

**OFFICIAL STATEMENT**

**Dated May 3, 2012**

**Ratings:**  
**Moody's: "Aa3"**  
**(See "OTHER INFORMATION - Ratings" herein)**

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

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

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



**\$12,240,000**  
**CITY OF LANCASTER, TEXAS**  
**(Dallas County)**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

**Dated Date: April 1, 2012**  
**Interest Accrues from Delivery Date**

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

**PAYMENT TERMS . . .** Interest on the \$12,240,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2012 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable August 15 and February 15 of each year, commencing August 15, 2012, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), and are direct obligations of the City of Lancaster, Texas (the "City"), payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance"). In the Bond Ordinance adopted March 26, 2012, the City Council delegated to a designated officer of the City pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are collectively referred to as the "Ordinance") (see "THE BONDS - Authority for Issuance" and "THE BONDS – Security and Source of Payment").

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt (the "Refunded Obligations") for a debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).

**MATURITY SCHEDULE**

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

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 530,000	2013	2.000%	0.500%	YD4	\$ 1,195,000	2019	4.000%	1.900%	YK8
620,000	2014	2.000%	0.600%	YE2	1,245,000	2020	5.000%	2.150%	YL6
630,000	2015	2.000%	0.800%	YF9	1,305,000	2021	5.000%	2.400%	YM4
670,000	2016	2.000%	1.050%	YG7	1,375,000	2022	5.000%	2.550%	YN2
820,000	2017	4.000%	1.350%	YH5	1,445,000	2023	4.000%	2.750% <sup>(2)</sup>	YP7
1,155,000	2018	3.000%	1.600%	YJ1	1,250,000	2024	4.000%	3.000% <sup>(2)</sup>	YQ5

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2022.

**REDEMPTION . . .** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

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

**DELIVERY . . .** It is expected that the Bonds will be available for delivery through DTC on May 31, 2012 (the "Delivery Date").

*This Official Statement, which includes the cover page, Schedule 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 a representation, promise or guarantee of the Financial Advisor or the Underwriters.*

*This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.*

*The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.*

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

**NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.**

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

**THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

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

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

**OFFICIAL STATEMENT SUMMARY**

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

- THE CITY**..... The City of Lancaster is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 34 square miles (see "INTRODUCTION - Description of the City").
  
- THE BONDS**..... The \$12,240,000 General Obligation Refunding Bonds, Series 2012 are to mature on February 15 in each of the years 2013 through 2024 (see "THE BONDS - Description of the Bonds").
  
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the Delivery Date, and is payable August 15, 2012, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS - Optional Redemption").
  
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and the ordinance (the "Bond Ordinance") adopted by the City Council (the "Council") of the City in which the Council delegated to a designated officer of the City authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance") (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, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").
  
- TAX EXEMPTION** ..... In the opinion of Special Tax Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Special Tax Counsel, 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 (the "Refunded Obligations") for a debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Obligations and their redemption dates).
  
- RATINGS** ..... The Bonds and presently outstanding tax supported debt of the City are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - Ratings"). The City also has outstanding tax supported debt rated by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P").

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

**LEGAL OPINIONS.....** West & Associates, L.L.P., Dallas, Texas, Bond Counsel, and Andrews Kurth LLP, Houston, Texas, Special Tax Counsel.

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt <sup>(4)</sup>	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2008	35,800 <sup>(1)</sup>	\$ 1,709,096,790	\$ 47,740	\$ 55,125,000	\$ 1,540	3.23%	99.68%
2009	36,200 <sup>(1)</sup>	1,725,352,328	47,662	53,250,000	1,471	3.09%	98.96%
2010	36,361 <sup>(2)</sup>	1,563,581,389	43,002	86,225,000	2,371	5.51%	98.99%
2011	36,390 <sup>(1)</sup>	1,498,802,005	41,187	84,055,000	2,310	5.61%	102.08%
2012	36,700 <sup>(3)</sup>	1,497,549,787	40,805	75,310,000 <sup>(5)</sup>	2,052 <sup>(5)</sup>	5.03% <sup>(5)</sup>	95.36% <sup>(6)</sup>

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

(2) Source: U.S. Census Bureau.

(3) Estimate provided by City Staff.

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

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

(6) Collections through February 1, 2012.

For additional information regarding the City, please contact:

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**CITY OFFICIALS, STAFF, AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Marcus E. Knight Mayor	4 Years	May, 2012	Business Executive
Walter Weaver Councilmember, District 1	2 Years	May, 2013	Retired Teacher
Stanley Jaglowski Councilmember, District 2	1 Year	May, 2014	Automotive Service Professional
Marco Mejia Councilmember, District 3	2 Years	May, 2013	Business Owner, Construction Company
James Daniels Councilmember, District 4	8 Years	May, 2014	Retired
VACANT <sup>(1)</sup> Councilmember, District 5			
Nina Morris Councilmember, District 6	4 Years	May, 2014	Community Volunteer

(1) Councilmember Clyde Hairston resigned effective February 1, 2012. The position is expected to be filled after the canvassing of the May 12, 2012 election results.

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Length of Service to Municipal Governments</u>
Opal Mauldin Robertson	City Manager	9 Years	20 Years
Sheree Haynes	Director of Finance	9 Months	12 Years
Dolle Downe	City Secretary	9 Years	21 Years
Bob Hager	City Attorney	35 Years	35 Years

**INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS**

Certified Public Accountants .....	BKD LLP Dallas, Texas
Bond Counsel .....	West & Associates, L.L.P. Dallas, Texas
Special Tax Counsel.....	Andrews Kurth LLP Houston, Texas
Financial Advisor .....	First Southwest Company Fort Worth, Texas

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## OFFICIAL STATEMENT

### RELATING TO

**\$12,240,000**

### **CITY OF LANCASTER, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

### INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$12,240,000 City of Lancaster, Texas General Obligation Refunding Bonds, Series 2012 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on March 26, 2012 authorizing the issuance of the Bonds (the "Bond Ordinance") except as otherwise indicated herein. In the Bond Ordinance, as permitted by the provisions of Chapter 1207, Texas Government Code, as amended (the "Act"), the City Council delegated the authority to a designated officer of the City to establish the terms and details of the Bonds and to effect the sale of the Bonds pursuant to a "Pricing Certificate" (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance").

There follow 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 six Councilmembers. The Mayor and Councilmembers are elected for staggered three year terms with elections held annually in May. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 36,361, while the estimated 2012 population is 36,700. The City covers approximately 34 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 (the "Refunded Obligations") for a debt service savings, and (ii) to pay the costs of issuance associated with the sale of the Bonds.

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

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

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

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 Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds, together with other City funds will be applied as follows:

<u>Sources of Funds</u>	
Par Amount	\$ 12,240,000.00
Reoffering Premium	1,468,496.45
Transfers from Prior Issue Debt Service Reserve Funds	105,000.00
Transfers from Prior Issue Debt Service Funds	<u>281,656.25</u>
Total Sources of Funds	\$ 14,095,152.70
 <u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 13,915,170.72
Costs of Issuance <sup>(1)</sup>	<u>179,981.98</u>
Total Uses of Funds	\$ 14,095,152.70

(1) Includes Underwriters' Discount.

### THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated April 1, 2012, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing August 15, 2012, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

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 (hereinafter defined), and such interest shall be paid (i) by check dated as of the interest payment date, and sent by the Paying Agent/Registrar to each owner by 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 customary banking arrangement 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 upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for any payment on the Bonds shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

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

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax within the limits prescribed by law sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5 of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutional maximum tax rate of \$2.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Texas Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2023, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturity or maturities and the amounts 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.

The City, at least forty-five (45) days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Bonds to be redeemed.

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

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE OF REDEMPTION HAVING BEEN GIVEN AS PROVIDED IN THE ORDINANCE AND SUBJECT TO ANY CONDITIONS OR RIGHTS RESERVED BY THE CITY PURSUANT THERTO, THE BONDS OR PORTIONS THEREOF CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE DATE FIXED FOR REDEMPTION AND, UNLESS THE CITY DEFAULTS IN ITS OBLIGATION TO MAKE PROVISION FOR THE PAYMENT OF THE PRINCIPAL THEREOF, OR ACCRUED INTEREST THEREON, SUCH BONDS OR PORTIONS THEREOF SHALL CEASE TO BEAR INTEREST FROM AND AFTER THE DATE FIXED FOR REDEMPTION, WHETHER OR NOT SUCH BONDS ARE PRESENTED AND SURRENDERED FOR PAYMENT ON SUCH DATE. IF THE CITY SHALL FAIL TO MAKE PROVISION FOR PAYMENT OF ALL SUMS DUE ON A REDEMPTION DATE, THEN ANY BOND OR PORTION THEREOF CALLED FOR REDEMPTION SHALL CONTINUE TO BEAR INTEREST AT THE RATE STATED ON THE BOND UNTIL DUE PROVISION IS MADE FOR THE PAYMENT OF SAME BY THE CITY.

**BOOK-ENTRY-ONLY SYSTEM** . . . *This section describes how ownership of the Bonds is to be transferred and how the principle of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The City and the Underwriters cannot and do 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.*

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on 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 Bonds 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the 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 the 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Underwriters believe to be reliable, but neither the City nor the Underwriters take any responsibility for the accuracy thereof.

*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.

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., 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, as the case may be, are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the Registered Owners 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 Bonds 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 "The Bonds – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part, where such redemption is scheduled to occur within forty five (45) calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered Owner of the uncalled principal 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 the interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (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 fifteen (15) days after the Special Record Date) shall be sent at least five (5) 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.

**REPLACEMENT BONDS . . .** If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same denominations and bearing the same rate of interest as the Bond so mutilated, destroyed, stolen or lost will be issued as provided in the Ordinance and subject to the applicable laws of the State of Texas. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for an Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

**REMEDIES . . .** The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, 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. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A 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 or perform other material terms and covenants contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders 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 are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

**DEFEASANCE . . .** The Ordinance provides that the Bonds may be defeased, discharged or refunded in any manner permitted by applicable law.

**AMENDMENTS . . .** The City may, without consent of or notice to any Owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the Owners of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding and receipt of a counsel's opinion that such amendment, addition or rescission of any provisions of the Ordinance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Owners of outstanding Bonds, no such amendment, addition, or rescission shall (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, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by Owners for consent to any such amendment, addition, or rescission.

## TAX INFORMATION

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

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

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

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

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

As of January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for repairs or improvements required to comply with governmental requirements and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." Section 11.253 of the Tax Code defines "goods-in-transit" as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following year. A taxpayer may receive only one of the freeport exemptions or one of the goods-in-transit exemptions, but not both, for items of personal property.

The City may create one or more tax increment financing districts ("TIF") within the City and freeze the taxable values of real property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

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

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". Furthermore, the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City

by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

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

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Disabled taxpayers and taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

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

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

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

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

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

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

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

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

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

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

The City does not tax freeport property.

The City has taken action to continue taxing goods-in-transit in 2012 and future years.

