provided on general fixed assets.

L. 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, 2001, is shown as a liability for compensated absences in the General Long-Term Debt Account Group and in the Enterprise Funds. The amount to be paid from current available financial resources is not significant.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 1. Significant Accounting Policies - continued

M. Total Columns

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

N. Comparative Data

Comparative totals for the prior year have been presented in the accompanying combined financial statements in order to provide an understanding of changes in the City's financial position and operations.

Note 2. Cash and Investments

At year-end, the carrying amount of the City's bank deposits was \$2,723,836 and the bank balances were \$3,359,279. The bank balances on September 30, 2001 were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements and municipal pools. During the year ended September 30, 2001, the City did not own any types of securities other than those permitted by the statute.

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

During the year ended September 30, 2001 the City invested in MBIA, which is an asset management group, which offers highly specialized services to public and private sector clients. The City invested in MBIA's local government investment pools, which are marketed under the name CLASS (Cooperative Liquid Asset Securities System) which invest in short-term fixed income securities from various governments and corporations. CLASS investments are not categorized in accordance with GASB Statement No. 3 ("Deposits with Financial Institutions, Investments, including Reverse Repurchases Agreements disclosure requirements since the City is not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. CLASS operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. CLASS uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in CLASS is the same as the value of CLASS shares. In accordance with GASB Statement No. 31, the City's general policy is to report short-term treasury securities, U.S. government backed securities which have a remaining term of one year or less at time of purchase and Money market mutual funds at amortized costs.

During the year ended September 30, 2001 the City invested in the Texpool fund, which is an investment fund authorized by the Texas Legislature and administered by the Texas State Treasury. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The purpose of the Texpool fund is to allow for the pooling of public

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 2. Cash and Investments - continued

funds to provide a higher yield on the pooled investment than would be possible with the investment of the individual public entity's funds. Texpool investments are subject to the same investment policies maintained by the State Treasury for all state funds. The legislature has authorized only certain investment instruments for public funds, including repurchase agreements, U.S. Treasury bills and bonds, securities of other U.S. government agencies, commercial paper and other safe instruments. The investment in Texpool and any accrued interest may be redeemed at the City's discretion.

Investments at year end are shown below:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Category</u>
Primary Government			
Texpool	<u>\$17,263,912</u>	<u>\$17,263,912</u>	N/A
Total Primary Government	<u>17,263,912</u>	<u>17,263,912</u>	
Component Units			
Texpool	<u>8,487,912</u>	<u>8,487,912</u>	N/A
Total Component Units	<u>8,487,912</u>	<u>8,487,912</u>	
Total	<u>\$25,751,824</u>	<u>\$25,757,824</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, 2001, were 96.8% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30 which are not expected to be collected within 60 days are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the State of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits ad valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city, which operates under a Home Rule Charter, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2001, the City had a tax rate of \$.6717 per \$100 assessed valuation, of which \$.4286 was allocated for general government and \$.2431 was allocated for the payment of principal and interest on general obligation debt.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the tax rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year. This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**Note 4. Interfund Transactions**

At September 30, 2001, interfund balances and transactions, excluding discretely presented component units were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 23,251	\$ 468,322	\$ 725,000	\$ 345,233
Capital Projects Fund			255,233	
Debt Service Fund				428,086
Water and Sewer Fund	1,163,842	718,771		600,000
Airport				
Golf Course Fund			<u>428,086</u>	<u>35,000</u>
	<u>\$ 1,187,093</u>	<u>\$ 1,187,093</u>	<u>\$ 1,408,319</u>	<u>\$ 1,408,319</u>

