

OFFICIAL STATEMENT

Dated July 28, 2003

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

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

\$3,210,000
CITY OF LANCASTER, TEXAS
(Dallas County)
TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS
REVENUE CERTIFICATES OF OBLIGATION, SERIES 2003

Dated Date: July 15, 2003

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$3,210,000 City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003 (the "Certificates") will accrue from July 15, 2003, (the "Dated Date") and will be payable February 15 and August 15 of each year commencing February 15, 2004, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is JPMorgan Chase Bank, Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the general laws of the State, particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance passed by the City Council of the City (see "The Certificates - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of (i) the construction of public works, to wit: (a) airport improvements, including rehabilitate and mark runways and taxiways and the purchase of land for runway extensions, (b) park improvements, (c) street and alley improvements, including drainage improvements incidental thereto, (d) municipal golf course improvements, and (e) improvements to Historic Town Square, including beautification improvements and landscaping and constructing and equipping a municipal building for public meetings, offices and storage facilities, (ii) the purchase of materials, supplies, equipment and machinery, to wit: in-car computers and communications equipment and software for the police and fire departments, and (iii) to pay costs associated with the issuance of the Certificates.



The scheduled payment of principal of and interest on the Certificates when due will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation.

MATURITY SCHEDULE

CUSIP Prefix: 514444 (1)

Table with 10 columns: Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1), Amount, Maturity, Interest Rate, Yield, CUSIP Suffix (1). Rows include amounts from \$75,000 to \$130,000 with corresponding maturity dates from 2004 to 2009 and interest rates from 3.25% to 3.50%.

\$345,000 4.00% TERM CERTIFICATES DUE FEBRUARY 15, 2016 PRICED TO YIELD 4.05% CUSIP 514444UD8
\$370,000 4.20% TERM CERTIFICATES DUE FEBRUARY 15, 2018 PRICED TO YIELD 4.25% CUSIP 514444UF3
\$405,000 4.35% TERM CERTIFICATES DUE FEBRUARY 15, 2020 PRICED TO YIELD 4.38% CUSIP 514444UH9
\$675,000 4.50% TERM CERTIFICATES DUE FEBRUARY 15, 2023 PRICED TO YIELD 4.50% CUSIP 514444UL0

(Accrued Interest from July 15, 2003 to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption"). The Certificate maturing on February 15, 2016, February 15, 2018, February 15, 2020 and February 15, 2023 (the "Term Certificates") are also subject to mandatory annual sinking-fund redemption prior to maturity (see "The Certificates - Mandatory Redemption").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on September 3, 2003.

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

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

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

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.*

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

## PRELIMINARY 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 Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY**..... The City of Lancaster is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City covers approximately 29 square miles (see "Introduction - Description of City").
- THE CERTIFICATES** ..... The Certificates are issued as \$3,210,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003. The Certificates are issued as serial certificates maturing February 15, 2004 through February 15, 2014, and February 15, 2016, February 15, 2018, February 15, 2020 and February 15, 2023 (see "The Certificates - Description of the Certificates" and "The Certificates – Mandatory Redemption").
- PAYMENT OF INTEREST** ..... Interest on the Certificates accrues from July 15, 2003, and is payable February 15, 2004, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Certificates - Description of the Certificates", "The Certificates - Optional Redemption" and "The Certificates – Mandatory Redemption").
- AUTHORITY FOR ISSUANCE**..... The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance passed by the City Council of the City (see "The Certificates - Authority for Issuance").
- SECURITY FOR THE CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limit of the law, on all taxable property within the City, and (ii) a pledge of surplus Net Revenues of the City's Waterworks and Sewer System as provided in the Ordinance (see "The Certificates - Security for Certificates").
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").
- OPTIONAL REDEMPTION** ..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates – Optional Redemption"). The Term Certificates maturing in the years 2016, 2018, 2020 and 2023 are also subject to annual mandatory sinking fund redemption prior to maturity (see "The Certificates – Mandatory Redemption").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein, including the alternative minimum tax on corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Certificates will be used for the purpose of (i) the construction of public works, to wit: (a) airport improvements, including rehabilitate and mark runways and taxiways and the purchase of land for runway extensions, (b) park improvements, (c) street and alley improvements, including drainage improvements incidental thereto, (d) municipal golf course improvements, and (e) improvements to Historic Town Square, including beautification improvements and landscaping and constructing and equipping a municipal building for public meetings, offices and storage facilities, (ii) the purchase of materials, supplies, equipment and machinery, to wit: in-car computers and communications equipment and software for the police and fire departments, and (iii) to pay costs associated with the issuance of the Certificates.

**RATINGS** ..... The Certificates are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") based upon the commitment of Ambac Assurance Corporation to deliver a financial guaranty insurance policy for the Certificates concurrently with the delivery of the Certificates. The presently outstanding tax supported debt of the City is rated "A2" by Moody's Investors Service, Inc. ("Moody's") and "A" by Standard & Poor's Ratings Group, a division of McGraw-Hill ("S&P"). The City also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P through insurance by various commercial insurance companies.

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

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
1999	25,200	\$ 767,273,286	\$ 30,447	\$ 22,125,000	\$ 878	2.88%	99.61%
2000	25,894	832,224,490	32,140	30,940,000	1,195	3.72%	99.38%
2001	26,350	869,203,524	32,987	28,720,000	1,090	3.30%	97.71%
2002	26,400	981,493,677	37,178	26,450,000	1,002	2.69%	98.94%
2003	26,796	1,027,361,750	38,340	30,280,000 <sup>(2)</sup>	1,130	2.95%	100.53% <sup>(3)</sup>

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

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

(3) Collections for part year only, through June 1, 2003.

For additional information regarding the City, please contact:

Jim Landon		David K. Medanich
Maria Joyner		Laura Alexander
City of Lancaster	or	First Southwest Company
211 North Henry Street		777 Main Street, Suite 1200
Lancaster, Texas 75146		Fort Worth, Texas 76102-3123
(972) 218-1110		(817) 332-9710

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Joe Tillotson Mayor	5 Years	May, 2004	Retired
James O'Neal Mayor Pro Tem, District 2	6 Years	May, 2004	Small Business Owner
Carol Strain-Burk Councilmember, District 1	4 Years	May, 2005	Consultant
Susan Anderson Councilmember, District 3	5 Years	May, 2005	Pharmaceuticals
Tim Speaks Councilmember, District 4	3 Years	May, 2004	Builder
Clyde Hairston Councilmember, District 5	Newly Elected	May, 2005	Minister
Kimberly Lankford Councilmember, District 6	1 Year	May, 2004	Consultant

### SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>
James S. Landon	City Manager	1 1/2 Years
Jan Belcher	Assistant City Manager	2 Months
Maria Joyner	Director of Finance	7 1/2 Years
Narva Price	Interim City Secretary	2 Years
Bob Hager	City Attorney	26 Years

### CONSULTANTS AND ADVISORS

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

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

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

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## PRELIMINARY OFFICIAL STATEMENT

### RELATING TO

**\$3,210,000**  
**CITY OF LANCASTER, TEXAS**  
**TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS**  
**REVENUE CERTIFICATES OF OBLIGATION, SERIES 2003**

### INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$3,210,000 City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates, except as otherwise indicated herein.

There follow in this Official Statement description of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and seven Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the other terms of the four Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, traffic and transportation, water distribution, sewer treatment, sanitation, health, recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 25,894, while the estimated 2003 population is 26,796. The City covers approximately 10.9 square miles.

### THE CERTIFICATES

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated July 15, 2003, and mature on February 15 in each of the years and in the amounts and bear interest at per annum rates as shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2004. The definitive Certificates 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 Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly V.T.C.A., Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance passed by the City Council.

**SECURITY AND SOURCE OF PAYMENT . . .** The Certificates are payable from the proceeds of an annual ad valorem tax levied, within the limitation prescribed by law, upon all taxable property in the City. Additionally, the Certificates are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's Water and Sewer System (the "System"), such lien and pledge, however, being junior and subordinate to the lien on and pledge of such Net Revenues securing the payment of the "Prior Lien Obligations" (defined in the Ordinance) now outstanding and hereafter issued by the City.

In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations without limitation as to principal amount or complying with terms, conditions or restrictions other than those required by law, as well as the right to issue additional obligations payable from the same sources and, together with the Certificates, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System.

Currently, there is one series of Prior Lien Obligations outstanding aggregating in principal amount \$965,000 and having a final maturity of September 1, 2015. Additionally, there are contract revenue bonds outstanding of the Trinity River Authority payable from a contract with the cities of Red Oak, Lancaster, Cedar Hill, DeSoto, Glenn Heights and Ovilla that financed a regional wastewater system for such cities, and under the terms of such contract, payments thereunder represent maintenance and operating expenses of the cities' water and wastewater systems.

**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. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection. The issuance of the Certificates does not violate this constitutional provision, the City's Home Rule Charter, or the Texas Attorney General's administrative policy.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2014, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2013, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY REDEMPTION . . .** The Certificates maturing on February 15, 2016, February 15, 2018, February 15, 2020 and February 15, 2023 (the "Term Certificates"), are subject to mandatory sinking fund redemption in part at the redemption price of par, plus accrued interest to the date of redemption, on the dates and in the principal amounts as follows:

February 15, 2016		February 15, 2018	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2015	\$ 170,000	February 15, 2017	\$ 180,000
February 15, 2016*	175,000	February 15, 2018*	190,000

February 15, 2020		February 15, 2023	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2019	\$ 200,000	February 15, 2021	\$ 215,000
February 15, 2020*	205,000	February 15, 2022	225,000
		February 15, 2023*	235,000

\* Maturity.

Approximately forty-five (45) days prior to the mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates to be redeemed. Any Term Certificates not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Certificates to be redeemed on each mandatory redemption date may be reduced, at the option of the City by the principal amount of the Term Certificates which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Certificates, 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 Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, NOTWITHSTANDING THE FAILURE OF ONE OR MORE REGISTERED OWNERS TO RECEIVE SUCH NOTICE. If a Certificate (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), 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, NY, will act as securities depository for the Certificates (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

Principal and interest payments on the Securities 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 Securities 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, Security certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no 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 Certificates 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 Securities, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**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 securities certificates will be issued to the respective holders and the Certificates, as the case may be, will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under caption "Registration, Transfer and Exchange" below.