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

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

<u>Corporation Name</u>	<u>2011 Market Value</u>	<u>2011 Tax Value</u>	<u>Year on Roll</u>
Prologis	\$ 31,189,110	\$ 31,189,110	2008
United National Foods	24,534,470	18,661,431	2011

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

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

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

2011/12 Market Valuation Established by Dallas Central Appraisal District		\$ 1,740,802,380
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 50,288,307	
Disabled Veterans Exemptions	8,664,323	
Freeport Exemption	24,927,975	
Capped Value Loss	760,774	
Pollution Control Exemption	1,255,477	
Totally Exempt Property	77,248,570	
Agricultural and Other Exemptions	<u>80,107,167</u>	<u>243,252,593</u>
2011/12 Taxable Assessed Valuation		\$ 1,497,549,787
City Funded Debt Payable from Ad Valorem Taxes (as of 3-1-12) <sup>(1)</sup>		
General Obligation Bonds	\$ 43,570,000	
Certificates of Obligation	50,040,000	
The Bonds	<u>12,240,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 105,850,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Water and Sewer System General Obligation Debt	\$ 15,070,000 <sup>(3)</sup>	
Stormwater System General Obligation Debt	565,000	
Airport System General Obligation Debt	130,000 <sup>(3)</sup>	
Economic Development Corporation General Obligation Debt	2,655,000	
Recreational Development Corporation General Obligation Debt	<u>8,390,000 <sup>(3)</sup></u>	<u>26,810,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 79,040,000
Interest and Sinking Fund as of 2-1-12		\$ 3,731,410
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		7.07%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		5.28%

2012 Estimated Population - 36,700  
Per Capita Taxable Assessed Valuation - \$40,805  
Per Capita Total Funded Debt - \$2,884  
Per Capita Net Funded Debt - \$2,154

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

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 900,351,520	51.72%	\$ 905,759,510	54.27%	\$ 943,972,980	54.26%
Real, Residential, Multi-Family	71,756,440	4.12%	74,506,500	4.46%	81,307,440	4.67%
Real, Vacant Lots/Tracts	59,847,390	3.44%	57,268,340	3.43%	52,158,020	3.00%
Real, Acreage (Land Only)	77,143,990	4.43%	88,313,230	5.29%	105,008,020	6.04%
Real, Farm and Ranch Improvements	12,872,360	0.74%	15,079,790	0.90%	16,633,110	0.96%
Real, Commercial	292,632,870	16.81%	244,442,170	14.65%	256,529,490	14.75%
Real, Industrial	29,204,940	1.68%	18,277,640	1.10%	19,343,890	1.11%
Oil, Gas and Mineral Reserves	460	0.00%	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	90,043,510	5.17%	78,660,170	4.71%	94,398,980	5.43%
Tangible Personal, Commercial	155,244,900	8.92%	137,597,940	8.24%	109,677,600	6.30%
Tangible Personal, Industrial	49,641,320	2.85%	47,702,600	2.86%	58,785,810	3.38%
Tangible Personal, Other	-	0.00%	-	0.00%	200,920	0.01%
Tangible Personal, Mobile Homes	721,940	0.04%	855,740	0.05%	846,280	0.05%
Special Inventory	1,340,740	0.08%	502,170	0.03%	818,060	0.05%
Total Appraised Value Before Exemptions	\$ 1,740,802,380	100.00%	\$ 1,668,965,800	100.00%	\$ 1,739,680,600	100.00%
Totally Exempt Property	(77,248,570)		-		-	
Total Exemptions/Reductions	(166,004,023)		(170,163,795)		(176,099,211)	
Taxable Assessed Value	\$ 1,497,549,787		\$ 1,498,802,005		\$ 1,563,581,389	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2009		2008	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,058,645,200	55.91%	\$ 1,041,208,720	56.06%
Real, Residential, Multi-Family	93,503,550	4.94%	78,812,720	4.24%
Real, Vacant Lots/Tracts	56,378,290	2.98%	59,137,290	3.18%
Real, Acreage (Land Only)	93,379,190	4.93%	92,445,135	4.98%
Real, Farm and Ranch Improvements	15,598,400	0.82%	8,151,825	0.44%
Real, Commercial	262,452,680	13.86%	256,133,320	13.79%
Real, Industrial	19,316,550	1.02%	18,961,110	1.02%
Real and Tangible Personal, Utilities	122,247,900	6.46%	130,892,610	7.05%
Tangible Personal, Commercial	108,659,690	5.74%	107,072,820	5.76%
Tangible Personal, Industrial	61,761,690	3.26%	62,796,960	3.38%
Tangible Personal, Other	140,920	0.01%	160,120	0.01%
Tangible Personal, Mobile Homes	826,840	0.04%	874,380	0.05%
Special Inventory	690,800	0.04%	822,080	0.04%
Total Appraised Value Before Exemptions	\$ 1,893,601,700	100.00%	\$ 1,857,469,090	100.00%
Totally Exempt Property	-		-	
Total Exemptions/Reductions	(168,249,372)		(148,372,300)	
Taxable Assessed Value	\$ 1,725,352,328		\$ 1,709,096,790	

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

**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year <sup>(3)</sup>	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2008	35,800 <sup>(1)</sup>	\$ 1,709,096,790	\$ 47,740	\$ 55,125,000	3.23%	\$ 1,540
2009	36,200 <sup>(1)</sup>	1,725,352,328	47,662	53,250,000	3.09%	1,471
2010	36,361 <sup>(2)</sup>	1,563,581,389	43,002	86,225,000	5.51%	2,371
2011	36,390 <sup>(1)</sup>	1,498,802,005	41,187	84,055,000	5.61%	2,310
2012	36,700 <sup>(1)</sup>	1,497,549,787	40,805	75,310,000 <sup>(4)</sup>	5.03%	2,052

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

(2) Source: U.S. Census Bureau.

(3) Does not include self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently does not have any plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

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

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

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2008	\$ 0.7375	\$ 0.6091	\$ 0.1284	\$ 12,435,678	96.33%	99.68%
2009	0.7775	0.6441	0.1334	13,298,918	95.22%	98.96%
2010	0.7775	0.6141	0.1634	12,171,705	95.78%	98.99%
2011	0.8675	0.6502	0.2173	13,040,469	98.02%	102.08%
2012	0.8675	0.6012	0.2663	13,051,245	95.36%	95.36% <sup>(1)</sup>

(1) Collections through March 31, 2012.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2011/12 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
AT&T Communications	Utility	\$ 73,946,813	4.93%
ONCOR Electric Delivery	Utility Delivery	58,104,740	3.88%
Prologis & Argent LP	Warehouse/Distribution	31,189,110	2.08%
Wal-Mart	Retail	21,945,810	1.46%
United Natural Foods Inc.	Commercial	18,661,431	1.25%
Pleasant Run Courtyard	Apartments	13,984,350	0.93%
Brascraft Manufacturing	Plumbing Products	13,096,319	0.87%
KTR DAL II LLC	Warehouse/Distribution	11,400,000	0.76%
HD Development Prop LP	Retail Store	10,918,280	0.73%
M&A Texas Lancaster Ltd.	Real Estate	10,040,000	0.67%
		<u>\$ 263,286,853</u>	<u>17.57%</u>

Source: City officials.

**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 (however, see "THE BONDS – Tax Rate Limitation").

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

2012 Principal and Interest Requirements	\$ 4,639,986
\$0.3130 Tax Rate at 99.00% Collection Produces	\$ 4,640,458
Average Annual Principal and Interest Requirements, 2012 - 2040	\$ 4,046,935
\$0.2730 Tax Rate at 99.00% Collection Produces	\$ 4,047,428
Maximum Principal and Interest Requirements, 2022	\$ 5,140,214
\$0.3468 Tax Rate at 99.00% Collection Produces	\$ 5,141,568

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

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2011/12	2011/12	Total	Estimated	City's	Authorized
	Taxable Assessed Value	Tax Rate	Tax Debt	% Applicable	Overlapping Tax Debt As of 3-1-12	But Unissued Debt as of 3/1/2012
City of Lancaster	\$ 1,497,549,787	\$ 0.867500	\$ 79,040,000 <sup>(1)</sup>	100.00%	\$ 79,040,000	\$ 14,550,695
Lancaster Independent School District	1,524,762,303	1.412700	96,537,203	84.91%	81,969,739	-
Dallas Independent School District	75,138,479,065	1.290347	2,568,295,000	0.04%	1,027,318	2,583
Dallas County	156,187,845,177	0.243100	143,932,642	0.95%	1,367,360	6,200,000
Dallas County Community College	162,748,994,902	0.099670	374,265,000	0.95%	3,555,518	-
Dallas County Hospital District	156,331,853,993	0.271000	705,000,000	0.95%	6,697,500	42,000,000
Total Direct and Overlapping Tax Debt					\$ 173,657,435	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation . . . . .					11.60%	
Per Capita Overlapping Tax Debt . . . . .					\$ 4,731.81	

(1) Includes a portion of the Bonds and excludes the Refunded Obligations, less self-supporting debt.

**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	Less: W&S Self-Supporting Requirements <sup>(3)</sup>	Less: Stormwater Self-Supporting Requirements	Less: EDC Self-Supporting Requirements	Less: LRDC Self-Supporting Requirements <sup>(3)</sup>	Less: Airport Self-Supporting Requirements <sup>(3)</sup>	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest								
2012	\$ 3,115,000	\$ 4,071,660	\$ -	\$ 97,563	\$ 7,284,223	\$ 1,569,117	\$ 48,013	\$ 228,050	\$ 784,124	\$ 14,934	\$ 4,639,986	
2013	2,705,000	3,706,072	530,000	463,000	7,404,072	1,654,763	47,013	228,150	730,400	15,200	4,728,547	
2014	2,695,000	3,604,386	620,000	451,500	7,370,886	1,648,888	50,913	228,050	736,450	14,750	4,691,836	
2015	2,735,000	3,495,662	630,000	439,000	7,299,662	1,504,088	49,713	227,750	732,300	19,125	4,766,686	
2016	2,890,000	3,379,144	670,000	426,000	7,365,144	1,513,563	48,513	227,250	733,000	18,375	4,824,444	18.30%
2017	2,905,000	3,255,915	820,000	402,900	7,383,815	1,485,288	47,313	226,550	728,700	7,900	4,888,065	
2018	3,080,000	3,125,295	1,155,000	369,175	7,729,470	1,485,888	46,113	230,550	913,825	12,650	5,040,445	
2019	2,465,000	3,007,023	1,195,000	327,950	6,994,973	694,563	49,813	229,250	924,150	7,400	5,089,798	
2020	2,605,000	2,903,103	1,245,000	272,925	7,026,028	696,838	48,391	227,647	921,000	12,050	5,120,103	
2021	2,745,000	2,790,592	1,305,000	209,175	7,049,767	703,484	46,947	225,738	922,500	11,550	5,139,548	39.83%
2022	2,880,000	2,669,289	1,375,000	142,175	7,066,464	709,544	50,375	228,406	926,875	11,050	5,140,214	
2023	3,000,000	2,536,913	1,445,000	78,900	7,060,813	721,256	48,675	230,544	923,600	10,600	5,126,138	
2024	3,120,000	2,394,715	1,250,000	25,000	6,789,715	722,250	46,975	227,363	923,100	10,200	4,859,828	
2025	3,255,000	2,241,619	-	-	5,496,619	688,188	50,141	228,734	-	-	4,529,556	
2026	3,400,000	2,077,050	-	-	5,477,050	689,066	48,172	229,547	-	-	4,510,266	61.58%
2027	3,560,000	1,901,286	-	-	5,461,286	699,166	51,094	229,922	-	-	4,481,105	
2028	3,265,000	1,729,144	-	-	4,994,144	537,056	-	-	-	-	4,457,088	
2029	3,425,000	1,560,160	-	-	4,985,160	547,369	-	-	-	-	4,437,791	
2030	3,570,000	1,382,836	-	-	4,952,836	551,281	-	-	-	-	4,401,555	
2031	3,735,000	1,196,479	-	-	4,931,479	558,900	-	-	-	-	4,372,579	80.95%
2032	3,340,000	1,000,282	-	-	4,340,282	-	-	-	-	-	4,340,282	
2033	1,495,000	860,880	-	-	2,355,880	-	-	-	-	-	2,355,880	
2034	1,560,000	761,165	-	-	2,321,165	-	-	-	-	-	2,321,165	
2035	1,625,000	657,206	-	-	2,282,206	-	-	-	-	-	2,282,206	
2036	1,700,000	548,678	-	-	2,248,678	-	-	-	-	-	2,248,678	91.67%
2037	1,770,000	435,418	-	-	2,205,418	-	-	-	-	-	2,205,418	
2038	1,850,000	317,261	-	-	2,167,261	-	-	-	-	-	2,167,261	
2039	1,925,000	194,045	-	-	2,119,045	-	-	-	-	-	2,119,045	
2040	2,010,000	65,606	-	-	2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 78,425,000</u>	<u>\$ 57,868,884</u>	<u>\$ 12,240,000</u>	<u>\$ 3,705,263</u>	<u>\$ 152,239,146</u>	<u>\$ 19,380,551</u>	<u>\$ 778,169</u>	<u>\$ 3,653,500</u>	<u>\$ 10,900,024</u>	<u>\$ 165,784</u>	<u>\$ 117,361,118</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" does not include lease/purchase obligations and excludes the Refunded Obligations. Includes that portion of interest offset by the refundable tax credit to be received by the City from the United States Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds." See "Table 9 – Interest and Sinking Fund Budget Projection" herein.
- (2) Average life of the issue – 7.232 years. Interest on the Bonds has been calculated at the rates illustrated on the cover page hereof.
- (3) Includes a portion of the Bonds.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION <sup>(1)</sup>**

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-12.....		\$ 4,639,986
Budgeted Interest and Sinking Fund, 9-30-11 .....	\$ 306,204	
Budgeted Interest and Sinking Fund Tax Levy .....	4,002,951	
Build America Bonds Subsidy .....	710,555	
Estimated Investment Earnings .....	<u>2,586</u>	<u>5,022,296</u>
Estimated Balance, 9-30-11 .....		\$ 382,310