**Note 5. Fixed Assets**

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	<u>2001</u>	<u>2000</u>
<b>Water and Sewer System:</b>		
Land	\$ 85,561	\$ 85,561
Plants and buildings	2,472,998	2,472,998
Other structures	25,084,087	25,071,553
Machinery and equipment	<u>975,939</u>	<u>942,660</u>
	28,618,585	28,572,772
Less - accumulated depreciation	<u>12,641,178</u>	<u>11,729,573</u>
	15,977,407	16,843,199
Construction in progress	<u>9,100,690</u>	<u>4,872,164</u>
Total water and sewer system	<u>25,078,097</u>	<u>21,715,363</u>
<b>Regional Airport:</b>		
Land	3,161,146	3,161,146
Runways and taxiways	2,264,101	2,264,101
Buildings	1,280,532	1,280,532
Other equipment	<u>143,425</u>	<u>143,425</u>
	6,849,204	6,849,204
Less - accumulated depreciation	<u>2,686,199</u>	<u>2,489,815</u>
Total regional airport	<u>4,183,005</u>	<u>4,359,389</u>
<b>Municipal Golf Course:</b>		
Land	349,554	349,554
Park improvements	3,093,109	3,093,109
Buildings	905,075	905,075
Other equipment	<u>556,853</u>	<u>544,063</u>
	4,904,591	4,891,801
Less - accumulated depreciation	<u>1,361,268</u>	<u>1,186,434</u>
Total municipal golf course	<u>3,543,323</u>	<u>3,695,367</u>
Total Enterprise Funds fixed assets, net	<u>\$32,804,425</u>	<u>\$29,770,119</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 5. Fixed Assets - continued

General Fixed Assets

A summary of changes in general fixed assets is as follows:

<u>Primary Government</u>	<u>Balance Beginning of Year</u>	<u>Additions and Reclassifications</u>	<u>Retirements, Dispositions and Reclassifications</u>	<u>Balance End of Year</u>
Land	\$ 644,796	\$	\$	\$ 644,796
Buildings	4,613,247	6,164		4,619,411
Streets	39,816,816			39,816,816
Park structures	1,588,624			1,588,624
Equipment and furniture	8,209,607	130,257	6,551	8,333,313
Construction in progress	<u>222,831</u>	<u>153,073</u>		<u>375,904</u>
	55,095,921	289,494	6,551	55,378,864
 <u>Component Units</u>				
Land	989,118			989,118
Buildings	197,455			197,455
Park structures	1,335,809			1,335,809
Equipment and furniture	383,469	10,048		393,517
Construction in progress	<u>12,572,614</u>	<u>5,577,392</u>		<u>18,150,006</u>
	<u>15,478,465</u>	<u>5,587,440</u>		<u>21,065,905</u>
Reporting Entity	<u>\$70,574,386</u>	<u>\$ 5,876,934</u>	<u>\$ 6,551</u>	<u>\$76,444,769</u>

Note 6. Long-Term Debt

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

<u>General Long-Term Debt</u>	<u>Balance at Beginning of Year</u>	<u>Issues</u>	<u>Retirements</u>	<u>Balance at End of Year</u>
Primary Government				
General obligation bonds	\$ 8,098,050	\$	\$ 1,189,659	\$ 6,908,391
Certificates of obligation	85,000		40,000	45,000
Compensated absences	1,151,965		55,477	1,096,488
Capital leases	<u>822,904</u>		<u>268,452</u>	<u>554,452</u>
	10,157,919		1,553,588	8,604,331
Discretely Presented <u>Component Unit</u>				
Certificates of obligation	<u>10,625,000</u>		<u>330,000</u>	<u>10,295,000</u>
Reporting entity	<u>\$ 20,782,919</u>	<u>\$</u>	<u>\$ 1,883,588</u>	<u>\$18,899,331</u>
<u>Proprietary Fund Type</u>				
General obligation bonds	\$ 9,526,948	\$	\$ 200,340	\$ 9,326,608
Revenue bonds	1,880,000		445,000	1,435,000
Certificates of obligation	695,000		330,000	365,000
Compensated absences	47,708		214	47,494
Capital leases	<u>1,910,000</u>		<u>130,000</u>	<u>1,780,000</u>
Total proprietary fund type debt	<u>\$ 14,059,656</u>	<u>\$</u>	<u>\$ 1,105,554</u>	<u>\$12,954,102</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 6. Long-Term Debt - continued

General long-term debt consists of capital leases, liabilities for accrued vacation leave, and 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.

