

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

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

THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



**\$7,585,000**  
**CITY OF LANCASTER, TEXAS**  
(Dallas County)  
**TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS**  
**REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011**

**Dated Date: September 15, 2011**

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

**PAYMENT TERMS** . . . Interest on the \$7,585,000 City of Lancaster, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2011 (the "Certificates") will accrue from September 15, 2011 (the "Dated Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing August 15, 2012, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the 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 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

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

**PURPOSE** . . . Proceeds from the sale of the Certificates will be used for (i) for paying contractual obligations to be incurred for the construction of public works, and purchase of materials, supplies, equipment, machinery, buildings, land and right-of-way for authorized needs and purposes to (a) expand and improve the water and wastewater system; (b) design, construction and equipping of an elevated storage tank, including drainage improvements and the acquisition of land and rights-of-way in connection therewith, to be located in the 792 Pressure Plane as described in the City's Water Master Plan; (c) construction, improvements and replacement of certain waterlines throughout the city, including the Martin Berry Waterline, the 3rd Street Waterline and the Lexington Waterline; (d) certain water and sewer design, construction, renovation, and improvements within the City, and the equipping thereof, including the Keller Branch interceptor; and (ii) paying for professional services rendered in connection with the above listed projects.

**INSURANCE** . . . The scheduled payment of principal and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. ("AGM") See "BOND INSURANCE" and "FINANCIAL GUARANTY INSURANCE RISK FACTORS" herein.



**MATURITY SCHEDULE**

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

Amount	Aug 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Amount	Aug 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 300,000	2012	3.000%	0.400%	XH6	\$ 370,000	2022	3.000%	2.400%	XT0
280,000	2013	3.000%	0.500%	XJ2	385,000	2023	3.000%	2.550%	XU7
285,000	2014	2.000%	0.600%	XK9	400,000	2024	3.000%	2.750%	XV5
295,000	2015	2.000%	0.800%	XL7	415,000	2025	3.000%	2.900%	XW3
300,000	2016	2.000%	1.100%	XM5	***	***	***	***	***
310,000	2017	2.000%	1.320%	XN3	470,000	2028	3.125%	3.200%	XZ6
320,000	2018	2.000%	1.550%	XP8	495,000	2029	3.250%	3.300%	YA0
330,000	2019	2.000%	1.850%	XQ6	515,000	2030	3.375%	3.400%	YB8
340,000	2020	2.000%	2.050%	XR4	540,000	2031	3.500%	3.500%	YC6
355,000	2021	2.000%	2.200%	XS2					

**(Accrued Interest from September 15, 2011 to be added)**

**\$880,000 3.00% 2011 TERM CERTIFICATE DUE AUGUST 15, 2027 PRICED TO YIELD 3.00% CUSIP #514444XY9**

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

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Certificates maturing on August 15, 2027 (the "Term Certificates") are also subject to mandatory 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 of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of West & Associates, L.L.P., Bond Counsel, Dallas, Texas, and Andrews Kurth LLP, Special Tax Counsel, Houston Texas (see Appendix C, "Form of Bond and Special Tax Counsels' Opinions").

**DELIVERY** . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on October 26, 2011.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Certificate Insurance" and "Exhibit D - Specimen Municipal Bond Insurance Policy".

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation, promise or guarantee of the Financial Advisors.