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

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

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-11 .....	\$ 4,188,369
Less: Revenue Bonds Requirements, 2012 Fiscal Year .....	<u>105,455</u>
Balance Available for Other Purposes .....	\$ 4,082,914
System General Obligation Bond Requirements, 2012 Fiscal Year .....	<u>1,569,117</u>
Balance .....	\$ 2,513,797
Percentage of System General Obligation Bonds, Self-Supporting .....	100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-11 .....	\$ 242,925
Stormwater General Obligation Bond Requirements, 2012 Fiscal Year .....	<u>48,013</u>
Balance .....	\$ 194,913
Percentage of Stormwater General Obligation Bonds, Self-Supporting .....	100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-11 .....	\$ 408,410
EDC General Obligation Bond Requirements, 2012 Fiscal Year .....	<u>228,050</u>
Balance .....	\$ 180,360
Percentage of LEDC General Obligation Bonds, Self-Supporting .....	100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-11 .....	\$ 463,210
LRDC General Obligation Bond Requirements, 2012 Fiscal Year .....	<u>784,124</u>
Balance .....	\$ (320,914) <sup>(2)</sup>
Percentage of LRDC General Obligation Bonds, Self-Supporting .....	59.07%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-11 .....	\$ (60,433) <sup>(3)</sup>
Airport General Obligation Bond Requirements, 2012 Fiscal Year .....	<u>14,934</u>
Balance .....	\$ (75,367)
Percentage of Airport General Obligation Bonds, Self-Supporting .....	100.00%

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

(2) The deficit occurred because the debt service and operating expenses of the Lancaster Recreation Center, Library, and Senior Center - exceed the ½¢ sales tax revenue dedicated for Lancaster Recreational Development Corporation ("LRDC"). The General Fund budgets each year to cover the deficit in the LRDC. Information for fiscal year 2011 indicates that the ½¢ sales tax generated \$1,877,225; debt service was \$909,565, and the amount transferred from the General Fund was \$600,000. Any deficit in fiscal year 2012 will be eliminated through a similar transfer. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

(3) The Lancaster Airport Fund had a deficit fund balance as of 9/30/11. This deficit occurred due to the purchase of the FBO/terminal building that had been owned by a private individual. The City expects that this deficit will be eliminated through Airport revenues earned in fiscal year 2012. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

Purpose	Date Authorized	Amount Authorized	Amount	
			Heretofore Issued	Unissued Balance
Permanent Public Improvements	11/6/2007	\$ 37,545,695	\$ 22,995,000	\$ 14,550,695

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT** . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

**TABLE 12 - OTHER OBLIGATIONS**

The annual requirements to amortize the capital leases as of September 30, 2011 are as follows:

Fiscal Year	Government Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 150,534	\$ 5,864	\$ 156,398	\$ 25,661	\$ 277	\$ 25,938
2013	43,730	549	44,279	-	-	-
2014	43,912	367	44,279	-	-	-
2015	30,799	184	30,983	-	-	-
Total	<u>\$ 268,975</u>	<u>\$ 6,964</u>	<u>\$ 275,939</u>	<u>\$ 25,661</u>	<u>\$ 277</u>	<u>\$ 25,938</u>

In addition, the City entered into a new equipment lease with Chase Bank effective November 4, 2011 for the purpose of replacing and upgrading its telephone system. The amount financed is \$366,345 at 2.15% interest for five years.

**PENSION FUND** . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. The City makes annual contributions to the plan equal to the amounts accrued for pension expense.

Plan Description . . . The plan provisions that have been adopted by the City are within the options available in the State statutes governing TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. Such report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

The plan provisions for the City are as follows:

Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, Any Age 0/20
Updated Service Credit	100%
Annuity Increase (to retirees)	70% of CPI

Contributions . . . Under State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

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

Actuarial Valuation Date	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
Actuarial Value of Assets	\$ 26,431,828	\$ 29,362,600	\$ 43,023,260
Actuarial Accrued Liability (AAL)	\$ 42,814,837	\$ 45,558,535	\$ 58,639,756
Percentage Funded	61.7%	64.5%	73.4%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 16,383,009	\$ 16,195,935	\$ 15,616,496
Annual Covered Payroll	\$ 14,507,867	\$ 14,525,485	\$ 13,835,321
UAAL as percentage of Cover Payroll	112.9%	111.5%	112.9%
Net Pension Obligation (NPO) at Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required contribution (ARC)	\$ 1,727,903	\$ 1,764,806	\$ 1,866,885
Contribution Made	<u>(1,727,903)</u>	<u>(1,764,806)</u>	<u>(1,866,885)</u>
NPO at End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. With respect to the City's contributions, the TMRS requires each city in the State to contribute a certain percentage of covered payroll each month, and allows certain cities to contribute a lesser amount by paying a "Phase-in Rate" rather than the "Full Rate". The "Phase-in Rate" period is an eight-year period that began on January 1, 2009. If a city elects to pay the "Phase-in Rate", its required monthly contribution rate will be a lesser amount during such phase-in period. However, each year that a city's actual contribution rate is less than the "Full Rate", the difference generates an actuarial loss in the following year's valuation, and therefore increases the city's required minimum contribution for the next year. Furthermore, cities that pay the "Phase-in Rate" or any rate less than the "Full Rate" are also likely to see their funding ratio decline each year.

The City has elected to contribute at the "Full Rate" in calendar year 2012, which is 13.70% of covered payroll. Based on current contributions, the City's actuarial accrued liability will be fully funded over the next 27 years with an assumed payroll growth rate of 3%. To date, the City has always contributed the total net pension obligation in each year, and therefore the City's total accrued net pension obligation is \$0. So long as the City continues to pay the "Full Rate", its net pension obligation should not increase in any such year.

Additional information as of the latest actuarial valuation, December 31, 2010, as follows:

	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single	29 years	28 years	27.2 years
Amortization Period	closed period	closed period	closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market
<u>Actuarial Assumptions:</u>			
Investment Rate of Return*	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 7, page 35.

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

*Supplemental Death Benefits . . .* The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS (the "SDBF"), and the City provides this coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). Retired employees are insured for \$7,500.

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

The City's contributions to SDBF for the fiscal years ended September 30, 2011, 2010 and 2009, were \$19,908, \$25,157, and \$73,918, respectively, which equaled the required contributions each year.

*Post-Employment Health Care . . .* The City offers its retired employees that meet the eligibility requirements for the TMRS plan described above post-employment health insurance under the City's retiree health plan (the "Plan"). The retiree pays 100% of the retired employees' premium, but the employees' spouses and dependents are not covered. Spouses and eligible dependents convert to COBRA coverage once the retired employee is no longer enrolled in municipal coverage. Coverage supplements Medicare once the retiree, spouse or dependent is eligible for Medicare. As of December 31, 2010, 18 retired employees participated in the Plan. Based on the latest actuarial valuation report, as of December 31, 2011, the City had an actuarial accrued liability of \$1,138,842, with actuarial value of assets of \$0. As of such date, the City's actuarially-determined required annual contribution, calculated by amortizing the City's unfunded actuarial accrued liability over a period of 30 years, was approximately \$67,731, based on a 3% payroll growth rate. This number will increase each year the City does not contribute the full actuarially-determined required annual contribution.

For more detailed information concerning the Plan, funding policies related thereto and related liabilities, as well as the historical unfunded actuarial accrued liability, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 8, page 38 and the Schedule of Funding Progress, page 45.

## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 2,656,324	\$ 3,198,615	\$ 3,229,244	\$ 3,682,085	\$ 4,665,593
Operating Grants & Contributions	8,765,448	8,817,871	8,424,486	10,588,454	8,922,577
Capital Grants & Contributions	1,740,834	1,866,380	1,384,895	132,158	6,557,823
General Revenues:					
Taxes & Fees	20,919,755	18,566,343	19,277,229	18,280,947	16,164,303
Other	1,221,524	1,410,397	1,537,715	1,345,966	1,224,644
Total Revenues	<u>\$ 35,303,885</u>	<u>\$ 33,859,606</u>	<u>\$ 33,853,569</u>	<u>\$ 34,029,610</u>	<u>\$ 37,534,940</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 4,254,835	\$ 4,603,846	\$ 3,689,422	\$ 5,395,286	\$ 4,274,611
Public Safety	14,333,669	14,829,005	14,487,896	14,116,941	13,169,737
Public Works	4,832,457	5,678,976	4,902,806	3,162,728	3,176,963
Community Development and Recreation	1,048,563	1,317,628	1,506,422	4,290,873	3,635,543
Community Services	-	-	-	-	29,037
Social and Welfare	8,640,215	8,599,376	8,496,435	9,015,301	8,071,230
Non Departmental	-	-	-	-	1,949,265
Interest and Fiscal Charges	2,837,440	2,880,768	2,053,606	2,367,768	1,514,305
Total Expenses	<u>\$ 35,947,179</u>	<u>\$ 37,909,599</u>	<u>\$ 35,136,587</u>	<u>\$ 38,348,897</u>	<u>\$ 35,820,691</u>
Increase (Decrease in Net Assets Before Transfers)	\$ (643,294)	\$ (4,049,993)	\$ (1,283,018)	\$ (4,319,287)	\$ 1,714,249
Transfers	<u>(669,107)</u>	<u>2,381,236</u>	<u>1,327,236</u>	<u>1,327,654</u>	<u>794,510</u>
Change in Net Assets	\$ (1,312,401)	\$ (1,668,757)	\$ 44,218	\$ (2,991,633)	\$ 2,508,759
Net Assets - Beginning	58,103,189	61,263,965	61,219,747	62,459,903	58,857,192
Prior Period Adjustments	-	(1,492,019)	-	1,751,477	1,093,952
Net Assets - Ending	<u>\$ 56,790,788</u>	<u>\$ 58,103,189</u>	<u>\$ 61,263,965</u>	<u>\$ 61,219,747</u>	<u>\$ 62,459,903</u>

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

Revenues	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Taxes and Fees	\$ 16,590,881	\$ 16,014,357	\$ 16,660,858	\$ 16,011,131	\$ 15,135,141
Licenses and Permits	459,717	502,940	495,859	771,028	749,750
Intergovernmental	413,154	295,736	223,944	85,190	134,641
Charges for Services	533,411	516,420	517,691	455,084	996,431
Fines and Forfeitures	861,273	839,868	998,405	1,338,090	1,634,682
Interest	5,021	7,073	15,629	59,808	100,245
Miscellaneous	337,881	604,188	628,222	1,634,789	372,095
<b>Total Revenues</b>	<b>\$ 19,201,338</b>	<b>\$ 18,780,582</b>	<b>\$ 19,540,608</b>	<b>\$ 20,355,120</b>	<b>\$ 19,122,985</b>
<b>Expenditures</b>					
General Government	\$ 3,792,006	\$ 3,332,021	\$ 3,292,946	\$ 4,185,437	\$ 2,791,941
Public Safety	13,215,005	13,416,346	13,071,145	13,944,602	12,502,555
Public Works	1,916,680	3,243,523	2,088,899	2,753,728	1,104,224
Cultural and Recreational	811,058	1,010,385	1,213,686	3,907,702	3,719,050
Community Service	-	-	-	-	19,073
Capital Outlay	66,808	-	-	-	-
Non Departmental	-	360,037	79,260	-	1,606,171
Debt Service	138,184	54,254	-	124,619	-
<b>Total Expenditures</b>	<b>\$ 19,939,741</b>	<b>\$ 21,416,566</b>	<b>\$ 19,745,936</b>	<b>\$ 24,916,088</b>	<b>\$ 21,743,014</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (738,403)	\$ (2,635,984)	\$ (205,328)	\$ (4,560,968)	\$ (2,620,029)
Transfers In	\$ 1,535,236	\$ 2,485,236	\$ 1,436,004	\$ 1,429,334	\$ 884,626
Transfers Out	-	-	-	(125,035)	(505,079)
Proceeds from Capital Lease	-	-	-	732,858	-
Transfer from Component Unit	-	-	-	-	-
<b>Total Sources (Uses)</b>	<b>\$ 1,535,236</b>	<b>\$ 2,485,236</b>	<b>\$ 1,436,004</b>	<b>\$ 2,037,157</b>	<b>\$ 379,547</b>
Net Increase (Decrease)	\$ 796,833	\$ (150,748)	\$ 1,230,676	\$ (2,523,811)	\$ (2,240,482)
Beginning Fund Balance	3,757,580	3,908,328	2,677,652	3,449,986	5,567,938
Prior Period Adjustments	-	-	-	1,751,477	122,530
<b>Ending Fund Balance</b>	<b>\$ 4,554,413</b>	<b>\$ 3,757,580</b>	<b>\$ 3,908,328</b>	<b>\$ 2,677,652</b>	<b>\$ 3,449,986</b>

NOTE: The City adopted a balanced budget for fiscal year 2011-12.