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

Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the registered owners of the Certificates and therefore the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates 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 Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or

assignee of the registered owner in not more than three business days after the receipt of the Certificates 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 Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

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

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

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

**DEFEASANCE . . .** The Ordinance provides that the City may discharge its obligations to the registered owners of the Certificates by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (i) cash or (ii) "Government Obligations", certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, or (iii) a combination of cash and certified Government Obligations in an amount sufficient to provide for the payment of the Certificates at maturity or to a redemption date. The term "Government Obligations" means (i) direct noncallable obligations of the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the District are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. Upon making such deposit in the manner described, the Certificates shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Government Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

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

The following information has been furnished by Ambac Assurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix D for a specimen of the Insurer's policy.

## BOND INSURANCE

### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Certificates effective as of the date of issuance of the Certificates. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent Registrar has notice that any payment of principal of or interest on a Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

### Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$6,362,000,000** (unaudited) and statutory capital of approximately **\$3,945,000,000** (unaudited) as of **March 31, 2003**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Certificates.

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

#### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
- 8) The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003; and
- 10) The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**".

## TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000.

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

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

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 "freepoint property" to be exempted from ad valorem taxation. Freepoint property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freepoint property are not subject to reversal.

The City may create tax increment financing districts (TIF) within the City with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units may agree with the City to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the "incremental value" of property in the TIF 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.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. Under current law, the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City Council is prohibited from adopting a tax that exceeds the lower of the rollback tax rate or 103 per cent of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. Each year the City must calculate and publicize certain information concerning its proposed tax rate, including its "rollback tax rate." The rollback tax rate is the rate that will produce last year's maintenance and operation levy multiplied by 1.08 plus a rate that will produce the current year's debt service, with such rates adjusted to take into account new exemptions and property additions to the tax roll. If the adopted rate exceeds the rollback tax rate, the qualified voters of the City may petition the City Council to call an election to determine whether to reduce the tax rate adopted for the City to the rollback tax rate.

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

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

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 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 increases at the rate of 1% each month. In addition the taxing unit may contact with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

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

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

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

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

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

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

The City does tax freeport property.

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

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

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

2002/03 Market Valuation Established by Dallas Central Appraisal District		\$ 1,151,914,320
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 36,880,958	
Disabled Veterans Exemptions	1,559,288	
Totally Exempt Property	36,444,920	
Tax Abatement Reductions	8,659,720	
Capped Value Loss	9,757,108	
Pollution Control Exemption	438,071	
Agricultural and Other Exemptions	<u>30,812,505</u>	<u>124,552,570</u>
2002/03 Taxable Assessed Valuation		\$ 1,027,361,750
City Funded Debt Payable from Ad Valorem Taxes (as of 6/1/03) <sup>(1)</sup>		
General Obligation Bonds	\$ 25,580,000	
Trinity River Authority Contract Revenue Debt	1,490,000	
The Certificates	<u>3,210,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 30,280,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Water and Sewer System General Obligation Debt	\$ 10,156,300	
Airport System General Obligation Debt	126,099	
Trinity River Authority Contract Revenue Debt	<u>1,490,000</u>	<u>11,772,398</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 18,507,602
Interest and Sinking Fund as of 6/1/03		\$ 917,338
Ratio Total Funded Debt to Taxable Assessed Valuation .....		2.95%
Ratio Net Funded Debt to Taxable Assessed Valuation .....		1.80%

2003 Estimated Population - 26,796  
 Per Capita Taxable Assessed Valuation - \$38,340  
 Per Capita Total Funded Debt - \$1,130  
 Per Capita Net Funded Debt - \$691

(1) The above statement of indebtedness does not include currently outstanding \$965,000 Waterworks and Sewer System Revenue Bonds, as these bonds are payable solely from the net revenues of the Waterworks and Sewer System (the "System"), as defined in the ordinances authorizing the bonds.

(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues. This policy is subject to change in the future. To the extent such policy is changed and such self-supporting debt is not paid from the respective system revenues, such debt will be paid from ad valorem taxes.

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

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2003		2002		2001	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 591,801,570	51.38%	\$ 524,001,810	49.19%	\$ 466,651,890	47.57%
Real, Residential, Multi-Family	65,924,770	5.72%	63,641,170	5.97%	65,666,590	6.69%
Real, Vacant Lots/Tracts	32,349,070	2.81%	28,305,420	2.66%	30,156,870	3.07%
Real, Acreage (Land Only)	40,427,810	3.51%	32,563,980	3.06%	30,818,840	3.14%
Real, Farm and Ranch Improvements	7,167,310	0.62%	8,190,480	0.77%	1,662,580	0.17%
Real, Commercial	175,292,820	15.22%	144,058,410	13.52%	157,465,220	16.05%
Real, Industrial	14,991,770	1.30%	14,192,720	1.33%	13,026,020	1.33%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	92,472,990	8.03%	109,792,660	10.31%	88,959,040	9.07%
Tangible Personal, Commercial	85,126,540	7.39%	81,374,570	7.64%	67,920,990	6.92%
Tangible Personal, Industrial	43,987,090	3.82%	54,160,310	5.08%	57,672,740	5.88%
Tangible Personal, Other	1,423,930	0.12%	400,570	0.04%	81,750	0.01%
Tangible Personal, Mobile Homes	948,190	0.08%	923,030	0.09%	962,730	0.10%
Special Inventory	-	0.00%	3,724,360	0.35%	-	0.00%
Total Appraised Value Before Exemptions	\$ 1,151,914,320	100.00%	\$ 1,065,329,950	100.00%	\$ 981,045,720	100.00%
Totally Exempt Property/Adjustments	(36,444,920)		(1,618,862)		(37,629,360)	
Total Exemptions/Reductions	(88,107,650)		(82,217,411)		(74,212,836)	
Taxable Assessed Value	\$ 1,027,361,750		\$ 981,493,677		\$ 869,203,524	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2000		1999	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 437,911,130	46.64%	\$ 398,501,990	45.31%
Real, Residential, Multi-Family	51,884,920	5.53%	50,490,890	5.74%
Real, Vacant Lots/Tracts	28,465,900	3.03%	28,486,480	3.24%
Real, Acreage (Land Only)	31,841,160	3.39%	34,957,500	3.97%
Real, Farm and Ranch Improvements	917,870	0.10%	880,950	0.10%
Real, Commercial	163,217,380	17.38%	148,306,070	16.86%
Real, Industrial	13,454,080	1.43%	12,762,460	1.45%
Real and Tangible Personal, Utilities	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	92,034,950	9.80%	92,602,000	10.53%
Tangible Personal, Commercial	64,937,230	6.92%	59,770,240	6.80%
Tangible Personal, Industrial	53,299,410	5.68%	51,506,010	5.86%
Tangible Personal, Other	99,100	0.01%	383,030	0.04%
Tangible Personal, Mobile Homes	867,230	0.09%	866,020	0.10%
Total Appraised Value Before Exemptions	\$ 938,930,360	100.00%	\$ 879,513,640	100.00%
Adjustments	(29,188,806)		(43,440,109)	
Total Exemptions/Reductions	(77,517,064)		(68,800,245)	
Taxable Assessed Value	\$ 832,224,490		\$ 767,273,286	

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

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

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
1999	25,200	\$ 767,273,286	\$ 30,447	\$ 22,125,000	2.88%	\$ 878
2000	25,894	832,224,490	32,140	30,940,000	3.72%	1,195
2001	26,350	869,203,524	32,987	28,720,000	3.30%	1,090
2002	26,400	981,493,677	37,178	26,450,000	2.69%	1,002
2003	26,796	1,027,361,750	38,340	30,280,000 <sup>(2)</sup>	2.95%	1,130

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

(2) Projected, includes the Certificate. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes.

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

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
1999	\$ 0.5517	\$ 0.2815	\$ 0.2702	\$ 4,233,054	97.33%	99.61%
2000	0.5517	0.3101	0.2416	4,594,045	97.36%	99.38%
2001	0.6717	0.4286	0.2431	5,871,578	96.22%	97.71%
2002	0.6717	0.5064	0.1653	6,592,693	95.94%	98.94%
2003	0.6717	0.5468	0.1249	6,900,789	96.70% <sup>(1)</sup>	100.53% <sup>(1)</sup>

(1) Collections for part year only, through June 1, 2003.

**TABLE 5 - TEN LARGEST TAXPAYERS**

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

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

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

2003 Principal and Interest Requirements	\$ 967,470
\$0.0952 Tax Rate at 99.00% Collection Produces	\$ 968,268
Average Annual Principal and Interest Requirements, 2003 - 2024	\$ 612,440
\$0.0603 Tax Rate at 99.00% Collection Produces	\$ 613,304
Maximum Principal and Interest Requirements, 2004	\$ 1,191,227
\$0.1172 Tax Rate at 99.00% Collection Produces	\$ 1,192,027

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

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2002/03 Taxable Assessed Value	2002/03 Tax Rate	Total G.O. Debt	Estimated % Applicable	City's Overlapping G.O. Debt As of 6-1-03	Authorized But Unissued Debt as of 6-1-03
City of Lancaster	\$ 981,493,677	\$ 0.6717	\$ 18,507,602 <sup>(1)</sup>	100.00%	\$ 18,507,602	\$ -
Lancaster Independent School District	1,026,240,746	1.6700	12,828,315	95.09%	12,198,445	-
Wilmer-Hutchins Independent School District	490,800,332	1.5482	2,385,722	4.46%	106,403	-
Dallas County	126,261,793,442	0.19600	233,647,395	0.80%	1,869,179	6,200,000
Dallas County Community College	130,932,366,627	0.06000	-	0.80%	-	-
Dallas County Hospital District	126,261,793,442	0.25400	-	0.80%	-	-
Total Direct and Overlapping G.O. Debt					\$ 32,681,629	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					3.33%	
Per Capita Overlapping G.O. Debt					\$ 1,219.65	