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

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

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

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

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

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

## OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the 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 was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 31 square miles (see "Introduction - Description of the City").
- THE CERTIFICATES** ..... The \$7,585,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2011 are to mature on August 15 in the years 2012 through 2025, as term bonds scheduled to mature on August 15, 2027, and on August 15 in the years 2028 through 2031(see "The Certificates - Description of the Certificates").
- PAYMENT OF INTEREST** ..... Interest on the Certificates accrues from September 15, 2011, and is payable August 15, 2012, and each February 15 and August 15 thereafter until maturity or prior redemption (see "The Certificates - Description of the Certificates" and "The Certificates - Optional 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, as amended, and the 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 (i) a continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and (ii) a limited pledge (not to exceed \$1,000), junior and subordinate of the surplus Net Revenues (as defined in the Ordinance) of the City's Water and Sewer System (see "The Certificates - Security and Source of Payment").
- 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").
- REDEMPTION** ..... The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, 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 are also subject to mandatory redemption prior to maturity as described herein (see "The Certificates - Mandatory Redemption").
- TAX EXEMPTION** In the opinion of Special Tax Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Special Tax Counsel, including the alternative minimum tax on corporations.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Certificates will be used for (i) for paying contractual obligations to be incurred for the construction of public works, and purchase of materials, supplies, equipment, machinery, buildings, land and right-of-way for authorized needs and purposes to (a) expand and improve the water and wastewater system; (b) design, construction and equipping of an elevated storage tank, including drainage improvements and the acquisition of land and rights-of-way in connection therewith, to be located in the 792 Pressure Plane as described in the City's Water Master Plan; (c) construction, improvements and replacement of certain waterlines throughout the city, including the Martin Berry Waterline, the 3rd Street Waterline and the Lexington Waterline; (d) certain water and sewer design, construction, renovation, and improvements within the City, and the equipping thereof, including the Keller Branch interceptor; and (ii) paying for professional services rendered in connection with the above listed projects.

**RATINGS** ..... The Certificates are rated "Aa3"(negative outlook) by Moody's Investors Service, Inc. ("Moody's") and "AA+" (CreditWatch negative) by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Certificates to the Purchaser. In addition, the Certificates and the presently outstanding general obligation debt of the City are rated "Aa3" by Moody's and "A" by S&P, without regard to credit enhancement.

**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").

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

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

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2008	35,800 <sup>(1)</sup>	\$ 1,709,096,790	\$ 47,740	\$ 55,125,000	\$ 1,540	3.23%	99.68%
2009	36,200 <sup>(1)</sup>	1,725,352,328	47,662	53,250,000	1,471	3.09%	98.96%
2010	36,361 <sup>(2)</sup>	1,563,581,389	43,002	86,225,000	2,371	5.51%	98.99%
2011	36,390 <sup>(1)</sup>	1,498,202,005	41,171	84,055,000	2,310	5.61%	98.25% <sup>(5)</sup>
2012	36,420 <sup>(3)</sup>	1,497,549,787	41,119	88,525,000 <sup>(4)</sup>	2,431	5.91%	NA

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

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

(3) Estimate provided by City Staff.

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

(5) Collections for part year only, through August 1, 2011.

For additional information regarding the City, please contact:

<p>Opal Mauldin-Robertson Sheree Haynes City of Lancaster 211 North Henry Street Lancaster, Texas 75146 (972) 218-1300</p>	or	<p>David K. Medanich Nick Bulaich First Southwest Company 777 Main Street, Suite 1200 Fort Worth, Texas 76102-3123 (817) 332-9710</p>
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**CITY OFFICIALS, STAFF, AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Marcus E. Knight Mayor	3 Years	May, 2012	Business Executive
Walter Weaver Councilmember, District 1	1 Year	May, 2013	Retired Teacher
Stanley Jaglowski Councilmember, District 2	Newly Elected	May, 2014	Automotive Service Professional
Marco Mejia Councilmember, District 3	1 Year	May, 2013	Business Owner, Construction Company
James Daniels Councilmember, District 4	7 Years	May, 2014	Retired
Clyde C. Hariston Councilmember, District 5	1 Year	May, 2013	Minister
Nina Morris Councilmember, District 6	3 Years	May, 2014	Community Volunteer

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Length of Service to Municipal Governments</u>
Opal Mauldin-Robertson	City Manager	9 Years	19 Years
Sheree Haynes	Director of Finance	2 Months	11 Years
Dolle Downe	City Secretary	8 Years	20 Years
Bob Hager	City Attorney	34 Years	34 Years

**CONSULTANTS AND ADVISORS**

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

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**OFFICIAL STATEMENT**

**RELATING TO**

**\$7,585,000  
CITY OF LANCASTER, TEXAS  
TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS  
REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$7,585,000 City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2011 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates authorizes the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