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

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

**DISTRIBUTION OF SALES AND USE TAXES**

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

**GENERAL FUND SALES AND USE TAX**

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2008	\$ 2,776,060	22.32%	\$ 0.1624	\$ 78
2009	3,105,369	23.35%	0.1800	86
2010	3,626,995	29.80%	0.2320	100
2011	3,754,499	28.79%	0.2505	103
2012 <sup>(1)</sup>	1,458,346	11.17%	0.0974	40

(1) Collections through February 1, 2012.

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

Fiscal Year Ended Collected	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2008	\$ 694,015	\$ 1,388,030	\$ 694,015
2009	776,342	1,552,684	776,342
2010	906,749	1,813,497	906,749
2011	938,625	1,877,250	938,625
2012 <sup>(1)</sup>	364,587	729,173	364,587

(1) Collections through February 1, 2012.

**FINANCIAL POLICIES**

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

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

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

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

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

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

## INVESTMENTS

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

**LEGAL INVESTMENTS . . .** Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

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

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

**TABLE 15 - CURRENT INVESTMENTS**

As of March 31, 2012, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	43.34%	\$ 18,055,039
Logic	56.66%	23,602,946
	100.00%	\$ 41,657,985

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

Local Government Investment Cooperative ("LOGIC") is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pool. LOGIC currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants. LOGIC operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, to the extent such rule is applicable to its operations. Accordingly, LOGIC uses the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. The investment activities of LOGIC are administered by third party advisors. There is no regulatory oversight by the State of Texas over LOGIC.

## TAX MATTERS

**TAX EXEMPTION . . .** In the opinion of Andrews Kurth LLP, Special Tax Counsel, interest on the Bonds is (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) is not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

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

The foregoing opinions of Special Tax Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Special Tax Counsel has assumed continuing compliance by the City with certain covenants of the ordinance authorizing the issuance of the Bonds (the "Ordinance") and has relied on representations by the City with respect to matters solely within the knowledge of the City, which Special Tax Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Internal Revenue Service (the "Service"). If the City should fail to comply with the covenants in the Ordinance, or if its representations relating to the Bonds that are contained in the Ordinance should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Special Tax Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Bonds.

Special Tax Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Special Tax Counsel, and Special Tax 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 municipal 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 of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

### **IMPACT OF PRESIDENT'S 2013 BUDGET PROPOSAL**

On February 13, 2012, President Obama released the language of his proposed budget for fiscal year 2013 (the "Budget"). One of the provisions of the Budget would have the effect of imposing an additional amount of tax on certain "high income" taxpayers based on, among other things, the amount of interest on tax-exempt obligations, such as the Bonds, received by such taxpayers. As originally proposed, this provision will be effective for taxable years beginning on or after January 1, 2013, and will apply to interest on the Bonds and other tax-exempt obligations received by such taxpayers on or after that date. The introduction or enactment of this provision or any similar legislative proposal may also affect the market price for, or marketability, of the Bonds. Purchasers of the Bonds are advised to consult their tax advisors with respect to the impact of the Budget on their ownership of the Bonds.

## TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

**PREMIUM BONDS . . .** All of the Bonds were offered at initial offering prices which exceed the stated redemption prices payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond .

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

## 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 certain specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access System.

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to the MSRB 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 2012.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule. 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 unaudited financial information of the type described in the preceding paragraph by the required time and 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, the City must provide updated information by March 31 in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

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

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

**AVAILABILITY OF INFORMATION . . .** In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

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

The City 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 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. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. 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 . . .** During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2007, 2008, 2009, and 2010 audited financial statements release dates were February 25, 2009, February 16, 2010, April 19, 2010, and August 22, 2011, respectively. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the outstanding tax supported debt of the City are rated "Aa3" by Moody's. The City also has outstanding tax supported debt rated by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating 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 company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, 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. At the time of the initial delivery of the Bonds, the City will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

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

The sale of the Bonds has not been registered under the United States 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, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. 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 at least "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 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 are legal investments for various institutions in those states.

## **LEGAL OPINIONS**

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

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

#### **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, 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**

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

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

The report will be relied upon by Special Tax Counsel in rendering its opinion with respect to the tax-exemption of interest on the Bonds and Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

#### **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering price to the public, as shown on page 2 hereof, less an underwriting discount of \$74,935.65. 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 reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, 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 authorized the issuance of the Bonds and approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

OPAL MAULDIN-ROBERTSON

City Manager  
City of Lancaster, Texas

ATTEST:

DOLLE DOWNE

City Secretary

## SCHEDULE OF REFUNDED OBLIGATIONS

## Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1995

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
5/15/1995	9/1/2012	5.450%	\$ 85,000	\$ 85,000
	9/1/2013	5.500%	90,000	90,000
	9/1/2014	5.550%	95,000	95,000
	9/1/2015	5.600%	100,000	100,000
			<u>\$ 370,000</u>	<u>\$ 370,000</u>

The 2012 – 2015 maturities will be redeemed prior to original maturity on July 23, 2012 at par.

## General Obligation Refunding Bonds, Series 2002

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
9/15/2002	2/15/2013	3.650%	\$ 560,000	\$ 560,000
	2/15/2014	3.800%	585,000	585,000
	2/15/2015	3.900%	605,000	605,000
	2/15/2016	4.100%	750,000	750,000
	2/15/2017	4.150%	930,000	930,000
	2/15/2018	4.250%	975,000	975,000
	2/15/2019	4.350%	1,020,000	1,020,000
	2/15/2020	4.450%	1,065,000	1,065,000
	2/15/2021	4.600%	1,110,000	1,110,000
	2/15/2022	4.500%	1,165,000	1,165,000
	2/15/2023	4.500%	1,225,000	1,225,000
	2/15/2024	4.500%	1,270,000	1,270,000
			<u>\$ 11,260,000</u>	<u>\$ 11,260,000</u>

The 2013 – 2024 maturities will be redeemed prior to original maturity on August 15, 2012 at par.

## Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
7/15/2003	2/15/2014	3.800%	\$ 160,000	\$ 160,000
	2/15/2015	4.000%	170,000 <sup>(1)</sup>	170,000
	2/15/2016	4.000%	175,000 <sup>(1)</sup>	175,000
	2/15/2017	4.200%	180,000 <sup>(2)</sup>	180,000
	2/15/2018	4.200%	190,000 <sup>(2)</sup>	190,000
	2/15/2019	4.350%	200,000 <sup>(3)</sup>	200,000
	2/15/2020	4.350%	205,000 <sup>(3)</sup>	205,000
	2/15/2021	4.500%	215,000 <sup>(4)</sup>	215,000
	2/15/2022	4.500%	225,000 <sup>(4)</sup>	225,000
	2/15/2023	4.500%	235,000 <sup>(4)</sup>	235,000
			<u>\$ 1,955,000</u>	<u>\$ 1,955,000</u>

The 2014 – 2023 maturities will be redeemed prior to original maturity on February 15, 2013 at par.

- (1) Represents a scheduled mandatory sinking fund redemption of a term certificate with a final maturity of February 15, 2016.  
(2) Represents a scheduled mandatory sinking fund redemption of a term certificate with a final maturity of February 15, 2018.  
(3) Represents a scheduled mandatory sinking fund redemption of a term certificate with a final maturity of February 15, 2020.  
(4) Represents a scheduled mandatory sinking fund redemption of a term certificate with a final maturity of February 15, 2023.

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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	1998	23,300
1980 Census	14,807	1999	24,300
1990 Census	22,117	2001	26,350
1991	22,189	2002	26,400
1992	22,877	2003	26,796
1993	22,877	2004	28,700
1986	20,750	2005	31,700
1987	20,850	2006	33,450
1988	23,000	2007	35,050
1989	23,000	2008	35,800
1994	22,300	2009	36,200
1995	22,300	2010 Census	36,361
1996	23,000	2011	36,390
1997	23,400	2012	36,700
2000 Census	25,894		

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

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

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

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

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

**GROWTH INDICES**

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits <sup>(1)</sup></u>		<u>Water</u>
		<u>Number</u>	<u>Value</u>	<u>Customers</u>
2007	35,050	360	58,349,498	10,489
2008	35,800	119	64,790,861	10,718
2009	36,200	111	21,641,764	10,800
2010	36,361	185	32,111,907	11,745
2011	36,390	140	20,385,605	11,817

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

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

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

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**APPENDIX B**

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

For the Year Ended September 30, 2011

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2011. Reference is made to the complete Report for further information.

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## Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 1 – New Pronouncements*, in 2011, the City changed its method of accounting for fund balances under Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and  
Members of the City Council  
City of Lancaster, Texas  
Page 2

The accompanying management's discussion and analysis, budgetary, pension and other post employment benefits information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

March 27, 2012

# **City of Lancaster, Texas**

## **Management's Discussion and Analysis**

### **September 30, 2011**

#### ***Introduction***

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City of Lancaster, Texas (the City) for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### ***Financial Highlights***

- The assets of the City exceeded its liabilities at the end of the fiscal year 2011, resulting in \$106,195,952 of net assets. Net assets associated with governmental activities are approximately \$57 million, or 53% of the total net assets of the City. Net assets associated with business-type activities are approximately \$49 million, or 47% of the total net assets of the City. The largest portion of net assets consists of invested in capital assets, net of related debt, which is approximately \$89 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$16.6 million, or 16% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$5 million, or 10% of total net assets for governmental activities; unrestricted net assets for business-type activities are approximately \$11 million, or 23% of total net assets for business-type activities.
- As of the close of fiscal year 2011, the City's Governmental Funds reported a combined ending fund balance of \$22,712,305, a decrease of \$3,022,991 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$4,554,413. This represents approximately 23% of General Fund expenditures, which is more than the 15% required by the City's adopted fund balance policy.

#### ***Overview of the Financial Statements***

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

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

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

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

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

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

*The government-wide financial statements can be found on pages 10 – 11 of this report.*

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

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

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

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

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

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

*The Proprietary Fund financial statements can be found on pages 16 – 18 of this report.*

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*The notes to the financial statements can be found on pages 19 – 41 of this report.*

**Other Information** – In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligations. Required supplementary information immediately follows the notes to the financial statements. Combining statements for Nonmajor Governmental Funds, Enterprise Funds, and component units fund financial statements follow the section of required supplementary information.

### ***Government-Wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. As of September 30, 2011, City assets exceeded its liabilities by \$106,220,013.

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

An additional portion of the City’s net assets, 21%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$6,945,731 or 6%, may be used to meet the City’s ongoing obligations to citizens and creditors.

## Statement of Net Assets for Governmental and Business-type Activities

	Governmental Activities 2011	Business-type Activities 2011	Total 2011	Governmental Activities 2010	Business-type Activities 2010	Total 2010
Current and other assets	\$ 37,686,985	\$ 13,662,330	\$ 51,349,315	\$ 43,316,779	\$ 10,048,366	\$ 53,365,145
Capital assets	99,945,007	46,348,347	146,293,354	99,407,986	47,685,560	147,093,546
Total assets	<u>137,631,992</u>	<u>60,010,677</u>	<u>197,642,669</u>	<u>142,724,765</u>	<u>57,733,926</u>	<u>200,458,691</u>
Long-term liabilities	75,982,972	8,084,056	84,067,028	80,566,819	9,468,374	90,035,193
Other liabilities	4,858,232	2,521,457	7,379,689	4,054,757	1,726,401	5,781,158
Total liabilities	<u>80,841,204</u>	<u>10,605,513</u>	<u>91,446,717</u>	<u>84,621,576</u>	<u>11,194,775</u>	<u>95,816,351</u>
Net assets						
Invested in capital assets, net						
of related debt	50,606,700	38,270,127	88,876,827	51,819,877	38,435,110	90,254,987
Restricted	718,522	\$ -	718,522	222,762	6,167,456	6,390,218
Unrestricted	<u>5,465,566</u>	<u>11,135,037</u>	<u>16,600,603</u>	<u>6,060,550</u>	<u>1,936,585</u>	<u>7,997,135</u>
Total net assets	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>

**Analysis of City's Operations** – The following table provides a summary of the City's operations for the year ended September 30, 2011. Overall, the City had an increase in net assets of \$1,577,673.