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

**DEBT INFORMATION**

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

Fiscal Year Ended 9/30	Outstanding Debt <sup>(1)</sup>		The Certificates <sup>(2)</sup>		Total Outstanding Debt	Self-Supporting Requirements <sup>(3)</sup>	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest				
2003	\$ 1,195,000	\$ 1,212,935			\$ 2,407,935	\$ 1,440,465	\$ 967,470	
2004	1,250,000	1,203,484	\$ 75,000	\$ 140,143	2,668,626	1,477,399	1,191,227	
2005	1,190,000	1,144,709	110,000	126,125	2,570,834	1,466,845	1,103,989	
2006	625,000	1,097,598	115,000	122,188	1,959,785	1,465,612	494,173	
2007	1,115,000	1,053,974	120,000	118,075	2,407,049	1,911,161	495,888	18.41%
2008	1,250,000	1,002,619	125,000	113,788	2,491,406	1,943,907	547,499	
2009	1,320,000	948,793	130,000	109,325	2,508,118	1,957,256	550,862	
2010	1,375,000	890,879	135,000	104,688	2,505,566	1,954,914	550,652	
2011	1,440,000	828,846	140,000	99,350	2,508,196	1,958,985	549,211	
2012	1,275,000	768,396	150,000	93,188	2,286,584	1,732,407	554,177	41.73%
2013	1,345,000	709,421	155,000	86,706	2,296,128	1,741,292	554,835	
2014	1,410,000	646,133	160,000	80,373	2,296,505	1,743,275	553,230	
2015	1,480,000	578,761	170,000	73,933	2,302,694	1,742,453	560,241	
2016	1,650,000	505,423	175,000	67,033	2,397,455	1,842,114	555,341	
2017	1,700,000	428,258	180,000	59,753	2,368,010	1,806,378	561,632	68.50%
2018	1,790,000	348,616	190,000	51,983	2,380,599	1,813,650	566,949	
2019	1,020,000	285,338	200,000	43,643	1,548,980	985,998	562,982	
2020	1,065,000	239,456	205,000	34,834	1,544,290	983,769	560,521	
2021	1,110,000	190,230	215,000	25,538	1,540,768	983,506	557,262	
2022	1,165,000	138,488	225,000	15,638	1,544,125	986,735	557,390	91.33%
2023	1,225,000	84,713	235,000	5,288	1,550,000	985,457	564,543	
2024	1,270,000	28,575			1,298,575	984,963	313,612	100.00%
	<u>\$ 28,265,000</u>	<u>\$ 14,335,641</u>	<u>\$ 3,210,000</u>	<u>\$ 1,571,585</u>	<u>\$ 47,382,227</u>	<u>\$ 33,908,541</u>	<u>\$ 13,473,685</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Average life of the issue - 11.605 years. Interest on the Certificates has been calculated at the rates illustrated on the cover page hereof.

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

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

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9/30/03.....		\$ 967,470 <sup>(1)</sup>
Interest and Sinking Fund, 9/30/02 .....	\$ 354,945	
Interest and Sinking Fund Tax Levy .....	1,306,705	
Estimated Investment Earnings .....	<u>13,067</u>	<u>1,674,717</u>
Estimated Balance, 9/30/03 .....		\$ 707,247

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

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

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-02 . . . . .	\$ 2,723,981
Less: Revenue Bonds Requirements, 2003 Fiscal Year . . . . .	<u>105,410</u>
Balance Available for Other Purposes . . . . .	\$ 2,618,571
System General Obligation Bond Requirements, 2002 Fiscal Year . . . . .	<u>864,649</u>
Balance . . . . .	\$ 1,753,922
Percentage of System General Obligation Bonds, Self-Supporting . . . . .	100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-02 . . . . .	\$ 52,716 <sup>(1)</sup>
Airport General Obligation Bond Requirements, 2003 Fiscal Year . . . . .	<u>6,754</u>
Balance . . . . .	\$ 45,962
Percentage of Airport General Obligation Bonds, Self-Supporting . . . . .	100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-02 . . . . .	\$ 1,197,023 <sup>(2)</sup>
LRDC General Obligation Bond Requirements, 2003 Fiscal Year . . . . .	<u>423,498</u>
Balance . . . . .	\$ 773,525
Percentage of LRDC General Obligation Bonds, Self-Supporting . . . . .	100.00%

(1) Includes transfer from airport operating fund.

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

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

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

**TABLE 12 - OTHER OBLIGATIONS**

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

FYE	
<u>30-Sep</u>	
2003	\$ 235,600
2004	<u>112,606</u>
Total	\$ 348,206
Less amount representing interest	<u>19,706</u>
Present value of future minimum payments	\$ 328,500

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

**FINANCIAL INFORMATION**

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

	Fiscal Year Ended September 30,				
	2002	2001	2000	1999	1998
<b>Revenues</b>					
Taxes and Fees	\$ 9,303,951	\$ 9,559,283	\$ 10,306,765	\$ 10,758,861	\$ 11,314,025
Licenses and Permits	791,124	679,287	415,934	259,989	292,832
Intergovernmental	304,867	45,805	144,994	102,411	39,922
Charges for Services	501,769	346,126	242,531	144,670	195,668
Fines and Forfeitures	768,461	718,857	671,377	589,772	523,299
Interest	132,092	259,659	283,696	322,181	286,083
Miscellaneous	259,944	114,582	60,465	41,500	95,565
<b>Total Revenues</b>	<b>\$ 12,062,208</b>	<b>\$ 11,723,599</b>	<b>\$ 12,125,762</b>	<b>\$ 12,219,384</b>	<b>\$ 12,747,394</b>
<b>Expenditures</b>					
General Government	\$ 1,182,543	\$ 1,050,523	\$ 1,603,494	\$ 1,437,705	\$ 2,052,712
Public Safety	7,791,052	6,834,078	8,087,409	7,197,802	7,287,930
Public Works	940,990	998,773	1,019,287	1,309,242	1,895,661
Cultural and Recreational	562,007	797,007	836,887	754,105	1,207,784
Community Service	1,199,493	762,158	1,090,198	1,054,200	-
Non Departmental	1,050,842	1,069,139	1,063,943	1,134,298	-
Insurance	-	-	-	-	361,620
<b>Total Expenditures</b>	<b>\$ 12,726,927</b>	<b>\$ 11,511,678</b>	<b>\$ 13,701,218</b>	<b>\$ 12,887,352</b>	<b>\$ 12,805,707</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	\$ (664,719)	\$ 211,921	\$ (1,575,456)	\$ (667,968)	\$ (58,313)
<b>Transfers In</b>					
Transfers In	\$ 632,881	\$ 725,000	\$ 580,000	\$ 653,530	\$ 576,156
<b>Transfers Out</b>					
Transfers Out	(235,600)	(345,233)	(235,600)	(235,941)	(163,926)
<b>Proceeds from Capital Lease</b>					
Proceeds from Capital Lease	560,692	-	-	-	536,000
<b>Transfer from Component Unit</b>					
Transfer from Component Unit	27,294	44,021	230,127	194,202	130,000
<b>Total Sources (Uses)</b>	<b>\$ 985,267</b>	<b>\$ 423,788</b>	<b>\$ 574,527</b>	<b>\$ 611,791</b>	<b>\$ 1,078,230</b>
<b>Net Increase (Decrease)</b>					
Net Increase (Decrease)	\$ 320,548	\$ 635,709	\$ (1,000,929)	\$ (56,177)	\$ 1,019,917
<b>Beginning Fund Balance</b>					
Beginning Fund Balance	5,741,528	5,105,819	6,106,748	5,774,657	5,260,332
<b>Prior Period Adjustments</b>					
Prior Period Adjustments	-	-	-	-	-
<b>Residual Equity Transfer</b>					
Residual Equity Transfer	-	-	-	388,268	(505,592)
<b>Ending Fund Balance</b>	<b>\$ 6,062,076</b>	<b>\$ 5,741,528</b>	<b>\$ 5,105,819</b>	<b>\$ 6,106,748</b>	<b>\$ 5,774,657</b>

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

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

**DISTRIBUTION OF SALES AND USE TAXES**

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

**GENERAL FUND SALES AND USE TAX**

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
1999	\$ 5,706,263	134.80%	\$ 0.7437	\$ 226
2000	5,108,750	111.20%	0.6139	197
2001	3,405,037 <sup>(2)</sup>	57.99%	0.3917	129
2002	2,266,213 <sup>(2)</sup>	34.37%	0.2309	86
2003 <sup>(1)</sup>	1,456,849 <sup>(2)</sup>	21.11%	0.1418	54

(1) Collections for part year only, through June 1, 2003.

(2) One of the primary sales tax contributors have changed there point of sale, which reduces the contribution to the City.

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

Fiscal Year Ended Collected	Economic Development Tax Collected	Recreational Development Tax Collected	Property Reduction Tax Collected
1999	\$ 1,426,566	\$ 2,853,132	\$ 1,426,566
2000	1,277,188	2,554,375	1,277,188
2001	851,259	1,702,518	851,259
2002	566,553	1,133,107	566,553
2003 <sup>(1)</sup>	364,212	728,425	364,212

(1) Collections for part year only, through June 1, 2003.

## FINANCIAL POLICIES

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

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

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

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

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

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

## INVESTMENTS

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

**LEGAL INVESTMENTS** . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit issued by a state or national bank domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance City or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

**ADDITIONAL PROVISIONS . . .** Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 15 - CURRENT INVESTMENTS**

As of June 1, 2003, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Book Value</u>
TexPool	\$ 25,963,149

## TAX MATTERS

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

Interest on all tax-exempt obligations, including the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

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

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

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

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS** . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the Issuer, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Certificates as "qualified tax-exempt obligations" and represents the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Certificates under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Certificates will not be deductible pursuant to section 291 of the Code.

**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . .** The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

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

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

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## OTHER INFORMATION

### RATINGS

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

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

### REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

The Certificate of Obligation Act of 1971 (V.T.C.A., Local Government Code, Section 271.051) expressly provides that certificates approved by the Attorney General of Texas are legal authorized investments for banks, savings banks, trust companies, and savings and loan associations; insurance companies; fiduciaries, trustees and guardians and sinking funds of municipalities, counties, school districts, or other political corporations or subdivisions of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Certificates may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

### LEGAL MATTERS

The delivery of the Certificates are subject to the approval of the Attorney General of Texas to the effect the Certificates are valid and legally binding obligations of the City payable from sources and secured in the manner provided in the Ordinance and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates 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. The form of Bond Counsel's opinion is attached hereto in Appendix C. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel was engaged by, and only represents, the City. Other than as noted below, Bond Counsel 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 herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "The Certificates" (except under the subcaptions "Book Entry Only System" and "Remedies"), "Tax Matters," "Continuing Disclosure Of Information" (except under the subcaption "Compliance With Prior Undertakings"), and the subcaptions "Other Information-Legal Matters" and "Other Information-legal Investments And Eligibility To Secure Public Funds In Texas," and such firm is of the opinion that the information relating to the Obligations and the legal matters 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 Certificates, such information conforms to the Ordinance.