There follow in this Official Statement descriptions 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 six Councilmembers. The term of office is three 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 remaining 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 2010 Census population for the City was 36,361, while the estimated 2012 population is 36,420. The City covers approximately 31 square miles.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for (i) for paying contractual obligations to be incurred for the construction of public works, and purchase of materials, supplies, equipment, machinery, buildings, land and right-of-way for authorized needs and purposes to (a) expand and improve the water and wastewater system; (b) design, construction and equipping of an elevated storage tank, including drainage improvements and the acquisition of land and rights-of-way in connection therewith, to be located in the 792 Pressure Plane as described in the City's Water Master Plan; (c) construction, improvements and replacement of certain waterlines throughout the city, including the Martin Berry Waterline, the 3rd Street Waterline and the Lexington Waterline; (d) certain water and sewer design, construction, renovation, and improvements within the City, and the equipping thereof, including the Keller Branch interceptor; and (ii) paying for professional services rendered in connection with the above listed projects.

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

<u>Sources of Funds</u>	<u>The Certificates</u>
Par Amount	\$ 7,585,000.00
Cash Premium	3,447.55
Accrued Interest	23,763.63
Total Sources of Funds	<u>\$ 7,612,211.18</u>
<u>Uses of Funds</u>	
Deposit to Construction Fund	\$ 7,503,447.55
Deposit to Debt Service Fund	23,763.63
Costs of Issuance	85,000.00
Total Uses of Funds	<u>\$ 7,612,211.18</u>

## THE CERTIFICATES

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated September 15, 2011, and mature on August 15 in each of the years and in the amounts 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 August 15 and February 15 of each year, commencing August 15, 2012. 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 Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act of 1971"), as amended, and the Ordinance passed by the City Council.

**SECURITY AND SOURCE OF PAYMENT . . .** The Certificates constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, and are additionally secured by and payable from a limited pledge (not to exceed \$1,000), junior and subordinate of the surplus net revenues of the City's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue obligations (now or hereafter outstanding) that are payable from all or part of said revenues, all as provided in the Ordinance.

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax within the limits prescribed by law sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5 of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutional maximum tax rate of \$2.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Texas Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service. 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 August 15, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2021, 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.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Certificates have not been redeemed.

**MANDATORY REDEMPTION** . . . The Certificates maturing on August 15, 2027 (the "Term Certificates") are subject to mandatory sinking fund redemption in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to the principal amount of the Certificates or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

August 15, 2027	
Redemption Date	Principal Amount
August 15, 2026	\$ 430,000
August 15, 2027*	450,000

\* Maturity.

The particular Term Certificates to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before July 1 of each year in which Term Certificates are to be mandatorily redeemed. The principal amount of Term Certificates to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Certificates that have been optionally redeemed on or before July 1 of such year and which have not been made the basis for a previous reduction.

The principal amount of the Term Certificates of a maturity 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 of such maturity which, at least 45 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, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase, or (3) 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 WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. If a Certificate (or any portion of its principal sum) shall have been duly called for redemption and any other condition to redemption satisfied, 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 is to be transferred and how the principle of, premium, if any, and interest on the Certificates are to be paid to and accredited 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, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered Certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered

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

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

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

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

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

All payments on the Certificates 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 Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood that while the 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 Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar for the Certificates is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates, as the case may be, are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the 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 affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Certificates is payable to the registered holder appearing on the registration books of the Paying Agent/Registrar (the "Registered Owner") at the Designated Payment/Transfer Office of the Paying Agent/Registrar upon surrender of the Certificates for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Certificates, all payments will be made as described under "THE CERTIFICATES - Book-Entry-Only System" herein. Interest on the Certificates is payable to the Registered Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar by check mailed, first class postage prepaid, to the Registered Owner or by such other arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the Registered Owner. If the date for the payment of the principal of or interest on the 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 is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original 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 and thereafter 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 "The Certificates - 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 (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to 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 month next preceding the interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest will be received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Registered Owner of a Certificate to be paid on the Special Payment Date that appears on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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

**REMEDIES . . .** The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

**DEFEASANCE . . .** Certificates may be defeased in any manner provided by law now or hereafter.

**AMENDMENTS . . .** In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Certificates, as applicable, aggregating in principal amount 51% of the outstanding Certificates, as the case may be, shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Certificates; (ii) reducing the rate of interest borne by any of the outstanding Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