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

	Governmental Activities 2011	Business-type Activities 2011	Total 2011	Governmental Activities 2010	Business-type Activities 2010	Total 2010
Revenues						
Program revenues						
Charges for services	\$ 2,656,324	\$ 14,416,910	\$ 17,073,234	\$ 3,198,615	\$ 13,372,728	\$ 16,571,343
Operating grant and contribution	8,765,448	50,089	8,815,537	8,817,871	382,600	9,200,471
Capital grants and contributions	1,740,834	-	1,740,834	1,866,380	565,364	2,431,744
General revenue						
Taxes and fees	20,919,755	-	20,919,755	18,566,343	-	18,566,343
Other	<u>1,221,524</u>	<u>93,171</u>	<u>1,314,695</u>	<u>1,410,397</u>	<u>40,060</u>	<u>1,450,457</u>
Total revenues	<u>35,303,885</u>	<u>14,560,170</u>	<u>49,864,055</u>	<u>33,859,606</u>	<u>14,360,752</u>	<u>48,220,358</u>
Program expenses						
General government	4,254,835	-	4,254,835	4,603,846	-	4,603,846
Public safety	14,333,669	-	14,333,669	14,829,005	-	14,829,005
Public works	4,832,457	-	4,832,457	5,678,976	-	5,678,976
Community development and recreation	1,048,563	-	1,048,563	1,317,628	-	1,317,628
Social and welfare	8,640,215	-	8,640,215	8,599,376	-	8,599,376
Interest and fiscal charges	2,837,440	-	2,837,440	2,880,768	-	2,880,768
Water and sewer	-	9,178,117	9,178,117	-	10,082,971	10,082,971
Refuse	-	2,196,791	2,196,791	-	1,769,530	1,769,530
Airport	-	905,354	905,354	-	810,211	810,211
Golf course	-	83,002	83,002	-	86,966	86,966
Total expenses	<u>35,947,179</u>	<u>12,363,264</u>	<u>48,310,443</u>	<u>37,909,599</u>	<u>12,749,678</u>	<u>50,659,277</u>
Increase (decrease in net assets)						
before transfers	(643,294)	2,196,906	1,553,612	(4,049,993)	1,611,074	(2,438,919)
Transfers	<u>(669,107)</u>	<u>669,107</u>	<u>-</u>	<u>2,381,236</u>	<u>(2,381,236)</u>	<u>-</u>
Change in net assets	<u>(1,312,401)</u>	<u>2,866,013</u>	<u>1,553,612</u>	<u>(1,668,757)</u>	<u>(770,162)</u>	<u>(2,438,919)</u>
Net assets, beginning	58,103,189	46,539,151	104,642,340	61,263,965	47,309,313	108,573,278
Prior period adjustment	-	-	-	(1,492,019)	-	(1,492,019)
Net assets, beginning of year, as restated	<u>58,103,189</u>	<u>46,539,151</u>	<u>104,642,340</u>	<u>59,771,946</u>	<u>47,309,313</u>	<u>107,081,259</u>
Net assets, ending of year	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 58,103,189</u>	<u>\$ 46,539,151</u>	<u>\$ 104,642,340</u>

## Financial Analysis of the Government's Funds

### Governmental Funds

The focus of the City's Governmental Funds is to provide information on near term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$22,712,305, a decrease of \$3,022,991 from the prior year. This amount includes fund balance reserved for Debt Service of \$718,522, reserved for Public Improvement Districts of \$85,076, reserved for Capital Projects of \$15,286,477, reserved for Public Works, Grants, Law Enforcement Purposes, and Tourism of \$970,165. The net unassigned fund balance was \$4,554,413, a decrease of \$19,342,659 from prior year. The majority of the decrease was due to the implementation of GASB 54 and classification of fund balances.

In the General Fund, the original budget projected a \$179,355 decrease in fund balance this fiscal year; however the actual increase was \$796,833. Revenues generated from Taxes and Fees were \$353,918 over budget due to the improving economy and total expenditures were under budget by \$402,140, due to various implemented cost saving measures.

The HUD Fund has a total fund balance of \$1,097,652, an increase of \$137,387 from the prior year. The budget includes a planned reduction in administrative fees due to a shortfall of appropriation from the U.S. Department of Housing and Urban Development.

### Proprietary Funds

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

Unrestricted net assets of the Proprietary Funds at the end of the year were \$11,135,037. The total increase in net assets was \$2.9 million from the prior year.

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amount to \$146,293,354 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-type Activities		Totals	
	2010	2011	2010	2011	2010	2011
Land	\$ 12,337,857	\$ 13,214,268	\$ 4,879,781	\$ 4,879,781	\$ 17,217,638	\$ 18,094,049
Buildings	24,487,196	24,487,196	4,941,048	4,950,436	29,428,244	29,437,632
Equipment	15,425,946	15,612,515	2,803,307	2,803,307	18,229,253	18,415,822
Construction in progress	3,779,844	5,922,209	4,562,766	4,759,158	8,342,610	10,681,367
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	1,660,169	3,071,457	55,664,932	55,664,932	57,325,101	58,736,389
Streets and bridges	83,860,110	83,637,070	-	-	83,860,110	83,637,070
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways and taxiways	-	-	3,410,079	3,422,564	3,410,079	3,422,564
Accumulated depreciation	(49,462,755)	(53,319,327)	(29,527,975)	(31,083,453)	(78,990,730)	(84,402,780)
Total	\$ 99,407,986	\$ 99,945,007	\$ 47,685,560	\$ 46,348,347	\$ 147,093,546	\$ 146,293,354

**Long-term Debt** – At the end of the current fiscal year, the City had total bonds outstanding of \$84,425,002, with \$84,055,022 being tax supported. The City also has approximately \$420,000 of additional debt through notes payable and capital leases.

	Governmental Activities		Business-type Activities		Totals	
	2010	2011	2010	2011	2010	2011
General Obligation Bonds	\$ 52,441,531	\$ 51,616,531	\$ 5,648,471	\$ 5,113,471	\$ 58,090,002	\$ 56,730,002
Certificates of Obligation	25,345,000	24,965,000	2,570,000	2,360,000	27,915,000	27,325,000
Notes Payable	-	-	152,560	72,552	152,560	72,552
Revenues Bonds	-	-	450,000	370,000	450,000	370,000
Capital Leases	498,961	268,975	447,600	-	946,561	268,975
Total	<u>\$ 78,285,492</u>	<u>\$ 76,850,506</u>	<u>\$ 9,268,631</u>	<u>\$ 7,916,023</u>	<u>\$ 87,554,123</u>	<u>\$ 84,766,529</u>

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

***Economic Factor and Next Year’s Budgets and Rates***

In the fiscal year 2012 budget, General Fund revenues are budgeted to decrease by 3.0% from the 2011 budget year. This decrease is mostly attributed to a decrease in fines and forfeitures, and licenses and permits due to current economic conditions.

Property taxes make up about 46% of budgeted revenues and sales tax make up about 23% of budgeted revenues.

***Request for Information***

For additional information please contact Director of Finance, Sheree Haynes, at 972-218-1333 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email [shaynes@lancaster-tx.com](mailto:shaynes@lancaster-tx.com).

## **Basic Financial Statements**

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**City of Lancaster, Texas**  
**Statement of Net Assets**  
**September 30, 2011**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
<b>Assets</b>					
Cash and cash equivalents	\$ 21,220,124	\$ 10,281,664	\$ 31,501,788	\$ 2,704,046	\$ 537,568
Receivables (net of allowance)					
Notes	11,775,000	-	11,775,000	-	-
Delinquent taxes	1,009,246	-	1,009,246	-	-
Accounts	867,052	1,912,008	2,779,060	-	-
Sales tax	941,524	-	941,524	188,305	362,889
Fines	211,258	-	211,258	-	-
Due from other governments	12,287	-	12,287	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid expenses	188,179	340,197	528,376	580	7,250
Inventory	5,834	64,306	70,140	-	-
Debt issuance costs	927,728	260,782	1,188,510	-	-
Restricted assets					
Cash and cash equivalents	-	803,373	803,373	-	-
Capital assets					
Land and construction in progress	19,136,477	9,638,939	28,775,416	100,378	989,118
Other capital assets, net of accumulated depreciation	80,808,530	36,709,408	117,517,938	-	12,161,228
Total assets	<u>137,631,992</u>	<u>60,010,677</u>	<u>197,642,669</u>	<u>2,993,309</u>	<u>14,058,053</u>
<b>Liabilities</b>					
Accounts payable and contracts payable	785,860	1,588,899	2,374,759	5,366	156,931
Accrued liabilities	324,359	75,551	399,910	1,620	73,484
Accrued interest	530,541	53,634	584,175	14,094	49,287
Due to primary government	-	-	-	-	528,753
Deposits	181,816	803,373	985,189	-	-
Noncurrent liabilities					
Due within one-year	3,035,656	891,863	3,927,519	120,000	530,000
Due in more than one-year	75,982,972	7,192,193	83,175,165	2,535,000	8,590,000
Total liabilities	<u>80,841,204</u>	<u>10,605,513</u>	<u>91,446,717</u>	<u>2,676,080</u>	<u>9,928,455</u>
<b>Net Assets</b>					
Invested in capital assets (net of related debt)	50,606,700	38,270,127	88,876,827	100,378	4,030,346
Restricted for					
Debt service	718,522	-	718,522	-	-
Unrestricted	5,465,566	11,135,037	16,600,603	216,851	99,252
Total net assets	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 317,229</u>	<u>\$ 4,129,598</u>

**City of Lancaster, Texas**  
**Statement of Activities**  
**Year Ended September 30, 2011**

Functions/program	Program Revenues			Capital Grants and Contributions
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities				
General government	\$ 4,254,835	\$ -	\$ -	\$ -
Public safety	14,333,669	1,394,684	-	424,214
Public works	4,832,457	1,261,640	-	1,316,620
Community development and recreation	1,048,563	-	-	-
Social and welfare	8,640,215	-	8,765,448	-
Interest and fiscal charges	2,837,440	-	-	-
Total governmental activities	35,947,179	2,656,324	8,765,448	1,740,834
Business-type activities				
Water and sewer	9,178,117	11,480,609	-	-
Refuse	2,196,791	2,124,940	-	-
Airport	905,354	726,819	50,089	-
Golf course	83,002	84,542	-	-
Total business-type activities	12,363,264	14,416,910	50,089	-
Total primary government	48,310,443	17,073,234	8,815,537	1,740,834
Component units				
Lancaster Economic Development Corporation	424,755	-	-	-
Lancaster Recreational Development Corporation	2,890,914	554,944	52,037	-
Total component units	3,315,669	554,944	52,037	-
		General revenues		
		Taxes		
		Property taxes		
		Sales taxes		
		Franchise taxes		
		Other local taxes		
		Interest on investments		
		Miscellaneous		
		Transfers		
		Total general revenues and transfers		
		Change in net assets		
		Net assets (deficit), beginning of year		
		Net assets, end of year		

See Notes to Financial Statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Lancaster Economic Development Corporation</b>	<b>Lancaster Recreational Development Corporation</b>
\$ (4,254,835)	\$ -	\$ (4,254,835)	\$ -	\$ -
(12,514,771)	-	(12,514,771)	-	-
(2,254,197)	-	(2,254,197)	-	-
(1,048,563)	-	(1,048,563)	-	-
125,233	-	125,233	-	-
(2,837,440)	-	(2,837,440)	-	-
<u>(22,784,573)</u>	<u>-</u>	<u>(22,784,573)</u>	<u>-</u>	<u>-</u>
-	2,302,492	2,302,492	-	-
-	(71,851)	(71,851)	-	-
-	(128,446)	(128,446)	-	-
-	1,540	1,540	-	-
<u>-</u>	<u>2,103,735</u>	<u>2,103,735</u>	<u>-</u>	<u>-</u>
<u>(22,784,573)</u>	<u>2,103,735</u>	<u>(20,680,838)</u>	<u>-</u>	<u>-</u>
-	-	-	(424,755)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,283,933)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(424,755)</u>	<u>(2,283,933)</u>
13,621,585	-	13,621,585	-	-
4,693,061	-	4,693,061	944,875	1,877,225
2,477,222	-	2,477,222	-	-
127,887	-	127,887	-	-
40,627	15,105	55,732	3,577	-
1,180,897	78,066	1,258,963	-	630,529
(669,107)	669,107	-	-	-
<u>21,472,172</u>	<u>762,278</u>	<u>22,234,450</u>	<u>948,452</u>	<u>2,507,754</u>
(1,312,401)	2,866,013	1,553,612	523,697	223,821
<u>58,103,189</u>	<u>46,539,151</u>	<u>104,642,340</u>	<u>(206,468)</u>	<u>3,905,777</u>
<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>	<u>\$ 317,229</u>	<u>\$ 4,129,598</u>