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

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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.

#### **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 Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2003. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements 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, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and the SID of the change.

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

**MATERIAL EVENT NOTICES . . .** The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of holders of the Certificates; (8) Certificate calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. (Neither the Certificates nor the Ordinance make any provision for debt service reserves and liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

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

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates 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 Certificates 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 Certificates 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 Certificates 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 Certificates. 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 SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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

#### **INITIAL PURCHASER OF THE CERTIFICATES**

After requesting competitive bids for the Certificates, the City accepted the bid of First Southwest Company (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the cover page of this Official Statement at a price of par plus a cash premium of \$4,247.25. The City can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

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

#### **FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. First Southwest Company may submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, 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.

**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.

**CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefore, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

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

JOE TILLOTSON  
Mayor  
City of Lancaster, Texas

ATTEST:

NARVA PRICE  
City Secretary

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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

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

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	1992	22,877
1980 Census	14,807	1993	22,877
1982	15,700	1994	22,300
1983	16,200	1995	22,300
1984	17,700	1996	23,000
1985	18,750	1997	23,400
1986	20,750	1998	23,300
1987	20,850	1999	24,300
1988	23,000	2000 Census	25,894
1989	23,000	2001	26,350
1990 Census	22,117	2002	26,400
1991	22,189	2003	26,796

**ECONOMY . . .** The City has eight major industrial or commercial sites totaling over 5,300 acres available for marketing to new business and industry with all utilities available. There are four industrial parks totaling over 300 acres with all utilities in place. Lancaster Municipal Airport has undergone major changes by adding to its capacity for general aviation and offering a natural opportunity for freight-related industries. Additions include a new 5,000 foot runway, taxiway, lighting and navigational directional beacon to existing facilities.

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

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

<u>Company</u>	<u>Type of Business</u>	<u>Estimated Number of Employees</u>
Lancaster Independent School District	Public Education	689
Wal-Mart Stores, Inc.	Retail Store	525
Brasscraft Western Company	Brass Plumbing Fixtures	410
Oak Creek Homes	Manufactured Housing Production and Distribution	280
Medical Center at Lancaster	Medical Facility	273
Cedar Valley College	Education	225
City of Lancaster	Local Government	212
Lasco Bathware, Tomkins, Inc.	Fiberglass Bath Fixtures, Tubs and Shower Stalls	200
SBC Material Distribution Center	Telephone Equipment, Cables and Supplies	200
FFE Transportation Services	Trucking	150

Located in Dallas County, much of the City's labor force is employed in the economically significant Dallas Consolidated Metropolitan Statistical Area. The following was taken from the August 30, 2002 publication of Sales Management Survey for Dallas County:

Total Population	2,284,000
% of Population Whose Age is:	
18-24	11.0%
25-34	17.4%
35-49	22.7%
50 and Over	21.1%
Households	827,000
Median Household Effective Buying Income	\$ 46,703
Total Effective Buying Income	\$ 51,468,580,000
% of Households by EBI Group	
\$20,000 - \$34,999	20.4%
\$35,000 - \$49,999	19.0%
\$50,000 and Over	45.4%
Total Retail Sales	\$ 37,752,849,000

#### EMPLOYMENT STATISTICS

	April 2003	Average Annual 2002	Average Annual 2001	Average Annual 2000	Average Annual 1999	Average Annual 1998
<b>Lancaster</b>						
Civilian Labor Force	14,516	14,456	14,388	14,339	13,922	13,783
Total Employed	13,614	13,475	13,718	13,913	13,502	13,348
Total Unemployed	902	981	670	426	420	435
Percent of Unemployed	6.21%	6.79%	4.66%	2.97%	3.02%	3.16%
<b>Dallas County</b>						
Civilian Labor Force	1,264,248	1,260,288	1,249,749	1,241,842	1,205,832	1,194,074
Total Employed	1,172,902	1,160,924	1,181,908	1,198,735	1,163,317	1,149,996
Total Unemployed	91,346	99,364	67,841	43,107	42,515	44,078
Percent of Unemployed	7.23%	7.88%	5.43%	3.47%	3.53%	3.69%

Source: Texas Employment Commission, Austin, Texas.

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

Higher education facilities located within a 35-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, Texas Christian University and Cedar Valley Junior College.

**TRANSPORTATION . . .** The City is bounded in the west by Interstate Highway 35 East, in the east by Interstate Highway 45, and in the north by Interstate Highway 635 South, and is traversed by State Highway 342. The City is served by the Lancaster Municipal Airport, M-K-T Railroad, Southern Pacific Railroad, two bus lines and five freight lines. The City is approximately 25 miles southeast of the Dallas-Fort Worth International Airport and 18 miles from Dallas Love Field.

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

**GROWTH INDICES**

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits<sup>(1)</sup></u>		<u>Water Customers</u>
		<u>Number</u>	<u>Value</u>	
1998	25,200	425	\$ 46,807,165	6,980
1999	25,200	304	15,453,262	7,515
2000	25,894	350	17,792,000	7,600
2001	26,350	195	17,301,147	8,400
2002	26,400	453	49,390,835	8,311

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

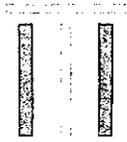
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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF LANCASTER, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2002

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Annual Financial Report for the Year Ended September 30, 2002, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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**WEAVER  
AND  
TIDWELL**

L.L.P.

CERTIFIED PUBLIC  
ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Lancaster, Texas as of and for the year ended September 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Lancaster, Texas at September 30, 2002, and the results of its operations and cash flows of its proprietary funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

  
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
May 23, 2003

1334

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AN INDEPENDENT MEMBER OF  
BANKER HILL  
INTERNATIONAL

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**GENERAL PURPOSE FINANCIAL STATEMENTS**

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## CITY OF LANCASTER, TEXAS

### GENERAL PURPOSE FINANCIAL STATEMENTS - GENERAL PURPOSE FINANCIAL STATEMENTS OVERVIEW

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

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

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

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

CITY OF LANCASTER, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS  
 AND DISCRETELY PRESENTED COMPONENT UNITS  
 SEPTEMBER 30, 2002  
 (WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2001)

	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
<b>ASSETS AND OTHER DEBITS</b>					
Cash and cash equivalents	\$ 2,515,485	\$ 605,839	\$ 11,235	\$ 10,742	\$ 276,352
Investments	3,684,551	591,966	360,308	422,012	10,654,532
Receivables (net, where applicable, of allowances for uncollectibles):					
Delinquent taxes	414,988	-	248,595	-	-
Accounts	501,662	-	-	-	795,240
Unbilled	-	-	-	-	305,472
Sales tax	558,964	-	-	-	-
Due from:					
Other funds	398,525	-	-	-	501,186
Other governments	-	-	423	-	-
Component units	-	-	-	-	-
Inventory	401	-	-	-	-
Prepaid items	14,791	-	235,600	-	400
Deferred bond issuance costs	-	-	-	-	286,284
Restricted assets					
Cash	-	-	-	-	19,842
Investments	-	-	-	-	475,325
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	37,943,877
Amount available in debt service fund	-	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b><u>\$ 8,089,367</u></b>	<b><u>\$ 1,197,805</u></b>	<b><u>\$ 856,161</u></b>	<b><u>\$ 432,754</u></b>	<b><u>\$ 51,258,510</u></b>

The accompanying notes are an integral part of the financial statements

Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
General Fixed Assets	General Long-Term Debt	Primary Government			Reporting Entity	
		2002	2001		2002	2001
\$ -	\$ -	\$ 3,419,653	\$ 2,723,836	\$ 34,650	\$ 3,454,303	\$ 2,791,159
-	-	15,713,369	16,788,587	5,833,762	21,547,131	25,276,499
-	-	663,583	631,614	-	663,583	631,614
-	-	1,296,902	1,229,075	1,059	1,297,961	1,245,664
-	-	305,472	322,302	-	305,472	322,302
-	-	558,964	558,870	335,378	894,342	894,192
-	-	899,711	1,187,093	-	899,711	1,187,093
-	-	423	2,122	-	423	2,122
-	-	-	785,467	-	-	785,467
-	-	401	10,018	-	401	10,018
-	-	250,791	272,329	5,150	255,941	272,329
-	-	286,284	325,703	-	286,284	325,703
-	-	19,842	2,779	-	19,842	2,779
-	-	475,325	475,325	-	475,325	475,325
64,431,456	-	102,375,333	88,183,289	21,146,754	123,522,087	109,249,194
-	354,945	354,945	646,382	193,251	548,196	829,111
-	7,397,832	7,397,832	7,957,949	9,751,749	17,149,581	18,070,220
<u>\$ 64,431,456</u>	<u>\$ 7,752,777</u>	<u>\$ 134,018,830</u>	<u>\$ 122,102,740</u>	<u>\$ 37,301,753</u>	<u>\$ 171,320,583</u>	<u>\$ 162,370,791</u>

CITY OF LANCASTER, TEXAS  
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS  
 AND DISCRETELY PRESENTED COMPONENT UNITS  
 SEPTEMBER 30, 2002  
 (WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2001)