## BOND INSURANCE

### BOND INSURANCE POLICY

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (CreditWatch negative) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### Current Financial Strength Ratings

On September 27, 2011, S&P published a Research Update in which it placed AGM's "AA+" (negative outlook) financial strength rating on CreditWatch negative, meaning that S&P may downgrade AGM's financial strength rating in the near future. According to S&P, the CreditWatch placement is due to significant concentration risk in AGM's insured portfolio that is not consistent with S&P's new bond insurance rating criteria. However, based on discussions with AGM management, S&P further reported that AGM intends to take action to mitigate these concentration risks, and that it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P's comments.

On August 25, 2011, S&P published Bond Insurance Rating Methodology and Assumptions, a criteria article that follows S&P's Request for Comment: Bond Insurance Criteria, published January 24, 2011. The criteria described in the article update and supersede S&P's previous criteria for rating bond insurers. S&P noted that the impact of new bond insurance rating criteria could result in financial strength ratings on investment-grade bond insurers (such as AGM) being lowered by one or more rating categories. The article states that the criteria are effective immediately and that S&P expects any rating changes as a result of the new methodology and assumptions would occur after its review of third quarter 2011 financial statements, but no later than November 30, 2011. However, as noted above, a rating agency may place a company's financial strength rating on credit watch for a downgrade at any time. For the complete text of S&P's comments, both publications are available at [www.standardandpoors.com](http://www.standardandpoors.com).

AGM and its affiliates are currently reviewing S&P's revised bond insurance rating criteria. The final criteria contain a number of changes from the proposals submitted in January 2011 for comment from market participants, including a new Largest Obligors Test that was not included in the January 2011 Request for Comment. This test appears to have the effect of significantly reducing AGM and its affiliates' allowed single risk limits and limiting their financial strength rating level.

On August 8, 2011, S&P published a Research Update in which it affirmed the “AA+” financial strength rating of AGM. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moody.com](http://www.moody.com), for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that S&P or Moody’s may take with respect to AGM.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on March 1, 2011, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was filed by AGL with the SEC on May 10, 2011, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, which was filed by AGL with the SEC on August 9, 2011.

#### Capitalization of AGM

At June 30, 2011, AGM’s consolidated policyholders’ surplus and contingency reserves were approximately \$3,050,613,849 and its total net unearned premium reserve was approximately \$2,254,726,646, in each case, in accordance with statutory accounting principles.

#### Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (which was filed by AGL with the SEC on May 10, 2011); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 (which was filed by AGL with the SEC on August 9, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or have been provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption “CERTIFICATE INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “CERTIFICATE INSURANCE”.

## FINANCIAL GUARANTY INSURANCE RISK FACTORS

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the Certificate owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments have been made by AGM at such time and in such amounts as would have been due absent such prepayment by the City (unless AGM chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE CERTIFICATES – Remedies”).

In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from ad valorem taxes levied within the limits prescribed by law. In the event AGM becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

The long-term ratings on the Certificates are dependent in part on the financial strength of AGM and its claims paying ability. AGM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of AGM and of the ratings on the Certificates will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. See the disclosure described in “OTHER INFORMATION - Ratings” herein.

The obligations of AGM under the Policy are general obligations of AGM and in an event of default by AGM, the remedies available may be limited by applicable bankruptcy law. Neither the City, the Financial Advisor, Bond Counsel, nor the Initial Purchaser have made independent investigation into the claims paying ability of any insurer and no assurance or representation regarding the financial strength or projected financial strength of any insurer is given.

## TAX INFORMATION

**AD VALOREM TAX LAW** . . . The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Title I of the Texas Tax Code (referred to herein as the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios.

In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which it was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of seventy-five members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City does not tax nonbusiness personal property, and 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 not tax freeport property.

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

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

<u>Corporation Name</u>	<u>2011 Market Value</u>	<u>2011 Tax Value</u>	<u>Year on Roll</u>
White Rock	\$ 1,965,070	\$ 7,855	2009
Prologis	31,189,110	31,189,110	2008
Brenntag	13,058,170	13,058,170	2003

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

**CHAPTER 380 AGREEMENTS . . .** The City has a policy in place relating to Chapter 380 economic development incentive programs, and has entered into two such agreements.