**City of Lancaster, Texas**  
**Balance Sheet – Governmental Funds**  
**September 30, 2011**

**Assets**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,071,078	\$ 1,160,271	\$ 15,353,866	\$ 678,761	\$ 956,148	\$ 21,220,124
Receivables (net of allowance for uncollectibles)						
Notes	-	-	-	11,775,000	-	11,775,000
Delinquent taxes	799,561	-	-	187,487	22,198	1,009,246
Accounts	681,483	-	-	-	185,569	867,052
Sales tax	941,524	-	-	-	-	941,524
Fines	211,258	-	-	-	-	211,258
Due from						
Other governments	12,287	-	-	-	-	12,287
Component unit	528,753	-	-	-	-	528,753
Inventory, at cost	5,834	-	-	-	-	5,834
Prepaid items	172,340	6,307	-	-	9,532	188,179
<b>Total assets</b>	<b>6,424,118</b>	<b>1,166,578</b>	<b>15,353,866</b>	<b>12,641,248</b>	<b>1,173,447</b>	<b>36,759,257</b>

**Liabilities and Fund Balances**

<b>Liabilities</b>						
Accounts and contracts payable	654,313	12,838	67,389	-	51,320	785,860
Accrued liabilities	207,125	56,088	-	-	61,146	324,359
Deposits	181,816	-	-	-	-	181,816
Deferred revenue	826,451	-	-	11,922,726	5,740	12,754,917
<b>Total liabilities</b>	<b>1,869,705</b>	<b>68,926</b>	<b>67,389</b>	<b>11,922,726</b>	<b>118,206</b>	<b>14,046,952</b>
<b>Fund balances</b>						
Reserved for						
Housing and Urban Development	-	1,097,652	-	-	-	1,097,652
Capital projects	-	-	15,286,477	-	-	15,286,477
Debt service	-	-	-	718,522	-	718,522
Public works	-	-	-	-	467,955	467,955
Public improvement districts	-	-	-	-	85,076	85,076
Police grants	-	-	-	-	9,477	9,477
Tourism, convention centers, arts	-	-	-	-	252,144	252,144
Law enforcement purposes	-	-	-	-	240,589	240,589
Unassigned	4,554,413	-	-	-	-	4,554,413
<b>Total fund balances</b>	<b>4,554,413</b>	<b>1,097,652</b>	<b>15,286,477</b>	<b>718,522</b>	<b>1,055,241</b>	<b>22,712,305</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,424,118</b>	<b>\$ 1,166,578</b>	<b>\$ 15,353,866</b>	<b>\$ 12,641,248</b>	<b>\$ 1,173,447</b>	<b>\$ 36,759,257</b>

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Assets**  
**September 30, 2011**

Total fund balances – governmental funds	\$ 22,712,305
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide statements.	927,728
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	99,945,007
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(530,541)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.	979,917
Notes receivable are not measureable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements	11,775,000
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
General obligation bonds	(51,616,531)
Certificates of obligation	(24,965,000)
Premiums on bond debt	(261,427)
Deferred loss on refunding	712,149
Compensated absences	(2,571,753)
OPEB liability	(47,091)
Capital leases	(268,975)
Total net assets of governmental activities	\$ 56,790,788

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**Year Ended September 30, 2011**

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes and fees	\$ 16,590,881	\$ -	\$ -	\$ 3,364,708	\$ 1,416,510	\$ 21,372,099
Licenses and permits	459,717	-	-	-	313,746	773,463
Intergovernmental	413,154	8,765,448	592,769	889,116	723,851	11,384,338
Charges for services	533,411	-	-	-	-	533,411
Fines and forfeits	861,273	-	48,385	-	-	909,658
Interest	5,021	1,351	32,661	1,477	424	40,934
Miscellaneous	337,881	75,383	21,429	-	46,978	481,671
<b>Total revenues</b>	<b>19,201,338</b>	<b>8,842,182</b>	<b>695,244</b>	<b>4,255,301</b>	<b>2,501,509</b>	<b>35,495,574</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	3,792,006	-	11,500	-	-	3,803,506
Public safety	13,215,005	-	-	-	60,117	13,275,122
Public works	1,916,680	-	-	-	806,038	2,722,718
Community development and recreation	811,058	-	-	-	97,848	908,906
Social and welfare	-	8,640,215	-	-	-	8,640,215
Capital outlay	66,808	2,580	2,725,086	-	888,011	3,682,485
<b>Debt service</b>						
Principal retirement	138,184	-	-	1,271,802	25,000	1,434,986
Interest and fiscal charges	-	-	-	3,346,782	34,738	3,381,520
<b>Total expenditures</b>	<b>19,939,741</b>	<b>8,642,795</b>	<b>2,736,586</b>	<b>4,618,584</b>	<b>1,911,752</b>	<b>37,849,458</b>
Excess (deficiency) of revenues over (under) expenditures	(738,403)	199,387	(2,041,342)	(363,283)	589,757	(2,353,884)
<b>Other financing sources (uses)</b>						
Operating transfers in	1,535,236	-	-	-	-	1,535,236
Operating transfers out	-	(62,000)	(2,100,343)	-	(42,000)	(2,204,343)
<b>Total other financing sources (uses)</b>	<b>1,535,236</b>	<b>(62,000)</b>	<b>(2,100,343)</b>	<b>-</b>	<b>(42,000)</b>	<b>(669,107)</b>
<b>Net Change in Fund Balances</b>	<b>796,833</b>	<b>137,387</b>	<b>(4,141,685)</b>	<b>(363,283)</b>	<b>547,757</b>	<b>(3,022,991)</b>
<b>Fund Balances, Beginning of Year</b>	<b>3,757,580</b>	<b>960,265</b>	<b>19,428,162</b>	<b>1,081,805</b>	<b>507,484</b>	<b>25,735,296</b>
<b>Fund Balances, End of Year</b>	<b>\$ 4,554,413</b>	<b>\$ 1,097,652</b>	<b>\$ 15,286,477</b>	<b>\$ 718,522</b>	<b>\$ 1,055,241</b>	<b>22,712,305</b>

**City of Lancaster, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2011**

Net change in fund balances – total governmental funds \$ (3,022,991)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 3,682,485

Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense. 705,644

Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (3,856,572)

Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:

General and certificates of obligation bonds	1,205,000	
Capital leases	<u>229,986</u>	1,434,986

The issuance of long-term debt, such as bonds and capital leases, are shown as “Other Sources” and “Other Uses” in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:

Amortization of bond issuance costs	(46,514)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>30,519</u>	(71,659)

Current year change in long-term liability for compensated absences and OPEB liability do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 138,350

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 569,225

Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year. (891,869)

Change in net assets of governmental activities \$ (1,312,401)

**City of Lancaster, Texas**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2011**

<b>Assets</b>	<b>Water and Sewer</b>	<b>Airport Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total Proprietary Funds</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 10,139,542	\$ 190	\$ 141,932	\$ 10,281,664
Receivables (net of allowance for uncollectibles)				
Accounts	972,199	34,710	139,144	1,146,053
Unbilled	631,561	-	134,394	765,955
Prepaid expenses	339,037	1,160	-	340,197
Inventory	-	64,306	-	64,306
Deferred bond issuance costs	257,683	3,099	-	260,782
	<u>12,340,022</u>	<u>103,465</u>	<u>415,470</u>	<u>12,858,957</u>
<b>Noncurrent Assets</b>				
Restricted Assets				
Cash and cash equivalents	803,373	-	-	803,373
<b>Capital Assets</b>				
Nondepreciable	4,844,719	4,444,666	349,554	9,638,939
Depreciable (net of accumulated depreciation)	33,110,201	1,466,599	2,132,608	36,709,408
	<u>51,098,315</u>	<u>6,014,730</u>	<u>2,897,632</u>	<u>60,010,677</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts and contracts payable	360,643	1,019,041	209,215	1,588,899
Accrued liabilities	45,670	7,231	22,650	75,551
Accrued interest	51,385	2,249	-	53,634
Deposits	803,373	-	-	803,373
	<u>1,261,071</u>	<u>1,028,521</u>	<u>231,865</u>	<u>2,521,457</u>
<b>Noncurrent Liabilities</b>				
Due within one-year	863,463	28,182	218	891,863
Due in more than one-year	7,004,115	187,424	654	7,192,193
	<u>7,867,578</u>	<u>215,606</u>	<u>872</u>	<u>8,084,056</u>
Total liabilities	<u>9,128,649</u>	<u>1,244,127</u>	<u>232,737</u>	<u>10,605,513</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	30,092,306	5,695,659	2,482,162	38,270,127
Unrestricted	11,877,360	(925,056)	182,733	11,135,037
	<u>\$ 41,969,666</u>	<u>\$ 4,770,603</u>	<u>\$ 2,664,895</u>	<u>\$ 49,405,164</u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**Proprietary Funds**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Funds	Total
<b>Operating Revenues</b>				
Charges for services	\$ 11,087,020	\$ 726,819	\$ 2,209,482	\$ 14,023,321
Intergovernmental	-	50,089	-	50,089
Miscellaneous	292,108	-	-	292,108
	<u>11,379,128</u>	<u>776,908</u>	<u>2,209,482</u>	<u>14,365,518</u>
Total operating revenues				
<b>Operating Expenses</b>				
Personnel services	1,216,864	168,268	978	1,386,110
Maintenance	178,842	27,818	204,844	411,504
Purchase of water	1,962,499	-	-	1,962,499
Materials and supplies	83,463	472,921	120	556,504
Heat, light and power	167,958	31,877	(4,899)	194,936
Depreciation	1,436,110	40,419	78,949	1,555,478
Benefit payments	499,164	44,543	354	544,061
Sewage treatment	3,198,974	-	-	3,198,974
Special services	410,169	94,601	1,994,727	2,499,497
Capital outlay	16,892	-	-	16,892
Equipment rental	7,182	24,907	4,720	36,809
	<u>9,178,117</u>	<u>905,354</u>	<u>2,279,793</u>	<u>12,363,264</u>
Total operating expenses				
<b>Operating Income (Loss)</b>	<u>2,201,011</u>	<u>(128,446)</u>	<u>(70,311)</u>	<u>2,002,254</u>
<b>Nonoperating Revenues (Expenses)</b>				
Interest revenue	14,770	-	335	15,105
Interest and fiscal charges	(371,054)	(13,472)	-	(384,526)
Impact fee revenue	101,480	-	-	101,480
Other nonoperating revenue	434,998	27,594	-	462,592
	<u>180,194</u>	<u>14,122</u>	<u>335</u>	<u>194,651</u>
Total nonoperating revenues				
<b>Income (Loss) Before Transfers</b>	<u>2,381,205</u>	<u>(114,324)</u>	<u>(69,976)</u>	<u>2,196,905</u>
<b>Transfers</b>				
Operating transfers in	-	2,100,343	-	2,100,343
Operating transfers out	(1,424,236)	-	(7,000)	(1,431,236)
	<u>(1,424,236)</u>	<u>2,100,343</u>	<u>(7,000)</u>	<u>669,107</u>
Total transfers in/out				
<b>Change in Net Assets</b>	956,969	1,986,019	(76,976)	2,866,012
<b>Net Assets, Beginning of Year</b>	<u>41,012,697</u>	<u>2,784,584</u>	<u>2,741,871</u>	<u>46,539,152</u>
<b>Net Assets, End of Year</b>	<u>\$ 41,969,666</u>	<u>\$ 4,770,603</u>	<u>\$ 2,664,895</u>	<u>49,405,164</u>

**City of Lancaster, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Fund	Total
<b>Operating Activities</b>				
Receipts from customers and users	\$ 11,295,786	\$ 749,856	\$ 2,070,775	\$ 14,116,417
Receipts from other funds	2,851,393	(2,851,393)	-	-
Payments to employees	(1,716,028)	(212,811)	4,876	(1,923,963)
Payments to suppliers	(6,538,046)	311,456	(2,173,845)	(8,400,435)
Net cash provided by (used in) operating activities	<u>5,893,105</u>	<u>(2,002,892)</u>	<u>(98,194)</u>	<u>3,792,019</u>
<b>Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(196,392)	(20,524)	(1,349)	(218,265)
Principal payments on debt	(419,447)	(91,049)	-	(510,496)
Interest payments on debt	(426,222)	-	-	(426,222)
Payments on capital leases	(447,600)	-	-	(447,600)
Impact fees collected	101,480	-	-	101,480
Utility deposits collected	49,816	-	-	49,816
Net cash used in capital and financing activities	<u>(1,338,365)</u>	<u>(111,573)</u>	<u>(1,349)</u>	<u>(1,451,287)</u>
<b>Noncapital and Related Financing Activities</b>				
Operating transfers in from other funds	-	2,100,343	-	2,100,343
Operating transfers out to other funds	(1,424,236)	-	(7,000)	(1,431,236)
Proceeds from other nonoperating revenue	78,714	14,122	336	93,172
Net cash provided by (used in) noncapital financing activities	<u>(1,345,522)</u>	<u>2,114,465</u>	<u>(6,664)</u>	<u>762,279</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,209,218	-	(106,207)	3,103,011
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,733,697</u>	<u>190</u>	<u>248,139</u>	<u>7,982,026</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 10,942,915</u>	<u>\$ 190</u>	<u>\$ 141,932</u>	<u>\$ 11,085,037</u>
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>				
Operating income (loss)	\$ 2,201,011	\$ (128,446)	\$ (70,311)	\$ 2,002,254
Item not requiring cash				
Depreciation and amortization	1,436,110	40,419	78,949	1,555,478
Changes in				
Accounts receivable	(83,342)	(27,052)	(63,731)	(174,125)
Due from other funds	2,851,393	(2,851,393)	-	-
Inventories	-	(18,131)	-	(18,131)
Prepays	(339,037)	(1,160)	-	(340,197)
Other assets	21,500	-	-	21,500
Accounts payable	8,227	989,368	(49,309)	948,286
Accrued expenses	(202,757)	(6,497)	6,208	(203,046)
Net cash provided by (used in) operating activities	<u>\$ 5,893,105</u>	<u>\$ (2,002,892)</u>	<u>\$ (98,194)</u>	<u>\$ 3,792,019</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Note 1: Significant Accounting Policies**