General obligation bonds, revenue bonds, certificates of obligation and capital leases outstanding at September 30, 2001, consist of the following individual issues:

	<u>General Long-Term Debt Account Group</u>	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Golf Course Fund</u>	<u>Total</u>	<u>Discretely Presented Component Units</u>
<b><u>General Obligation Bonds</u></b>						
\$1,295,000 1993 General Obligation Bonds, due in annual installments through August 15, 2013, 4.00% - 7.00%	\$ 1,175,000	\$	\$	\$	\$ 1,175,000	\$
\$4,145,000 1995 General Obligation Refunding Bonds, due in annual installments through February 15, 2015, 3.90% - 5.60%	2,139,156	225,844			2,365,000	
\$4,100,000 1996 General Obligation Refunding and Improvement Bonds, due in annual installments through August 15, 2016, 5.40% - 5.90%	1,329,235	832,179	198,585		2,359,999	
\$8,070,000 General Obligation bonds, due in annual installments through February 15, 2018, 4.60% - 6.50%		8,070,000			8,070,000	
\$2,815,000 General Obligation Refunding Bonds, due in annual installments through February 15, 2005, 3.45% - 4.00%	<u>2,265,000</u>				<u>2,265,000</u>	
	<u>\$ 6,908,391</u>	<u>\$ 9,128,023</u>	<u>\$ 198,585</u>	<u>\$</u>	<u>\$16,234,999</u>	<u>\$</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 6. Long-Term Debt - continued

	General Long- Term Debt Account Group	Water and Sewer Fund	Airport Fund	Golf Course Fund	Total	Discretely Presented Component Units
<u>Revenue Bonds</u>						
\$4,090,000 1985 Waterworks and Sewer System Refunding and Improvement Bonds, due in annual installments through September 1, 2002, 6.00% - 9.00%	\$	\$ 150,000	\$	\$	\$ 150,000	\$
\$2,905,000 1995 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, due in annual installments through September 1, 2015, 3.90% - 5.60%		1,285,000			1,285,000	
	<u>\$</u>	<u>\$ 1,435,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,435,000</u>	<u>\$</u>
<u>Certificates of Obligations</u>						
\$3,035,000 1987 Combination Tax and Revenue Certificates of Obligation (taxable) due in annual installments through August 1, 2002, 8.875% - 9.375%	\$	\$	\$	\$ 365,000	\$ 365,000	\$
\$260,000 1995 Public Property Finance Contractual Obligations due in annual installments through February 15, 2002, 3.90% - 4.50%		45,000			45,000	
\$10,965,000 Combination Tax and Revenue Certificates of Obligation due in annual installments through February 15, 2019, 5.10% - 6.00%						10,295,000
	<u>\$</u>	<u>45,000</u>	<u>\$</u>	<u>\$ 365,000</u>	<u>\$ 410,000</u>	<u>\$10,295,000</u>
<u>Capital Leases</u>						
\$2,425,000 1990 Lease Purchase Agreement due in monthly installments through August 20, 2001, 7.75%	\$	\$	\$	\$	\$	\$
\$485,912 1994 Lease Purchase Agreement due in annual installments through 2001, 5.35%		3,363			3,363	
\$134,509 1995 Lease Purchase Agreement due in annual installments through 2002, 6.51%		11,186			11,186	
\$650,000 1996 Lease Purchase Agreement due in annual installments through 2003, 5.39% 1,107,109		539,903			539,903	
\$1,885,000 Lease Purchase Agreement, Refunding due in monthly installments through March 1, 2011, 4.35 - 5%		1,780,000			1,780,000	
	<u>\$</u>	<u>554,452</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,334,452</u>	<u>\$</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 6. Long-Term Debt - continued

During the 2000-01 fiscal year the City did not issue any general obligation refunding bonds, revenue bonds or certificates of obligations.