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

2011/12 Market Valuation Established by Dallas Central Appraisal District		\$ 1,740,802,380
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 50,288,307	
Disabled Veterans Exemptions	8,664,323	
Freeport Exemption	24,927,975	
Capped Value Loss	760,774	
Pollution Control Exemption	1,255,477	
Totally Exempt Property	77,248,570	
Agricultural and Other Exemptions	<u>80,107,167</u>	<u>243,252,593</u>
2011/12 Taxable Assessed Valuation		\$ 1,497,549,787
City Funded Debt Payable from Ad Valorem Taxes (as of 8-15-11) <sup>(1)</sup>		
General Obligation Bonds	\$ 56,730,000	
Certificates of Obligation	27,325,000	
The Certificates	<u>7,585,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 91,640,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Water and Sewer System General Obligation Debt	\$ 14,921,189 <sup>(3)</sup>	
Stormwater System General Obligation Debt	565,000	
Airport System General Obligation Debt	137,280	
Economic Development Corporation General Obligation Debt	2,655,000	
Recreational Development Corporation General Obligation Debt	<u>9,120,000</u>	<u>27,398,469</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 64,241,531
Interest and Sinking Fund as of 8-15-11		\$ 467,099
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		6.12%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		4.29%

2012 Estimated Population - 36,420  
 Per Capita Taxable Assessed Valuation - \$41,119  
 Per Capita Total Funded Debt - \$2,516  
 Per Capita Net Funded Debt - \$1,764

- (1) The above statement of indebtedness does not include currently outstanding \$450,000 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 such 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.
- (3) Includes the Certificates.

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

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 900,351,520	51.72%	\$ 905,759,510	54.27%	\$ 943,972,980	54.26%
Real, Residential, Multi-Family	71,756,440	4.12%	74,506,500	4.46%	81,307,440	4.67%
Real, Vacant Lots/Tracts	59,847,390	3.44%	57,268,340	3.43%	52,158,020	3.00%
Real, Acreage (Land Only)	77,143,990	4.43%	88,313,230	5.29%	105,008,020	6.04%
Real, Farm and Ranch Improvements	12,872,360	0.74%	15,079,790	0.90%	16,633,110	0.96%
Real, Commercial	292,632,870	16.81%	244,442,170	14.65%	256,529,490	14.75%
Real, Industrial	29,204,940	1.68%	18,277,640	1.10%	19,343,890	1.11%
Oil, Gas and Mineral Reserves	460	0.00%	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	90,043,510	5.17%	78,660,170	4.71%	94,398,980	5.43%
Tangible Personal, Commercial	155,244,900	8.92%	137,597,940	8.24%	109,677,600	6.30%
Tangible Personal, Industrial	49,641,320	2.85%	47,702,600	2.86%	58,785,810	3.38%
Tangible Personal, Other	-	0.00%	-	0.00%	200,920	0.01%
Tangible Personal, Mobile Homes	721,940	0.04%	855,740	0.05%	846,280	0.05%
Special Inventory	1,340,740	0.08%	502,170	0.03%	818,060	0.05%
Total Appraised Value Before Exemptions	\$ 1,740,802,380	100.00%	\$ 1,668,965,800	100.00%	\$ 1,739,680,600	100.00%
Totally Exempt Property	(77,248,570)		-		-	
Total Exemptions/Reductions	(166,004,023)		(170,763,795)		(176,099,211)	
Taxable Assessed Value	\$ 1,497,549,787		\$ 1,498,202,005		\$ 1,563,581,389	

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

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

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

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2008	35,800 <sup>(1)</sup>	\$ 1,709,096,790	\$ 47,740	\$ 55,125,000	3.23%	\$ 1,540
2009	36,200 <sup>(1)</sup>	1,725,352,328	47,662	53,250,000	3.09%	1,471
2010	36,361 <sup>(2)</sup>	1,563,581,389	43,002	86,225,000	5.51%	2,371
2011	36,390 <sup>(1)</sup>	1,498,202,005	41,171	84,055,000	5.61%	2,310
2012	36,420 <sup>(3)</sup>	1,497,549,787	41,119	88,525,000 <sup>(4)</sup>	5.91%	2,431

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

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

(3) Estimate provided by City Staff.