LIABILITIES	Governmental Fund Types				Proprietary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Enterprise
Accounts and contracts payable	\$ 693,681	\$ 67,094	\$ -	\$ -	\$ 1,040,069
Accrued liabilities	281,868	-	28	-	155,178
Deposits	97,891	-	-	-	341,318
Payable from restricted assets:					
Accrued interest	-	-	-	-	69,780
General obligation bonds payable, current	-	-	-	-	494,655
Revenue bonds payable, current	-	-	-	-	55,000
Certificates of obligation, current	-	-	-	-	-
Capital lease, current	-	-	-	-	186,884
Due to:					
Other funds	501,186	-	252,529	-	145,996
Primary government	-	-	-	-	-
Other governments	24,905	-	-	-	-
Deferred revenue	427,760	870,537	248,659	-	-
General obligation bonds payable	-	-	-	-	8,633,726
Revenue bonds payable	-	-	-	-	910,000
Deferred refunding amount	-	-	-	-	(199,199)
Certificates of obligation	-	-	-	-	-
Compensated absences	-	-	-	-	45,410
Capital leases	-	-	-	-	1,568,941
<b>Total liabilities</b>	<b>2,027,291</b>	<b>937,631</b>	<b>501,216</b>	<b>-</b>	<b>13,447,758</b>
<b>EQUITY AND OTHER CREDITS</b>					
Contributed capital	-	-	-	-	11,766,254
Investment in general fixed assets	-	-	-	-	-
Retained earnings:					
Reserved for revenue bond retirement	-	-	-	-	1,355,703
Reserved for capital improvements	-	-	-	-	1,505,578
Unreserved	-	-	-	-	23,183,217
Fund balances:					
Reserved:					
Reserved for capital projects	-	-	-	432,754	-
Reserved for debt service	-	-	354,945	-	-
Reserved for inventory and prepaid items	15,192	-	-	-	-
Unreserved:					
Designated for capital projects	-	-	-	-	-
Designated for equipment replacement	366,515	-	-	-	-
Unreserved and undesignated	5,680,369	260,174	-	-	-
<b>Total equity and other credits</b>	<b>6,062,076</b>	<b>260,174</b>	<b>354,945</b>	<b>432,754</b>	<b>37,810,752</b>
<b>TOTAL LIABILITIES, EQUITY AND ANY OTHER CREDITS</b>	<b>\$ 8,089,367</b>	<b>\$ 1,197,805</b>	<b>\$ 856,161</b>	<b>\$ 432,754</b>	<b>\$ 51,258,510</b>

The accompanying notes are an integral part of the financial statements

Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
		Primary Government			Reporting Entity	
General Fixed Assets	General Long-Term Debt	2002	2001		2002	2001
\$ -	\$ -	\$ 1,800,844	\$ 1,677,510	\$ 109,729	\$ 1,910,573	\$ 2,645,621
-	-	437,074	495,329	41,842	478,916	541,911
-	-	439,209	417,161	-	439,209	417,161
-	-	69,780	80,422	-	69,780	80,422
-	-	494,655	198,227	-	494,655	198,227
-	-	55,000	470,000	-	55,000	470,000
-	-	-	365,000	-	-	365,000
-	-	186,884	140,000	-	186,884	140,000
-	-	899,711	1,187,093	-	899,711	1,187,093
-	-	-	-	-	-	785,467
-	-	24,905	-	-	24,905	-
-	-	1,546,956	3,013,096	-	1,546,956	3,013,096
-	5,736,619	14,370,345	16,036,772	-	14,370,345	16,036,772
-	-	910,000	965,000	-	910,000	965,000
-	-	(199,199)	(232,399)	-	(199,199)	(232,399)
-	-	-	45,000	9,945,000	9,945,000	10,340,000
-	1,278,886	1,324,296	1,143,982	-	1,324,296	1,143,982
-	737,272	2,306,213	2,194,452	-	2,306,213	2,194,452
	<u>7,752,777</u>	<u>24,566,673</u>	<u>28,196,645</u>	<u>10,096,571</u>	<u>34,763,244</u>	<u>40,291,805</u>
-	-	11,766,254	11,382,343	-	11,766,254	11,382,343
64,431,456	-	64,431,456	55,378,864	21,146,754	85,578,210	76,444,769
-	-	1,355,703	1,336,497	-	1,355,703	1,336,497
-	-	1,505,578	1,205,106	-	1,505,578	1,205,106
-	-	23,183,217	17,545,349	-	23,183,217	17,545,349
-	-	432,754	454,703	-	432,754	454,703
-	-	354,945	646,382	193,251	548,196	829,111
-	-	15,192	46,347	-	15,192	46,347
-	-	-	-	1,951,193	1,951,193	1,922,405
-	-	366,515	523,810	-	366,515	523,810
-	-	5,940,543	5,386,694	3,913,984	9,854,527	10,388,546
64,431,456		<u>109,352,157</u>	<u>93,906,095</u>	<u>27,205,182</u>	<u>136,557,339</u>	<u>122,078,986</u>
<u>\$ 64,431,456</u>	<u>\$ 7,752,777</u>	<u>\$ 134,018,830</u>	<u>\$ 122,102,740</u>	<u>\$ 37,301,753</u>	<u>\$ 171,320,583</u>	<u>\$ 162,370,791</u>

CITY OF LANCASTER, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
 AND DISCRETELY PRESENTED COMPONENT UNITS  
 YEAR ENDED SEPTEMBER 30, 2002  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2001)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>REVENUES</b>				
Taxes and fees	\$ 9,303,951	\$ -	\$ 1,682,172	\$ -
Licenses and permits	791,124	-	-	-
Intergovernmental	304,867	6,083,558	-	-
Charges for services	501,769	-	-	-
Fines and forfeits	768,461	-	-	-
Interest	132,092	13,155	13,084	7,603
Miscellaneous	259,944	11,055	-	-
Total revenues	<u>12,062,208</u>	<u>6,107,768</u>	<u>1,695,256</u>	<u>7,603</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,182,543	49,622	-	-
Public safety	7,791,052	-	-	-
Public works	940,990	-	-	-
Community development and recreation	562,007	-	-	-
Community services	1,199,493	-	-	-
Non departmental	1,050,842	-	-	-
Social and welfare	-	5,990,515	-	-
Capital outlay	-	-	-	29,552
Debt service:				
Principal retirement	-	-	1,449,131	-
Interest and fiscal charges	-	-	332,968	-
Total expenditures	<u>12,726,927</u>	<u>6,040,137</u>	<u>1,782,099</u>	<u>29,552</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(664,719)</u>	<u>67,631</u>	<u>(86,843)</u>	<u>(21,949)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	560,692	-	-	-
Operating transfers in	632,881	-	235,600	-
Operating transfers out	(235,600)	(22,780)	(440,194)	-
Operating transfer from component unit	27,294	-	-	-
Operating transfer to primary government	-	-	-	-
Total other financing sources (uses)	<u>985,267</u>	<u>(22,780)</u>	<u>(204,594)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	320,548	44,851	(291,437)	(21,949)
FUND BALANCE, BEGINNING OF YEAR	<u>5,741,528</u>	<u>215,323</u>	<u>646,382</u>	<u>454,703</u>
FUND BALANCE, END OF YEAR	<u>\$ 6,062,076</u>	<u>\$ 260,174</u>	<u>\$ 354,945</u>	<u>\$ 432,754</u>

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

Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
Primary Government			Reporting Entity	
2002	2001		2002	2001
\$ 10,986,123	\$ 11,670,561	\$ 1,709,114	\$ 12,695,237	\$ 14,254,183
791,124	679,287	-	791,124	679,287
6,388,425	3,988,456	50,000	6,438,425	4,938,456
501,769	346,126	-	501,769	346,126
768,461	718,857	-	768,461	718,857
165,934	348,078	160,941	326,875	959,094
270,999	114,582	250	271,249	114,582
<u>19,872,835</u>	<u>17,865,947</u>	<u>1,920,305</u>	<u>21,793,140</u>	<u>22,010,585</u>
1,232,165	1,050,523	579	1,232,744	1,051,588
7,791,052	6,834,078	-	7,791,052	6,834,078
940,990	998,773	-	940,990	998,773
562,007	797,007	1,817,798	2,379,805	2,739,221
1,199,493	762,158	-	1,199,493	762,158
1,050,842	1,069,139	-	1,050,842	1,069,139
5,990,515	3,864,841	-	5,990,515	3,864,841
29,552	153,074	84,734	114,286	5,746,991
1,449,131	1,491,703	350,000	1,799,131	1,821,703
332,968	394,032	561,458	894,426	975,890
<u>20,578,715</u>	<u>17,415,328</u>	<u>2,814,569</u>	<u>23,393,284</u>	<u>25,864,382</u>
(705,880)	450,619	(894,264)	(1,600,144)	(3,853,797)
560,692	-	-	560,692	-
868,481	980,233	-	868,481	980,233
(698,574)	(773,319)	-	(698,574)	(773,319)
27,294	44,021	-	27,294	44,021
-	-	(154,294)	(154,294)	(76,521)
<u>757,893</u>	<u>250,935</u>	<u>(154,294)</u>	<u>603,599</u>	<u>174,414</u>
52,013	701,554	(1,048,558)	(996,545)	(3,679,383)
<u>7,057,936</u>	<u>6,356,382</u>	<u>7,106,986</u>	<u>14,164,922</u>	<u>17,844,305</u>
\$ <u>7,109,949</u>	\$ <u>7,057,936</u>	\$ <u>6,058,428</u>	\$ <u>13,168,377</u>	\$ <u>14,164,922</u>

CITY OF LANCASTER, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES-BUDGET AND ACTUAL - GENERAL  
 SPECIAL REVENUE, AND DEBT SERVICES FUNDS  
 YEAR ENDED SEPTEMBER 30, 2002

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Taxes and fees	\$ 8,358,097	\$ 9,303,951	\$ 945,854
Licenses and permits	562,000	791,124	229,124
Intergovernmental	-	304,867	304,867
Charges for services	244,000	501,769	257,769
Fines and forfeitures	861,570	768,461	(93,109)
Interest	170,000	132,092	(37,908)
Miscellaneous	15,550	259,944	244,394
<b>Total revenues</b>	<b>10,211,217</b>	<b>12,062,208</b>	<b>1,850,991</b>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General government	1,205,714	1,182,543	23,171
Public safety	7,262,159	7,791,052	(528,893)
Public works	946,226	940,990	5,236
Community development and recreation	605,234	562,007	43,227
Community services	790,352	1,199,493	(409,141)
Social and welfare	-	-	-
Non departmental	1,170,803	1,050,842	119,961
Capital outlay	-	-	-
<b>Debt service:</b>			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
<b>Total expenditures</b>	<b>11,980,488</b>	<b>12,726,927</b>	<b>(746,439)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,769,271)</b>	<b>(664,719)</b>	<b>1,104,552</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from capital lease	-	560,692	560,692
Operating transfers in	632,881	632,881	-
Operating transfers out	(325,600)	(235,600)	90,000
Transfer from component unit	26,319	27,294	975
<b>Total other financing sources (uses)</b>	<b>333,600</b>	<b>985,267</b>	<b>651,667</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(1,435,671)</b>	<b>320,548</b>	<b>1,756,219</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>5,741,528</b>	<b>5,741,528</b>	<b>-</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 4,305,857</b>	<b>\$ 6,062,076</b>	<b>\$ 1,756,219</b>