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

***Reporting Entity***

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

The City's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units*. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (1) the primary government must be able to impose its will or (2) the primary government may potentially benefit financially or be financially responsible for the component unit. The Lancaster Economic Development Corporation (Economic) and the Lancaster Recreational Development Corporation (Recreational) are nonprofit industrial development corporations formed in July and October 1995, respectively, under the Development Corporation Act of 1979. Both Economic and Recreational are organized exclusively for the purposes of benefiting and accomplishing public purposes, and to act on behalf of the City. This includes the construction and renovation of municipal buildings, the acquisition, improvement, and operation of parks, as well as, other economic development purposes. The affairs of these corporations are managed by two separate Boards of Directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. Economic and Recreational have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

***Basis of Presentation***

***Government-Wide Financial Statements***

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

# City of Lancaster, Texas

## Notes to Basic Financial Statements

### September 30, 2011

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

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

#### ***Fund Financial Statements***

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

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

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

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

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

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

# City of Lancaster, Texas

## Notes to Basic Financial Statements

### September 30, 2011

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

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

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

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

#### ***Classification of Fund Equity***

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

#### ***Measurement Focus***

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

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

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

Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other

# **City of Lancaster, Texas**

## **Notes to Basic Financial Statements**

### **September 30, 2011**

financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

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

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

#### ***Basis of Accounting***

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

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

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

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

#### ***Cash Flows Statement***

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

#### ***Investments***

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

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

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

***Allowance for Uncollectible Accounts***

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2011, were \$309,372 for uncollectible taxes, \$1,008,383 for water and sewer billings, \$140,839 for court fees and fines, and \$1,230,665 for ambulance fees is reflected in the financial statements.

***Inventory***

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

***Prepaid Items***

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

***Interfund Receivables and Payables***

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

***Transactions Between Funds***

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

***Capital Assets***

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

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

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

***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, 2011, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the Proprietary Funds. The amount to be paid from current available financial resources is not considered significant.

***New Pronouncements***

Effective October 1, 2010, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established new categories for reporting fund balance, revised the definitions for Governmental Fund types and changes the presentation of fund balance. Fund balances of capital projects and HUD funds previously classified as unreserved are now classified as restricted under GASB No. 54. The adoption of GASB 54 had no effect on total beginning fund balances of governmental funds.

**Note 2: Cash and Investments**

At year-end, the carrying amount of the City's bank deposits was \$1,309,593 (composed of \$1,288,460 related to the primary government and \$21,133 related to discretely presented component units) and the bank balances were \$1,563,446. The bank balances on September 30, 2011, were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and municipal pools. During the year ended September 30, 2011, 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.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

During the year ended September 30, 2011, the City invested in TexPool and LOGIC funds. TexPool and LOGIC are investment funds authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool and LOGIC operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and LOGIC use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and LOGIC is the same as the value of TexPool and LOGIC shares. TexPool and LOGIC are rated as an AAA money market fund by Standard and Poor's and Moody's.

**Interest Rate Risk**

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

**Credit Risk**

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

Investments at year-end are shown below:

	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Weighted- Average Maturity (Years)</b>
<b>Primary Government</b>			
Texpool	\$ 11,738,832	\$ 11,738,832	0.003
LOGIC	<u>18,865,134</u>	<u>18,865,134</u>	0.003
Total primary government	<u>30,603,966</u>	<u>30,603,966</u>	
<b>Component Units</b>			
Texpool	1,016,261	1,016,261	0.003
LOGIC	<u>1,633,204</u>	<u>1,633,204</u>	0.003
Total component units	<u>2,649,465</u>	<u>2,649,465</u>	
Total	<u><u>\$ 33,253,431</u></u>	<u><u>\$ 33,253,431</u></u>	

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**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, 2011, were 97.0% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the state of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000, population limits ad valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city, which operates under a Home Rule Charter, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2011, the City had a tax rate of \$.8675 per \$100.00 assessed valuation, of which \$.6502 was allocated for general government and \$.2173 was allocated for the payment of principal and interest on general obligation debt.

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

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 Basic Financial Statements**  
**September 30, 2011**

**Note 4: Interfund Transactions**

At September 30, 2011, interfund balances and transactions, excluding discretely presented component units were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 1,535,236	\$ -
HUD Fund	-	62,000
Capital Projects Fund	-	2,100,343
Nonmajor Governmental Funds	-	42,000
Water and Sewer Fund	-	1,424,236
Airport Fund	2,100,343	7,000
	\$ 3,635,579	\$ 3,635,579

The interfund transfer to the General Fund from the HUD Fund, Nonmajor Governmental Funds, Water and Sewer Funds and Airport Fund is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer from the Capital Projects fund to the Airport Fund is for transfer of bond proceeds.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

**Note 5: Fixed Assets**

**Governmental Funds**

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 12,337,857	\$ 876,411	\$ -	\$ 13,214,268
Construction in progress	<u>3,779,844</u>	<u>2,142,365</u>	<u>-</u>	<u>5,922,209</u>
Total capital assets not being depreciated	<u>16,117,701</u>	<u>3,018,776</u>	<u>-</u>	<u>19,136,477</u>
Capital assets being depreciated				
Buildings	24,487,196	-	-	24,487,196
Improvements	92,839,898	1,188,248	-	94,028,146
Equipment and furniture	<u>15,425,946</u>	<u>186,569</u>	<u>-</u>	<u>15,612,515</u>
Total capital assets being depreciated	132,753,040	1,374,817	-	134,127,857
Less accumulated depreciation	<u>49,462,755</u>	<u>3,856,572</u>	<u>-</u>	<u>53,319,327</u>
Total capital assets being depreciated, net	<u>83,290,285</u>	<u>(2,481,755)</u>	<u>-</u>	<u>80,808,530</u>
Governmental activities capital assets, net	<u>\$ 99,407,986</u>	<u>\$ 537,021</u>	<u>\$ -</u>	<u>\$ 99,945,007</u>

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

General and administrative	\$ 548,629
Public safety	1,058,547
Public works	2,109,739
Community development and recreation	<u>139,657</u>
Total depreciation expense – governmental activities	<u>\$ 3,856,572</u>

**City of Lancaster, Texas**  
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**Enterprise Funds**

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2010	Increases	Decreases	Balance September 30, 2011
<b>Business-type Activities</b>				
Capital assets not being depreciated				
Land	\$ 4,879,781	\$ -	\$ -	\$ 4,879,781
Construction in progress	4,562,766	196,392	-	4,759,158
	<u>9,442,547</u>	<u>196,392</u>	<u>-</u>	<u>9,638,939</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Plants and buildings	4,941,048	9,388	-	4,950,436
Improvements	55,664,932	-	-	55,664,932
Runways and taxiways	3,410,079	12,485	-	3,422,564
Other structures	951,622	-	-	951,622
Machinery and equipment	2,803,307	-	-	2,803,307
	<u>67,770,988</u>	<u>21,873</u>	<u>-</u>	<u>67,792,861</u>
Total capital assets being depreciated				
Less accumulated depreciation	29,527,975	1,555,478	-	31,083,453
Total capital assets being depreciated, net	38,243,013	(1,533,605)	-	36,709,408
Business-type activities capital assets, net	<u>\$ 47,685,560</u>	<u>\$ (1,337,213)</u>	<u>\$ -</u>	<u>\$ 46,348,347</u>

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

Water and sewer	\$ 1,436,110
Airport	40,419
Golf	78,949
	<u>78,949</u>
Total depreciation expense – business-type activities	<u>\$ 1,555,478</u>

**City of Lancaster, Texas**  
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***Discretely Presented Component Units***

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

	<b>Balance September 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
Lancaster Economic Development Corporation Capital assets not being depreciated				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	<b>Balance September 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance September 30, 2011</b>
Lancaster Recreational Development Corporation Capital assets not being depreciated				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	430,746	12,302	-	443,048
Total capital assets being depreciated	20,193,915	12,302	-	20,206,217
Less accumulated depreciation	<u>7,277,187</u>	<u>767,802</u>	<u>-</u>	<u>8,044,989</u>
Total capital assets being depreciated, net	<u>12,916,728</u>	<u>(755,500)</u>	<u>-</u>	<u>12,161,228</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 13,905,846</u>	<u>\$ (755,500)</u>	<u>\$ -</u>	<u>\$ 13,150,346</u>

**City of Lancaster, Texas**  
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**Note 6: Long-term Liabilities**

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

	Balance September 30, 2010	Additions	Retirements	Balance September 30, 2011	Due Within One-Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 52,441,531	\$ -	\$ (825,000)	\$ 51,616,531	\$ 1,345,000
Certificates of obligation	25,345,000	-	(380,000)	24,965,000	695,000
Premiums on bond debt	291,946	-	(30,519)	261,427	-
Deferred loss on refunding	(767,813)	-	55,664	(712,149)	-
Compensated absences	2,733,874	-	(162,121)	2,571,753	845,122
OPEB liability	23,320	23,771	-	47,091	-
Capital leases	498,961	-	(229,986)	268,975	150,534
Total governmental activities	<u>80,566,819</u>	<u>23,771</u>	<u>(1,571,962)</u>	<u>79,018,628</u>	<u>3,035,656</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 5,648,471	\$ -	\$ (535,000)	\$ 5,113,471	\$ 555,000
Notes payable	152,560	-	(80,008)	72,552	18,588
Certificates of obligation	2,570,000	-	(210,000)	2,360,000	220,000
Premiums on bond debt	210,270	-	(26,006)	184,264	-
Deferred loss on refunding	(75,891)	-	8,838	(67,053)	-
Revenue bonds	450,000	-	(80,000)	370,000	85,000
Compensated absences	65,364	-	(14,542)	50,822	13,275
Capital leases	447,600	-	(447,600)	-	-
Total business-type activities	<u>\$ 9,468,374</u>	<u>\$ -</u>	<u>\$ (1,384,318)</u>	<u>\$ 8,084,056</u>	<u>\$ 891,863</u>
<b>Discretely Presented</b>					
Component units					
Notes payable to primary government	<u>\$ 12,405,000</u>	<u>\$ -</u>	<u>\$ (630,000)</u>	<u>11,775,000</u>	<u>\$ 650,000</u>
Total discretely presented component units	<u>\$ 12,405,000</u>	<u>\$ -</u>	<u>\$ (630,000)</u>	<u>\$ 11,775,000</u>	<u>\$ 650,000</u>

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

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General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2011, consist of the following:

	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>
<u>General Obligation Bonds</u>				
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 3.00% – 4.50%	\$ 11,341,531	\$ 371,191	\$ 77,280	\$ 11,790,002
\$24,300,000 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% – 5.00%	17,280,000	4,605,000	60,000	21,945,000
\$22,995,000 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	<u>22,995,000</u>	<u>-</u>	<u>-</u>	<u>22,995,000</u>
	<u>\$ 51,616,531</u>	<u>\$ 4,976,191</u>	<u>\$ 137,280</u>	<u>\$ 56,730,002</u>
<u>Revenue Bonds</u>				
\$2,905,000 1995 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, due in annual installments through September 1, 2015, 3.90% – 5.60%	<u>\$ -</u>	<u>\$ 370,000</u>	<u>\$ -</u>	<u>\$ 370,000</u>
<u>Certificates of Obligation</u>				
\$3,210,000 2003 Certificate of Obligation Bonds, due in annual installments through February 15, 2023, 3.25% – 4.50%	\$ 2,260,000	\$ -	\$ -	\$ 2,260,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% – 4.375%	10,705,000	2,360,000	-	13,065,000
\$12,000,000 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	<u>12,000,000</u>	<u>-</u>	<u>-</u>	<u>12,000,000</u>
	<u>\$ 24,965,000</u>	<u>\$ 2,360,000</u>	<u>\$ -</u>	<u>\$ 27,325,000</u>

**City of Lancaster, Texas**  
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	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>	<b>Discretely Presented Component Units</b>
<u>Note Payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% – 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 9,120,000
\$3,035,000 note payable, due in annual installments through February 15, 2032; 4.00% – 4.375%	-	-	-	-	2,655,000
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	-	72,552	72,552	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,552</u>	<u>\$ 72,552</u>	<u>\$ 11,775,000</u>
<u>Capital Leases</u>					
\$500,000 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	\$ 76,575	\$ -	\$ -	\$ 76,575	\$ -
\$260,128 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	6,405	-	-	6,405	-
\$265,987 Lease Purchase Agreement due in annual installments through September 30, 2015; 5.00%	185,995	-	-	185,995	-
	<u>\$ 268,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,975</u>	<u>\$ -</u>

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

As of September 30, 2011, property and equipment under capital leases is carried at \$1,386,705, with \$235,267 in accumulated depreciation.