In prior years, the City defeased certain General Obligation Bonds, Revenue Bonds and Certificates of Obligation by placing the proceeds of the new bonds in irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On September 30, 2001, \$7,030,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term debt as of September 30, 2001 are as follows:

Fiscal Year	General Obligation Bonds				Revenue Bonds
	General Long-Term Debt Account Group	Water and Sewer Fund	Airport Fund	Total	Water and Sewer Fund
2002	\$ 1,474,691	\$ 643,570	\$ 39,374	\$ 2,157,635	\$ 548,310
2003	1,306,704	921,771	38,356	2,266,831	105,410
2004	1,268,373	835,712	18,005	2,122,090	102,880
2005	1,067,808	811,714	17,469	1,896,991	105,295
2006	451,135	812,906	17,331	1,281,372	102,415
2007-2011	1,817,101	3,950,968	70,351	5,838,420	527,145
2012-2016	1,235,643	4,064,629	70,844	5,371,116	422,750
2017-2018		1,665,374		1,665,374	
	8,621,455	13,706,644	271,730	22,599,829	1,914,205
Less interest	1,713,064	4,578,621	73,145	6,364,830	479,205
Total principal	<u>\$ 6,908,391</u>	<u>\$ 9,128,023</u>	<u>\$ 198,585</u>	<u>\$16,234,999</u>	<u>\$ 1,435,000</u>

Fiscal Year	Certificates of Obligation				Capital Leases		
	General Long-Term Debt Account Group	Golf Course Total	Total	Discretely Presented Component Unit	General Long-Term Debt Account Group	Water and Sewer Fund	Total
2002	\$ 46,013	\$ 399,219	\$ 445,232	\$ 911,457	250,810	\$ 221,085	\$ 471,895
2003				905,008	235,600	224,595	460,195
2004				907,358	112,606	222,694	335,300
2005				903,358		25,331	225,331
2006				898,158		22,543	222,543
2007-2011				4,478,554		128,410	1,128,410
2012-2016				4,492,479			
2017-2019				2,667,546			
	46,013	399,219	445,232	16,183,918	599,016	2,244,658	2,843,674
Less interest	1,013	34,219	35,232	5,888,918	44,564	464,658	509,222
Total principal	<u>\$ 45,000</u>	<u>\$ 365,000</u>	<u>\$ 410,000</u>	<u>\$ 10,295,000</u>	<u>\$ 554,452</u>	<u>\$ 1,780,000</u>	<u>\$ 2,334,452</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**Note 7. Contributed Capital**

During 2001, the City adopted GASB No. 33 and, accordingly, recorded capital contributions and grants to the Enterprise Fund as revenue. There were no capital contributions and \$372,748 of grants were recognized as income in 2001. Capital contributions prior to October 1, 2000 were reduced by depreciation of assets contributed in prior years.

A summary of contributed capital changes are as follows:

	<u>Water and Sewer Enterprise Fund</u>	<u>Airport Enterprise Fund</u>	<u>Golf Course Fund</u>	<u>Total</u>
Contributed capital, October 1, 2000	\$7,415,903	\$3,841,816	\$ 529,306	\$11,787,025
Less: Depreciation of fixed assets acquired with contributed capital prior to October 1, 2000	<u>227,382</u>	<u>125,289</u>	<u>52,011</u>	<u>404,682</u>
Contributed capital, September 30, 2001	<u>\$7,188,521</u>	<u>\$3,716,527</u>	<u>\$ 477,295</u>	<u>\$11,382,343</u>

**Note 8. 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), one of over 745 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 10 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 8. Retirement Plan - continued

TMRS issues a publicly available annual financial report that includes financial statements and required supplementary information. The report may be obtained by writing to TMRS, P.O. Box 149133, Austin, Texas 78714-9153.

Contributions

The contribution rate for the employees is 7%, and the City's matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases its annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2000 valuation is effective for rates beginning January, 2002.)

The annual pension cost for 2000 was \$857,296. The City's annual pension cost was equal to the required and actual contributions for the years ended December 31, 2000, 1999 and 1998.