The accompanying notes are an integral part of the financial statements

Special Revenue Fund			Debt Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 1,692,922	\$ 1,682,172	\$ (10,750)
-	-	-	-	-	-
6,072,663	6,083,558	10,895	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
57,040	13,155	(43,885)	32,007	13,084	(18,923)
-	11,055	11,055	-	-	-
<u>6,129,703</u>	<u>6,107,768</u>	<u>(21,935)</u>	<u>1,724,929</u>	<u>1,695,256</u>	<u>(29,673)</u>
-	49,622	(49,622)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
6,098,123	5,990,515	107,608	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,442,723	1,449,131	(6,408)
-	-	-	332,870	332,968	(98)
<u>6,098,123</u>	<u>6,040,137</u>	<u>57,986</u>	<u>1,775,593</u>	<u>1,782,099</u>	<u>(6,506)</u>
<u>31,580</u>	<u>67,631</u>	<u>36,051</u>	<u>(50,664)</u>	<u>(86,843)</u>	<u>(36,179)</u>
-	-	-	-	-	-
-	-	-	235,600	235,600	-
(22,780)	(22,780)	-	(399,219)	(440,194)	(40,975)
-	-	-	-	-	-
<u>(22,780)</u>	<u>(22,780)</u>	<u>-</u>	<u>(163,619)</u>	<u>(204,594)</u>	<u>(40,975)</u>
8,800	44,851	36,051	(214,283)	(291,437)	(77,154)
<u>215,323</u>	<u>215,323</u>	<u>-</u>	<u>646,382</u>	<u>646,382</u>	<u>-</u>
<u>\$ 224,123</u>	<u>\$ 250,174</u>	<u>\$ 36,051</u>	<u>\$ 432,099</u>	<u>\$ 354,945</u>	<u>\$ (77,154)</u>

CITY OF LANCASTER, TEXAS  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN RETAINED EARNINGS - PROPRIETARY FUND TYPE  
 YEAR ENDED SEPTEMBER 30, 2002  
 (WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2001)

	Enterprise Funds	
	2002	2001
OPERATING REVENUES		
Charges for services	\$ 7,613,635	\$ 7,711,199
Miscellaneous	151,587	50,495
Total operating revenues	7,765,222	7,761,694
OPERATING EXPENSES		
Personnel services	1,013,720	884,890
Maintenance	169,484	154,741
Purchase of water	1,019,739	941,293
Materials and supplies	231,340	183,039
Heat, light and power	189,682	241,248
Depreciation	1,257,907	1,252,822
Bad debts	84,107	85,523
Benefit payments	294,363	266,971
Sewage treatment	2,458,219	2,699,021
Special services	337,548	322,642
Miscellaneous	19,412	3,873
Insurance	1,188	55,690
Equipment rental	12,657	26,511
Total operating expenses	7,089,366	7,118,264
OPERATING INCOME	675,856	643,430
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	246,224	686,004
Interest and fiscal charges	(746,512)	(921,819)
Intergovernmental	334,803	372,748
Insurance recovery	1,076,142	-
Contributions	1,655,260	-
Impact Fees	551,012	250,000
Total nonoperating revenues (expenses)	3,116,929	386,933
INCOME BEFORE OPERATING TRANSFERS	3,792,785	1,030,363
TRANSFERS		
Operating transfers in	440,194	428,086
Operating transfers out	(610,101)	(635,000)
Operating transfer from component unit	127,000	32,500
Total transfers	(42,907)	(174,414)
NET INCOME	3,749,878	855,949
DEPRECIATION ALLOCATED TO CONTRIBUTED CAPITAL	404,680	404,682
PRIOR PERIOD ADJUSTMENT	1,802,988	-
RETAINED EARNINGS, BEGINNING OF YEAR	20,086,952	18,826,321
RETAINED EARNINGS, END OF YEAR	\$ 26,044,498	\$ 20,086,952

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

**CITY OF LANCASTER, TEXAS**  
**COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE**  
**YEAR ENDED SEPTEMBER 30, 2002**  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2001)

	Enterprise Funds	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 675,856	\$ 643,430
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,257,907	1,252,822
Provision for bad debts	84,107	85,523
Change in assets and liabilities:	39,419	39,413
(Increase) decrease in accounts receivable	100,560	(171,785)
(Increase) decrease in due to/ from other funds	89,881	222,767
(Increase) decrease in other receivables	18,320	39,508
(Increase) decrease in prepaid items	-	1,119
Increase (decrease) in accounts and contracts payable	(218,596)	(64,700)
Increase (decrease) in accrued liabilities	(80,960)	83,690
Increase (decrease) in deposits	24,532	11,045
Increase (decrease) in compensated absences	(2,084)	(214)
Net cash provided by operating activities	<u>1,988,942</u>	<u>2,142,618</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(3,078,396)	(4,287,129)
Proceeds from capital grant	214,374	372,748
Proceeds from insurance recovery	1,076,142	-
Principal payments on debt	(1,033,227)	(975,424)
Interest payments on debt	(642,868)	(704,428)
Principal payments on capital lease	(180,976)	(130,000)
Interest payments on capital lease	(81,085)	(211,827)
Impact fees	551,012	417,297
Net cash provided by (used in) capital and related financing activities	<u>(3,175,024)</u>	<u>(5,518,763)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:</b>		
Operating transfers in from other funds	440,194	428,086
Operating transfers out to other funds	(610,101)	(635,000)
Operating transfers from component unit	127,000	32,500
Net cash provided by (used in) noncapital financing activities	<u>(42,907)</u>	<u>(174,414)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	246,224	686,004
Net cash provided by investing activities	<u>246,224</u>	<u>686,004</u>
Net decrease in cash and cash equivalents	(982,765)	(2,864,555)
Cash and cash equivalents, beginning of year	12,408,816	15,273,371
Cash and cash equivalents, end of year	<u>\$ 11,426,051</u>	<u>\$ 12,408,816</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:</b>		
Contribution of Capital Assets	<u>\$ 1,932,489</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

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

**Note 1 Significant Accounting Policies**

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

**A Reporting Entity**

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

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

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

**B Fund Accounting**

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

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

Note 1 Significant Accounting Policies - continued

B Fund Accounting - continued

Governmental Fund Types

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

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

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

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

Proprietary Fund Type

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

Account Groups

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

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

CITY OF LANCASTER, TEXAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies - continued

C Measurement Focus

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

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

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

D Basis of Accounting

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

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

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

CITY OF LANCASTER, TEXAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Note 1 Significant Accounting Policies - continued

D Basis of Accounting - continued

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

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

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

E Budgets and Budgetary Accounting

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

The City Manager may transfer budgeted amounts from one expenditure account to another within a fund. Expenditures should not exceed appropriations at the fund level. During 2002, the City did not have any expenditures over appropriations at the legal level of control. The City Council must approve increases in a funds total appropriations. Supplemental appropriations to amend the budget during the year were not material to total appropriations. The final amended version of the budget was utilized in this report. Unused appropriations lapse at the end of each fiscal year.

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

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

Note 1 Significant Accounting Policies - continued

E Budgets and Budgetary Accounting - continued

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

F Cash Flows Statement

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

G Investments

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

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

H Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances for uncollectible taxes and water and sewer billings at September 30, 2002 and 2001 was \$342,631 and \$467,645, respectively.

I Unbilled Services

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

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

Note 1 Significant Accounting Policies - continued

J Inventory

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

K Fixed Assets

Water and Sewer System, Airport Operations and Golf Course Operations

Property, plant and equipment is recorded at historical cost, or, if contributed property, fair market value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. Estimated useful lives of major categories of property are as follows:

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

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred. 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. No interest was capitalized in the Water and Sewer Fund, Airport Fund or Golf Course Fund during fiscal year 2002.

General Fixed Assets

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

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

Sick leave is recorded when paid because employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one year to the next is limited to 260 hours. The liability for unused vested vacation leave as of September 30, 2002, is shown as a liability for compensated absences in the General Long-Term Debt Account Group and in the Enterprise Funds. The amount to be paid from current available financial resources is not significant.

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

Note 1 Significant Accounting Policies - continued

M. Total Columns

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

N Comparative Data

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

Note 2. Cash and Investments

At year-end, the carrying amount of the City's bank deposits was \$3,439,495 and the bank balances were \$3,007,705. The bank balances on September 30, 2002 were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements and municipal pools. During the year ended September 30, 2002, the City did not own any types of securities other than those permitted by the statute.

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

During the year ended September 30, 2002 the City invested in the Texpool fund, which is an investment fund authorized by the Texas Legislature and administered by the Texas State Treasury. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The purpose of the Texpool fund is to allow for the pooling of public funds to provide a higher yield on the pooled investment than would be possible with the investment of the individual public entity's funds. Texpool investments are subject to the same investment policies maintained by the State Treasury for all state funds. The legislature has authorized only certain investment instruments for public funds, including repurchase agreements, U.S. Treasury bills and bonds, securities of other U.S. government agencies, commercial paper and other safe instruments. The investment in Texpool and any accrued interest may be redeemed at the City's discretion. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly the fair value of the position in TexPool is the same as the value of TexPool shares.

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

Note 2. Cash and Investments - continued

Investments at year end are shown below:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Category</u>
Primary Government			
Texpool	<u>\$ 16,188,699</u>	<u>\$ 16,188,699</u>	N/A
Total Primary Government	<u>16,188,699</u>	<u>16,188,699</u>	
Component Units			
Texpool	<u>5,833,762</u>	<u>5,833,762</u>	N/A
Total Component Units	<u>5,833,762</u>	<u>5,833,762</u>	
Total	<u>\$ 22,022,461</u>	<u>\$ 22,022,461</u>	

Note 3 Property Taxes

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Tax collections for the year ended September 30, 2002, were 98.9% 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, 2002, the City had a tax rate of \$6.717 per \$100 assessed valuation, of which \$506,437 was allocated for general government and \$165,263 was allocated for the payment of principal and interest on general obligation debt.