**City of Lancaster, Texas**  
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The annual requirements to amortize the long-term debt as of September 30, 2011, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 1,345,000	\$ 2,596,907	\$ 3,941,907	\$ 555,000	\$ 230,635	\$ 785,635
2013	1,440,000	2,552,652	3,992,652	580,000	207,935	787,935
2014	1,530,000	2,498,418	4,028,418	605,000	181,210	786,210
2015	1,610,000	2,435,031	4,045,031	640,000	150,085	790,085
2016	1,745,000	2,364,272	4,109,272	775,000	114,710	889,710
2017 – 2021	10,899,200	10,477,473	21,376,673	1,770,800	148,506	1,919,306
2022 – 2026	11,522,331	7,675,776	19,198,107	187,671	12,984	200,655
2027 – 2031	10,080,000	5,007,857	15,087,857	-	-	-
2032 – 2036	6,485,000	2,515,020	9,000,020	-	-	-
2037 – 2040	4,960,000	664,876	5,624,876	-	-	-
Total	<u>\$ 51,616,531</u>	<u>\$ 38,788,284</u>	<u>\$ 90,404,815</u>	<u>\$ 5,113,471</u>	<u>\$ 1,046,063</u>	<u>\$ 6,159,534</u>

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 695,000	\$ 1,243,736	\$ 1,938,736	\$ 220,000	\$ 93,106	\$ 313,106
2013	735,000	1,219,485	1,954,485	230,000	84,106	314,106
2014	780,000	1,192,183	1,972,183	240,000	74,706	314,706
2015	865,000	1,161,120	2,026,120	100,000	67,906	167,906
2016	890,000	1,126,663	2,016,663	105,000	63,806	168,806
2017 – 2021	4,985,000	5,027,115	10,012,115	580,000	251,828	831,828
2022 – 2026	5,345,000	3,799,576	9,144,576	720,000	146,841	866,841
2027 – 2031	4,840,000	2,503,277	7,343,277	165,000	3,609	168,609
2032 – 2036	3,235,000	1,313,192	4,548,192	-	-	-
2037 – 2040	2,595,000	347,453	2,942,453	-	-	-
Total	<u>\$ 24,965,000</u>	<u>\$ 18,933,798</u>	<u>\$ 43,898,798</u>	<u>\$ 2,360,000</u>	<u>\$ 785,909</u>	<u>\$ 3,145,909</u>

Note Payable						
Fiscal Year	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 18,588	\$ 3,660	\$ 22,248	\$ 650,000	\$ 484,190	\$ 1,134,190
2013	19,734	2,514	22,248	685,000	459,795	1,144,795
2014	20,951	1,297	22,248	715,000	433,360	1,148,360
2015	13,279	97	13,376	740,000	405,147	1,145,147
2016	-	-	-	770,000	374,935	1,144,935
2017 – 2021	-	-	-	4,405,000	1,346,959	5,751,959
2022 – 2026	-	-	-	3,585,000	338,469	3,923,469
2027 – 2030	-	-	-	225,000	4,922	229,922
Total	<u>\$ 72,552</u>	<u>\$ 7,568</u>	<u>\$ 80,120</u>	<u>\$ 11,775,000</u>	<u>\$ 3,847,777</u>	<u>\$ 15,622,777</u>

**City of Lancaster, Texas**  
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<b>Revenue Bonds</b>			
<b>Fiscal Year</b>	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 85,000	\$ 20,455	\$ 105,455
2013	90,000	15,823	105,823
2014	95,000	10,872	105,872
2015	100,000	5,600	105,600
Total	<u>\$ 370,000</u>	<u>\$ 52,750</u>	<u>\$ 422,750</u>

<b>Capital Leases</b>			
<b>Fiscal Year</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 150,534	\$ 5,864	\$ 156,398
2013	43,730	549	44,279
2014	43,912	367	44,279
2015	30,799	184	30,983
2016 – 2020	-	-	-
Total	<u>\$ 268,975</u>	<u>\$ 6,964</u>	<u>\$ 275,939</u>

**Note 7: Retirement Plan**

***Plan Description***

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

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

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The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008 valuation is effective for the rates beginning January 2010).

**Annual Pension Cost**

Contributions by the City were \$1,866,885, or 13.49% of the covered payroll of \$13,835,321 as required by the actuarial valuation. The total fiscal year 2011 payroll was \$13,229,747.

**City of Lancaster, Texas**  
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Annual City pension cost and related information for the last three years is as follows:

	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<u>Actuarial Information</u>			
Actuarial cost method	Project Unit Credit	Project Unit Credit	Project Unit Credit
Amortization method	Level %	Level %	Level %
Amortization period	27.2 years-closed period	28 years-closed period	29 years-closed period
Asset valuation method	10-year smoothed market	10-year smoothed market	Amortized cost
Assumption			
Investment return	7.0%	7.5%	7.5%
Projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost of living adjustment	2.1%	2.1%	2.1%
City specific assumptions			
Payroll growth assumption	3.00%	3.00%	3.00%
Withdrawal rates for male/female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High

	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<u>Schedule of Funding Information</u>			
Actuarial valuation date			
Actuarial value of assets	\$ 43,023,260	\$ 29,362,600	\$ 26,431,828
Actuarial accrued liability	\$ 58,639,756	\$ 45,558,535	\$ 42,814,837
Unfunded (over funded) Actuarial Accrued Liability (UAAL)	\$ 15,616,496	\$ 16,195,935	\$ 1,683,009
Funded ratio	73.4%	64.5%	61.7%
Annual covered payroll	\$ 13,835,321	\$ 14,525,485	\$ 14,507,867
UAAL as a percentage of covered payroll	112.9%	111.5%	112.9%

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The City's net pension obligation (NPO) for TMRS at December 31, 2010, 2009 and 2008, is calculated as follows:

<b>Actuarial valuation date</b>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
NPO, beginning of year	\$ -	\$ -	\$ -
Annual pension cost	1,866,885	1,764,806	1,727,903
Annual required contribution (ARC)	(1,866,885)	(1,764,806)	(1,727,903)
Contributions made	-	-	-
NPO, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***Supplemental Death Benefit Fund***

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

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2011, 2010 and 2009, were \$19,908, \$25,157 and \$73,918, respectively, which equaled the required contributions each year.

**Note 8: Other Post Employment Benefits**

***Plan Description***

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

**City of Lancaster, Texas**  
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***Benefits Provided***

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

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

As of September 30, 2011, membership consisted of:

Retirees and beneficiaries receiving benefits	18
Active employees	217
 Total	 <u><u>235</u></u>

***Funding Policy***

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$412 per month for retiree-only coverage, \$824 per month for retiree and spouse and \$1,402 per month for retiree and family. Members receiving PPO medical benefits contribute \$456 per month for retiree-only coverage, \$1,005 per month for retiree and spouse and \$1,554 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

**City of Lancaster, Texas**  
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**Annual OPEB Costs**

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2011:

Annual required contribution	\$ 91,425
Interest on prior year net OPEB obligation	1,049
Adjustment to annual required contribution	(972)
Annual OPEB cost	<u>91,502</u>
Contributions made	<u>(67,731)</u>
Increase in net OPEB obligation	23,771
Net obligation, beginning of year	<u>23,320</u>
Net obligation, end of year	<u><u>\$ 47,091</u></u>
Percentage of OPEB costs contributed	144%

**Funded Status and Funding Progress**

The funded status of the plan as of actuarial measurement date of December 31, 2010, was as follows:

Actuarial accrued liability	\$ 1,138,842
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u><u>\$ 1,138,842</u></u>
Funded ratio	0.00%
Covered payroll	\$ 13,835,321
Unfunded actuarial accrued liability as a percentage of covered payroll	8.2%

**City of Lancaster, Texas**  
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***Actuarial Methods and Assumptions***

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. The rate of inflation is assumed to be 3%.

**Note 9: Commitments and Contingencies**

***Risk Management***

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

***Trinity River Authority of Texas***

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2011, was \$3,618,730 for the Ten Mile Creek Regional Wastewater System and \$78,550 for the Red Oak Creek Regional Wastewater System. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2011.

***Federal and State Programs***

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2011, may be impaired.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2011**

***Other Contingencies***

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

**Note 10: Excess of Expenditures Over Appropriations**

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

<u>Fund</u>	<u>Excess of Expenditures Over Appropriations</u>
HUD Fund	\$ 287,894

**Note 11: Subsequent Events**

On December 3, 2004, the City of Lancaster entered into an Incentive Infrastructure Agreement with Argent Development, L.P., which was then passed to Prologis. The project involved extending Daniieldale Road from Houston School Road to IH 20 around the parameters of the Prologis Park. Prologis agreed to initially finance the costs of this project. Upon completion of the project, the final costs were approximately \$5.6 million. The agreement is under renegotiations and will be presented to Council for approval in the spring of 2012. Once the agreement is approved, the City will begin to make payments over the next 10 years using tax rebates.

Subsequent events have been evaluated through March 27, 2012, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Funding Progress for Participation in Texas**  
**Municipal Retirement System**  
**September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Aal (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	[1]	[2]	[3] [1]/[2]	[4] [2]-[1]	[5]	[6] [4]/[5]
12/31/2008	\$ 26,431,828	\$ 42,814,837	61.7%	\$ 16,383,009	\$ 14,507,867	112.9%
12/31/2009	\$ 29,362,600	\$ 45,558,535	64.5%	\$ 16,195,935	\$ 13,887,238	116.6%
12/31/2010	\$ 43,023,260	\$ 58,639,756	73.4%	\$ 15,616,496	\$ 13,835,321	112.9%

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Employees' Other Post Employment Benefits Plan**  
**Analysis of Funding Progress**  
**(Unaudited)**  
**September 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Aal (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	[1]	[2]	[3] [1]/[2]	[4] [2]-[1]	[5]	[6] [4]/[5]
2009	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 14,507,867	3.4%
2010	\$ -	\$ 498,266	0.0%	\$ 498,266	\$ 13,887,238	3.6%
2011	\$ -	\$ 1,138,842	0.0%	\$ 1,138,842	\$ 13,835,321	8.2%

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**APPENDIX C**

FORM OF BOND COUNSELS' OPINION

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## [FORM OF BOND COUNSEL'S OPINION]

\_\_\_\_, 2012

WE HAVE ACTED as Bond Counsel for the City of Lancaster, Texas (the "City") in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF LANCASTER, TEXAS, GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012, dated April 1, 2012, in the aggregate principal amount of \$12,240,000 maturing on February 15 in the years 2013 through and including 2024. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, and bear interest, and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "Bond Ordinance") adopted by the City Council of the City on March 26, 2012 authorizing their issuance of the Bonds, and having the terms and features as set forth in the Pricing Certificate (as defined in the Bond Ordinance and together with the Bond Ordinance is referred to hereafter as the "Ordinance").

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

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) The escrow agreement between the City and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; the Refunded Obligations, having been discharged and paid, are no longer outstanding, and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Obligations only out of the funds provided therefor now held for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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

**APPENDIX D**

FORM OF SPECIAL TAX COUNSELS' OPINION

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May 31, 2012

WE HAVE ACTED as Special Tax Counsel to the City of Lancaster, Texas (the "City") in connection with issuance of its General Obligation Refunding Bonds, Series 2012, in the aggregate original principal amount of \$12,240,000 (the "Bonds"), with a dated date of April 1, 2012.

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

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

WE CALL TO YOUR ATTENTION THAT interest on the Bonds owned by a corporation, other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT), will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Very truly yours,

ANDREWS KURTH LLP

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Financial Advisory Services  
Provided By