Schedule of Actuarial Liabilities and Funding Progress

	FY 2000-01 12/31/00	FY 1999-00 12/31/99	FY 1998-99 12/31/98	FY 1997-98 12/31/97	FY 1996-97 12/31/96	FY 1995-96 12/31/95
Actuarial Valuation Date						
Actuarial Value of Assets	\$15,081,238	\$13,384,251	\$11,829,358	\$10,131,621	\$8,522,856	\$7,493,279
Actuarial Accrued Liability	19,739,569	17,568,441	15,921,130	14,121,299	11,054,935	9,189,773
Percentage Funded	76.4%	76.2%	74.3%	71.7%	77.1%	81.5%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	4,658,331	4,184,190	4,091,772	3,989,678	2,532,079	1,696,494
Annual Covered Payroll	7,368,892	7,433,991	6,829,274	6,259,490	6,180,293	5,953,873
UAAL as a Percentage of Covered Payroll	63.2	56.3%	59.9%	63.7%	40.9%	28.5%
Net Pension Obligation (NPO) at Beginning of Period						
Annual Pension Cost:						
Annual Required Contribution (ARC)	857,296	995,918	878,195	784,480	565,938	409,539
Interest on NPO Adjustment to the ARC						
Contributions Made	857,296	995,918	878,195	784,480	565,938	409,539
Increase in NPO	<u>          </u>					
NPO at End of Period	<u>\$          </u>					

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 8. Retirement Plan - continued

Actuarial Assumptions

The City of Lancaster is one of 745 municipalities having their benefit plan administered by TMRS. Each of the 745 municipalities have an annual individual actuarial valuation performed. All assumptions for the December 31, 2000 valuations are contained in the 2000 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

*Actuarial Assumptions:* (a) Actuarial Cost method-United Credit (b) Amortization method-Level Percent of payroll (c) remaining Amortization Period-25 years-open period (d) Asset Valuation Method-Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)(e) Investment Rate of Return-8% (f) Projected Salary Increases-None (g) Includes Inflation at-None and (h) Costs-of-Living Adjustments-None.

Note 9. Deferred Compensation Plan

The City participates in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits them to defer, until future years, up to 25% of annual gross earnings not to exceed \$8,000 a year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City has amended plan documents to conform with the requirements of subsection (g) of IRC Section 457. Accordingly, all amounts of compensation deferred under the plans, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and beneficiaries.

It is the opinion of the City's legal counsel that the City has no liability for losses and provides limited administrative duties.

Investments are managed by the plans' trustees under one of 28 investment options or a combination thereof. The choice of the investment options(s) is made by the participants.

In accordance with GASB No. 32, the deferred compensation plans are no longer included in the financial statements of the City.

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. 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 reduction in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in each of the past three fiscal years.

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 10. Commitments and Contingencies - continued

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas ("TRA"), a conservation and reclamation district, whereby the Authority finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. The City's fiscal year for when the adjustments are reported and the City's fiscal year for when the services were provided may differ due to both these adjustments and that TRA's fiscal year differs from the City's as indicated by the schedule below:

Regular monthly expenses for October 1, 2000 to September 30, 2001	\$ 2,699,021
TRA adjustment for December 1, 1999 to November 30, 2000	<u>( 43,263)</u>
Sewage treatment expenses, 2001	<u>\$ 2,655,758</u>

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2001 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Other Contingencies

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

Note 11. Segment Information for Enterprise Funds

The City maintains three Enterprise Funds, which provide water and sewer, airport and golf course services. Segment information for the year ended September 30, 2001, was as follows:

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Note 11. Segment Information for Enterprise Funds - continued

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues	\$ 7,195,144	\$ 89,723	\$ 476,827	\$ 7,761,694
Depreciation expense	911,605	176,384	164,833	1,252,822
Operating income (loss)	1,082,712	( 181,704)	( 257,579)	643,429
Operating transfers in (out)	( 600,000)	32,500	393,086	( 174,414)
Net income (loss)	937,978	( 158,067)	76,038	855,949
Fixed assets additions	4,274,338		12,790	4,287,128
Net working capital (deficiency)	9,752,181	19,558	( 362,200)	9,409,539
Total assets	40,138,871	4,255,926	3,612,088	48,006,885
Debt payable	12,343,023	198,585	365,000	12,906,608
Total equity	24,257,563	4,033,429	3,178,303	31,469,295

Note 12. Condensed Component Unit Information

The City includes two discretely presented component units in its Reporting Entity. Condensed balance sheet and revenue and expenditure information for the year ended September 30, 2001, is as follows:

	<u>Sales Tax 4A</u>	<u>Sales Tax 4B</u>	<u>Total</u>
Current assets	<u>\$ 2,725,613</u>	<u>\$ 6,181,533</u>	<u>\$ 8,907,146</u>
Total assets	<u>\$ 2,740,821</u>	<u>\$37,527,230</u>	<u>\$40,268,051</u>
Total liabilities	<u>\$ 4,867</u>	<u>\$12,090,293</u>	<u>\$12,095,160</u>
Total fund balance and other credits	<u>\$ 2,735,954</u>	<u>\$25,436,937</u>	<u>\$28,172,891</u>

Condensed statement of revenues and expenditures for both discretely presented component units is as follows:

	<u>Sales Tax 4A</u>	<u>Sales Tax 4B</u>	<u>Total</u>
Revenues	<u>\$ 991,572</u>	<u>\$3,153,066</u>	<u>\$4,144,638</u>
Current expenditures	982,160	1,872,977	2,855,137
Capital outlay		<u>5,593,917</u>	<u>5,593,917</u>
Total expenditures	<u>982,160</u>	<u>7,466,894</u>	<u>8,449,054</u>
Excess of revenues over expenditures	9,412	( 4,313,828)	( 4,304,416)
Other Financing Sources (Uses):			
Proceeds from certificates of obligation			
Transfers to primary government	( 47,174)	( 29,347)	( 76,521)
Excess (deficiency) of revenues and expenditures and other uses	<u>(\$ 37,762)</u>	<u>(\$4,343,175)</u>	<u>(\$4,380,937)</u>

**CITY OF LANCASTER, TEXAS**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**Note 13. Designated Fund Balance**

Designations of fund balance reflect City management's intended use of resources. As of September 30, 2001, the City designated unreserved fund balance was for equipment replacement \$523,810. The equipment replacement designation is for the replacement of the City's vehicle and large equipment fleet.

**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINIONS**

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# FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800

DALLAS, TEXAS 75201-2784

TELEPHONE: 214/855-8000  
FACSIMILE: 214/855-8200

HOUSTON  
WASHINGTON, D.C.  
AUSTIN  
SAN ANTONIO  
DALLAS  
NEW YORK  
LOS ANGELES  
MINNEAPOLIS  
LONDON  
HONG KONG

WE HAVE ACTED as Bond Counsel in connection with the issuance by City of Lancaster, Texas (the "City") of the "City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2002" (the "Bonds") in the aggregate principal amount of \$14,200,000, dated September 15, 2002, solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City's outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issuable in fully registered form only and in denominations of \$5,000 or any integral multiple thereof. The Bonds mature on February 15 in each of the years 2007 through 2024, unless redeemed in accordance with applicable optional redemption provisions. Interest accrues on the Bonds from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), and such accrued interest is payable on February 15 and August 15 in each year, commencing February 15, 2003, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Bonds, including the Ordinance, (ii) original or certified copies of the Special Escrow Agreement (the "Agreement") between the City and The Bank of New York Trust Company of Florida, N.A, Dallas, Texas (the "Escrow Agent"), and a special report of Grant Thornton LLP, Certified Public Accountants (the "Accountants"), (iii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iv) such other documentation, including an examination of the Bond executed delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance are valid, legally binding, and enforceable obligations of the City, payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

Re: "City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2002",  
dated September 15, 2002

2. The Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust pursuant to the Agreement and in accordance with the provisions of V.T.C.A., Government Code, Chapter 1207. In rendering this opinion, we have relied upon the verification by the Accountants of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. 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 after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds 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 such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of interests in a financial asset securitization investment trust, 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.

EHE:dfc

**APPENDIX D**

SPECIMEN BOND INSURANCE POLICY



Financial Guaranty Insurance  
 Company  
 115 Broadway  
 New York, NY 10006  
 (212) 312-3000  
 (800) 352-0001

A GE Capital Company

## Municipal Bond New Issue Insurance Policy

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer inasmuch as it is unable to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, reading "Deborah M. Reif".

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, appearing to read "Gregory Brown".

**Authorized Officer**

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

*Richard M. Reif*

President

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

*Opus Tom*

**Authorized Officer**

State Street Bank and Trust Company, N.A., as Fiscal Agent