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

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

Note 4 Interfund Transactions

At September 30, 2002, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund <u>Receivables</u>	Interfund <u>Payables</u>	Transfers <u>in</u>	Transfers <u>Out</u>
General Fund	\$ 398,525	\$ 501,186	\$ 632,881	\$ 235,600
HUD Special Revenue Fund	-	-	-	22,780
Debt Service Fund	-	252,529	235,600	440,194
Water and Sewer Fund	501,186	-	-	575,101
Golf Course Fund	-	<u>145,996</u>	<u>440,194</u>	<u>35,000</u>
	<u>\$ 899,711</u>	<u>\$ 899,711</u>	<u>\$ 1,308,675</u>	<u>\$ 1,308,675</u>

Note 5. Fixed Assets

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	<u>2002</u>	<u>2001</u>
<b>Water and Sewer System:</b>		
Land	\$ 85,561	\$ 85,561
Plants and buildings	2,472,998	2,472,998
Other structures	28,132,655	25,084,087
Machinery and equipment	<u>1,019,431</u>	<u>975,939</u>
	31,710,645	28,618,585
Less - accumulated depreciation	<u>13,557,868</u>	<u>12,641,178</u>
	18,152,777	15,977,407
Construction in progress	<u>11,960,640</u>	<u>9,100,690</u>
Total water and sewer system	<u>30,113,417</u>	<u>25,078,097</u>
<b>Regional Airport:</b>		
Land	3,161,146	3,161,146
Runways and taxiways	2,264,101	2,264,101
Buildings	1,280,532	1,280,532
Other equipment	<u>143,425</u>	<u>143,425</u>
	6,849,204	6,849,204
Less - accumulated depreciation	<u>2,842,583</u>	<u>2,666,199</u>
	4,006,621	4,183,005
Construction in progress	<u>288,549</u>	<u>-</u>
Total regional airport	<u>4,295,170</u>	<u>4,183,005</u>
<b>Municipal Golf Course:</b>		
Land	349,554	349,554
Park improvements	3,093,109	3,093,109
Buildings	905,075	905,075
Other equipment	<u>713,653</u>	<u>556,853</u>
	5,061,391	4,904,591
Less - accumulated depreciation	<u>1,526,101</u>	<u>1,361,268</u>
Total municipal golf course	<u>3,535,290</u>	<u>3,543,323</u>
Total Enterprise Funds fixed assets, net	<u>\$37,943,877</u>	<u>\$32,804,425</u>

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

Note 5 Fixed Assets - continued

General Fixed Assets

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

<u>Primary Government</u>	Balance Beginning of Year (as restated)	Additions and Reclassifications	Retirements, Dispositions and Reclassifications	Balance End of Year
Land	\$ 644,796	\$ 501,186	\$	\$ 1,145,982
Buildings	4,619,411			4,619,411
Streets	42,693,227	4,952,089		47,645,316
Park structures	1,588,624			1,588,624
Equipment and furniture	8,333,313	695,004		9,028,317
Construction in progress	<u>375,904</u>	<u>27,902</u>		<u>403,806</u>
	58,255,275	6,176,181		64,431,456
 <u>Component Units</u>				
Land	989,118			989,118
Buildings	197,455			197,455
Park structures	1,335,809			1,335,809
Equipment and furniture	393,517	950		394,467
Construction in progress	<u>18,150,006</u>	<u>79,899</u>		<u>18,229,905</u>
	<u>21,065,905</u>	<u>80,849</u>		<u>21,146,754</u>
	<u>\$79,321,180</u>	<u>\$6,257,030</u>	<u>\$</u>	<u>\$85,578,210</u>

Note 6 Long-Term Debt

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

<u>General Long-Term Debt</u>	Balance at Beginning of Year	Issues	Retirements	Balance at End of Year
<u>Primary Government</u>				
General obligation bonds	\$ 6,908,391	\$	\$1,171,772	\$ 5,736,619
Certificates of obligation	45,000		45,000	
Compensated absences	1,096,488	182,398		1,278,886
Capital leases	<u>554,452</u>	<u>560,692</u>	<u>377,872</u>	<u>737,272</u>
	8,604,331	743,090	1,594,644	7,752,777
<u>Discretely Presented Component Unit</u>				
Certificates of obligation	<u>10,295,000</u>		<u>350,000</u>	<u>9,945,000</u>
Reporting entity	<u>\$18,899,331</u>	<u>\$743,090</u>	<u>\$1,944,644</u>	<u>\$17,697,777</u>
<u>Proprietary Fund Type</u>				
General obligation bonds	\$ 9,326,608	\$	\$ 198,227	\$ 9,128,381
Revenue bonds	1,435,000		470,000	965,000
Certificates of obligation	365,000		365,000	
Compensated absences	47,494		2,084	45,410
Capital leases	<u>1,780,000</u>	<u>156,800</u>	<u>180,975</u>	<u>1,755,825</u>
Total proprietary fund type debt	<u>\$12,954,102</u>	<u>\$156,800</u>	<u>\$1,216,286</u>	<u>\$11,894,616</u>

CITY OF LANCASTER, TEXAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Note 6 Long-Term Debt - continued

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

General obligation bonds, revenue bonds, certificates of obligation and capital leases outstanding at September 30, 2002, consist of the following individual issues:

	General Long- Term Debt Account Group	Water and Sewer Fund	Airport Fund	Golf Course Fund	Total	Discretely Presented Component Units
<u>General Obligation Bonds</u>						
\$1,295,000 1993 General Obligation Bonds, due in annual installments through August 15, 2013. 4.00% - 7.00%	\$1,160,000	\$	\$	\$	\$1,160,000	\$
\$4,145,000 1995 General Obligation Refunding Bonds, due in annual installments through February 15, 2015. 3.90% - 5.60%	1,709,516	180,484			1,890,000	
\$4,100,000 1996 General Obligation Refunding and Improvement Bonds, due in annual installments through August 15, 2016. 5.40% - 5.90%	1,132,103	708,763	169,134		2,010,000	
\$8,070,000 1998 General Obligation bonds, due in annual installments through February 15, 2018. 4.60% - 6.50%		8,070,000			8,070,000	
\$2,815,000 1999 General Obligation Refunding Bonds, due in annual installments through February 15, 2005. 3.45% - 4.00%	<u>1,735,000</u>				<u>1,735,000</u>	
	<u>\$5,736,619</u>	<u>\$8,959,247</u>	<u>\$169,134</u>	<u>\$</u>	<u>\$14,865,000</u>	<u>\$</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>\$ 965,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 965,000</u>	<u>\$</u>
<u>Certificates of Obligations</u>						
\$10,965,000 1999 Combination Tax and Revenue Certificates of Obligation due in annual installments through February 15, 2019. 5.10% - 6.00%	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$9,945,000</u>

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

Note 6 Long-Term Debt - continued

	General Long- Term Debt Account Group	Water and Sewer Fund	Airport Fund	Golf Course Fund	Total	Discretely Presented Component Units
<u>Capital Leases</u>						
\$650,000 1996 Lease Purchase Agreement due in annual installments through 2003, 5.39% 1,107,109	\$ 328,500	\$	\$	\$	\$ 328,500	\$
\$1,885,000 1997 Lease Purchase Agreement. Refunding due in monthly installments through March 1, 2011, 4.35 – 5%		1,640,000			1,640,000	
\$717,492 2002 Lease Purchase Agreement. Refunding due in monthly installments through March 1, 2009, 4.2 – 5.95%	<u>408,772</u>			<u>115,825</u>	<u>524,597</u>	
	<u>\$ 737,272</u>	<u>\$ 1,640,000</u>	<u>\$</u>	<u>\$ 115,825</u>	<u>\$ 2,493,097</u>	<u>\$</u>

During the 2001-02 fiscal year the City did not issue any general obligation refunding bonds, revenue bonds or certificates of obligations.

In prior years, the City defeased certain General Obligation Bonds, Revenue Bonds and Certificates of Obligation by placing the proceeds of the new bonds in irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On September 30, 2002, \$3,735,000 of bonds outstanding are considered defeased.

The annual requirements to amortize the long-term debt as of September 30, 2002 are as follows:

Fiscal Year	General Obligation Bonds				Revenue Bonds
	General Long- Term Debt Account Group	Water and Sewer Fund	Airport Fund	Total	Water and Sewer Fund
2003	\$1,306,704	\$ 921,771	\$ 38,356	\$ 2,266,831	\$ 105,410
2004	1,268,373	835,712	18,005	2,122,090	102,860
2005	1,067,808	811,714	17,469	1,896,991	105,295
2006	451,135	812,906	17,331	1,281,372	102,415
2007	423,436	795,445	14,293	1,233,174	104,475
2008-2012	1,728,475	3,949,983	70,252	5,748,710	528,125
2013-2017	900,833	4,100,169	56,650	5,057,652	317,295
2018		<u>835,374</u>		<u>835,374</u>	
	7,146,764	13,063,074	232,356	20,442,194	1,365,895
Less interest	<u>1,410,145</u>	<u>4,103,827</u>	<u>63,222</u>	<u>5,577,194</u>	<u>400,895</u>
Total principal	<u>\$5,736,619</u>	<u>\$ 8,959,247</u>	<u>\$169,134</u>	<u>\$14,865,000</u>	<u>\$ 965,000</u>

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

Note 6. Long-Term Debt – continued

Fiscal Year	Certificates of Obligation Discretely Presented Component Unit	Capital Leases			
		General Long-Term Debt Account Group	Water and Sewer Fund	Golf Course Fund	Total
2003	\$ 905,008	\$359,956	\$ 224,595	\$ 42,219	\$ 626,770
2004	907,358	174,608	222,694	42,219	439,521
2005	903,358	62,002	225,331	42,219	329,552
2006	898,158	62,002	222,543		284,545
2007	896,608	62,002	224,360		286,362
2008-2012	4,478,885	124,004	904,050		1,028,054
2013-2017	4,491,910				
2018-2019	1,791,176				
	15,272,461	844,574	2,023,573	126,657	2,994,804
Less interest	5,327,461	107,302	383,573	10,832	501,707
Total principal	<u>\$ 9,945,000</u>	<u>\$737,272</u>	<u>\$1,640,000</u>	<u>\$115,825</u>	<u>\$2,493,097</u>

Note 7. Contributed Capital

During 2001, the City adopted GASB No. 33 and, accordingly, recorded capital contributions and grants to the Enterprise Fund as revenue. Capital contributions prior to October 1, 2001 were reduced by depreciation of assets contributed in prior years. As discussed in Note 14, a prior period adjustment for developer contributions of water and sewer fixed assets prior to the implementation of GASB 33 for the year ending September 30, 2001 is shown below.

A summary of contributed capital changes are as follows:

	Water and Sewer Enterprise Fund	Airport Enterprise Fund	Golf Course Fund	Total
Contributed capital, October 1, 2001	\$7,188,521	\$3,716,527	\$477,295	\$11,382,343
Prior period adjustment	788,591			788,591
Contributed capital, October 1, 2001 (as restated)	7,977,112	3,716,527	477,295	12,170,934
Less: Depreciation of fixed assets acquired with contributed capital prior to October 1, 2001	227,382	125,288	52,010	404,680
Contributed capital, September 30, 2002	<u>\$7,749,730</u>	<u>\$3,591,239</u>	<u>\$425,285</u>	<u>\$11,766,254</u>

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

Note 8 Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 758 administered by TMRS, an agent multiple-employer public employee retirement system.

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

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

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

Contributions

The contribution rate for the employees is 7%, and the City's matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2001 valuation is effective for rates beginning January, 2003.)

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

Note 8 Retirement Plan - continued

The annual pension cost for 2001 was \$919,560. The City's annual pension cost was equal to the required and actual contributions for the years ended December 31, 2001, 2000 and 1999.

Schedule of Actuarial Liabilities and Funding Progress

	FY 2002-01 12/31/01	FY 2000-01 12/31/00	FY 1999-00 12/31/99	FY 1998-99 12/31/98	FY 1997-98 12/31/97	FY 1996-97 12/31/96
Actuarial Valuation Date						
Actuarial Value of Assets	\$16,672,228	\$15,081,238	\$13,384,251	\$11,829,358	\$10,131,621	\$8,522,856
Actuarial Accrued Liability	21,734,002	19,739,569	17,568,441	15,921,130	14,121,299	11,054,935
Percentage Funded	76.7%	76.4%	76.2%	74.3%	71.7%	77.1%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	5,061,774	4,658,331	4,184,190	4,091,772	3,989,678	2,532,079
Annual Covered Payroll	7,078,232	7,368,692	7,433,991	6,829,274	6,259,490	6,180,293
UAAL as a Percentage of Covered Payroll	71.5%	63.2%	56.3%	59.9%	63.7%	40.9%
Net Pension Obligation (NPO) at Beginning of Period						
Annual Pension Cost: Annual Required Contribution (ARC)	919,560	857,296	995,918	878,195	784,480	565,938
Interest on NPO Adjustment to the ARC						
Contributions Made	919,560	857,296	995,918	878,195	784,480	565,938
Increase in NPO						
NPO at End of Period	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

Actuarial Assumptions

The City of Lancaster is one of 758 municipalities having their benefit plan administered by TMRS. Each of the 758 municipalities have an annual individual actuarial valuation performed. All assumptions for the December 31, 2001 valuations are contained in the 2001 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P O Box 149153, Austin, Texas 78714-9153.

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

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

**Note 9 Deferred Compensation Plan**

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

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

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

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

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

**Note 10 Commitments and Contingencies**

Risk Management

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

Trinity River Authority of Texas

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

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

Note 10 Commitments and Contingencies - continued

Regular monthly expenses for October 1, 2001 to September 30, 2002	\$2,248,881
TRA adjustment for December 1, 2000 to November 30, 2001	<u>104,873</u>
Sewage treatment expenses, 2002	<u>\$2,353,754</u>

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2002 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Other Contingencies

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

Note 11 Segment Information for Enterprise Funds

The City maintains three Enterprise Funds, which provide water and sewer, airport and golf course services. Segment information for the year ended September 30, 2002, was as follows:

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues	\$ 7,207,269	\$ 78,605	\$ 479,348	\$ 7,765,222
Depreciation expense	916,690	176,384	164,833	1,257,907
Operating income (loss)	1,012,263	( 124,191)	(212,216)	675,856
Operating transfers in (out)	( 575,101)		364,219	( 210,882)
Transfers in (out) from component unit		127,000		127,000
Net income (loss)	3,478,656	114,363	272,682	3,865,701
Fixed assets additions	2,910,276	288,548	156,800	3,355,624
Net working capital (deficiency)	10,112,446	( 8,115)	( 72,766)	10,031,565
Total assets	43,221,316	4,371,563	3,665,631	51,258,510
Debt payable	11,564,248	169,134		11,733,382
Total equity	30,327,798	4,147,793	3,450,986	37,926,577

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

Note 12 Condensed Component Unit Information

The City includes two discretely presented component units in its Reporting Entity. Condensed balance sheet and revenue and expenditure information for the year ended September 30, 2002, is as follows:

	<u>Sales Tax 4A</u>	<u>Sales Tax 4B</u>	<u>Total</u>
Current assets	<u>\$2,968,571</u>	<u>\$ 3,241,428</u>	<u>\$ 6,209,999</u>
Property, Plant, and Equipment	<u>\$ 15,208</u>	<u>\$21,131,546</u>	<u>\$21,146,754</u>
Amount available in debt service fund	<u>\$ _____</u>	<u>\$ 193,251</u>	<u>\$ 193,251</u>
Amount to be provided for retirement of general long term debt	<u>\$ _____</u>	<u>\$ 9,751,749</u>	<u>\$ 9,751,749</u>
Total assets	<u>\$2,983,779</u>	<u>\$34,317,974</u>	<u>\$37,301,753</u>
Current Liabilities	<u>\$ 58,359</u>	<u>\$ 93,212</u>	<u>\$ 151,571</u>
Certificates of Obligation	<u>\$ _____</u>	<u>\$ 9,945,000</u>	<u>\$ 9,945,000</u>
Total liabilities	<u>\$ 58,359</u>	<u>\$10,038,212</u>	<u>\$10,096,571</u>
Total fund balance and other credits	<u>\$2,925,420</u>	<u>\$24,279,762</u>	<u>\$27,205,182</u>

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

	<u>Sales Tax 4A</u>	<u>Sales Tax 4B</u>	<u>Total</u>
Revenues	<u>\$623,118</u>	<u>\$ 1,297,187</u>	<u>\$ 1,920,305</u>
Current expenditures	296,904	1,521,473	1,818,377
Debt service expenditures		911,458	911,458
Capital outlay	<u>_____</u>	<u>84,734</u>	<u>84,734</u>
Total expenditures	<u>296,904</u>	<u>2,517,665</u>	<u>2,814,569</u>
Excess of revenues over expenditures	326,214	(1,220,478)	( 894,264)
Other Financing Sources (Uses):			
Transfers to primary government	( 136,748)	( 17,546)	( 154,294)
Excess (deficiency) of revenues and expenditures and other uses	<u>\$189,466</u>	<u>(\$1,238,024)</u>	<u>(\$1,048,558)</u>

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

**Note 13. Reservations and Designations of Fund Balance/Retained Earnings**

Designations of fund balance reflect City management's intended use of resources. As of September 30, 2002, the City designated unreserved fund balance was for equipment replacement \$366,515. The equipment replacement designation is for the replacement of the City's vehicle and large equipment fleet

Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific use. Reserves of retained earnings consist of resources accumulated for the retirement of debt (reserve for debt service) and the unexpended portion of impact fees which are restricted for water and sewer improvements (reserve for capital improvements)

**Note 14 Prior Period Adjustments**

In the previous two fiscal years the City did not recognize infrastructure additions from developer contributions of; \$2,876,411 in additions to general fixed assets, \$788,591 in additions to the fixed assets of the water and sewer enterprise fund prior to implementation of *Government Accounting Standards Board Statement No. 33 – Accounting for Nonexchange Transactions*, and \$597,882 in additions to the fixed assets of the water and sewer enterprise fund subsequent to implementation of *Government Accounting Standards Board Statement No. 33 – Accounting for Nonexchange Transactions*

A prior period adjustment was also made to the water and sewer enterprise fund to recognize impact fees as revenue when received per *Government Accounting Standards Board Statement No. 33 – Accounting for Nonexchange Transactions* for \$1,205,106

**Note 15. Required Individual Fund Disclosures**

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

<u>Fund</u>	<u>Department</u>	<u>Excess Expenditures over Appropriations</u>
General	Public Safety	\$ 528,893
	Community Services	409,141
Drainage Special Revenue	General Government	49,622
Debt Service	Principal Retirement	47,383
	Interest and Fiscal Charges	98

The following fund had a deficit fund balance at September 30, 2002:

<u>Fund</u>	<u>Deficit</u>
Drainage Special Revenue Fund	\$ 49,622

The deficit will be funded by user fees that will commence in fiscal year 2003

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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# FULBRIGHT & JAWORSKI L.L.P.

A REGISTERED LIMITED LIABILITY PARTNERSHIP

2200 ROSS AVENUE, SUITE 2800

DALLAS, TEXAS 75201-2784

WWW.FULBRIGHT.COM

TELEPHONE (214) 855-8000

FACSIMILE: (214) 855-8200

WE HAVE ACTED as Bond Counsel in connection with the issuance by City of Lancaster, Texas (the "City") of the "City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003" (the "Certificates"), in the aggregate principal amount of \$3,210,000, dated July 15, 2003, solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof within a maturity. The Certificates mature on February 15 in each of the years 2004 through 2014, 2016, 2018, 2020 and 2023, unless redeemed in accordance with applicable optional or mandatory redemption provisions. Interest accrues on the Certificates from their date at the rates per annum stated in the ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the "Ordinance"), and such accrued interest is payable on February 15 and August 15 in each year, commencing February 15, 2004, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Certificates).

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Certificates, including the Ordinance, (ii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iii) such other documentation, including an examination of the Certificate executed and delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

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

1. The Certificates have been duly authorized by the City, and the Certificates issued in compliance with the provisions of the Ordinance are valid, legally binding and enforceable obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City and additionally payable from and secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer System in the manner and to the extent provided in the Ordinance; except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance and in reliance upon representations and certifications of the

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Page 2 of Legal Opinion of Fulbright & Jaworski L.L.P.

Re: "City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003", dated July 15, 2003

City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, interest on the Certificates for federal income tax purposes (a) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on all tax-exempt obligations, such as the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

WE EXPRESS NO 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 Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of 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 representation and covenants referenced above.

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**APPENDIX D**

SPECIMEN AMBAC ASSURANCE FINANCIAL GUARANTY INSURANCE POLICY

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## Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

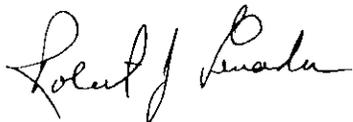
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is not cancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