(4) Projected, includes the Certificates. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt.

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

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2008	\$ 0.7375	\$ 0.6091	\$ 0.1284	\$ 12,435,678	96.33%	99.68%
2009	0.7775	0.6441	0.1334	13,298,918	95.22%	98.96%
2010	0.7775	0.6141	0.1634	12,171,705	95.78%	98.99%
2011	0.8675	0.6502	0.2173	13,040,469	97.42% <sup>(1)</sup>	98.25% <sup>(1)</sup>
2012	0.8675	0.6002	0.2673	12,991,245	NA	NA

(1) Collections through August 1, 2011.

**TABLE 5 - TEN LARGEST TAXPAYERS <sup>(1)</sup>**

Name of Taxpayer	Nature of Property	2010/11 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
AT&T Communications	Utility	\$ 61,691,611	4.12%
ONCOR Electric	Utility Delivery	50,672,890	3.38%
Prologis	Warehouse/Distribution	32,232,710	2.15%
Wal-Mart	Retail	21,425,380	1.43%
SBC Advanced Solutions	Utility	13,648,510	0.91%
Brascraft Manufacturing	Plumbing Products	13,102,476	0.87%
M&A Texas Lancaster Ltd.	Real Estate	10,500,000	0.70%
WRC Southpointe Building 1 Par	Warehouse/Distribution	10,225,990	0.68%
Brenntag Southwest, Inc.	Industrial Chemicals	9,381,660	0.63%
Pleasant Run Courtyard	Apartments	8,795,000	0.59%
		<u>\$ 231,676,227</u>	<u>15.46%</u>

(1) At the date hereof, a listing of the top ten taxpayers for tax year 2011/12 is unavailable.

**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 "The Certificates – Tax Rate Limitation").

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

2011 Principal and Interest Requirements	\$ 4,525,140
\$0.3053 Tax Rate at 99.00% Collection Produces	\$ 4,526,299
 Average Annual Principal and Interest Requirements, 2011 - 2040	 \$ 4,080,927
\$0.2753 Tax Rate at 99.00% Collection Produces	\$ 4,081,527
 Maximum Principal and Interest Requirements, 2022	 \$ 5,144,587
\$0.3471 Tax Rate at 99.00% Collection Produces	\$ 5,146,015

(1) Does not include the Certificates, less self-supporting debt. Also, includes that portion of interest offset by the refundable tax credit to be received by the City from the Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds." See "Table 9 – Interest and Sinking Fund Budget Projection" herein.

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2011/12 Taxable Assessed Value	2010/11 Tax Rate	Total G.O. Debt	Estimated % Applicable	City's Overlapping G.O. Debt As of 9-1-11	Authorized But Unissued Debt as of 9/1/2011
City of Lancaster	\$ 1,497,549,787	\$ 0.777500	\$ 64,241,531 <sup>(1)</sup>	100.00%	\$ 64,241,531	\$ 14,550,695
Lancaster Independent School District	1,527,718,315	1.412700	99,392,165	86.88%	86,351,913	665,000
Dallas Independent School District	75,050,783,992	1.271343	2,619,400,000	0.15%	3,929,100	2,078
Dallas County	156,266,248,986	0.228100	143,932,642	0.94%	1,352,967	6,200,000
Dallas County Community College	162,789,062,031	0.094900	396,140,000	0.94%	3,723,716	-
Dallas County Hospital District	156,435,665,588	0.274000	705,000,000	0.94%	<u>6,627,000</u>	42,000,000
 Total Direct and Overlapping G.O. Debt					 \$ 166,226,227	
 Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation . . . . .					 11.10%	
 Per Capita Overlapping G.O. Debt . . . . .					 \$ 4,564.15	

(1) Does not include the Certificates, less self-supporting debt.

DEBT INFORMATION

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt <sup>(1)</sup>		The Certificates <sup>(2)</sup>		Total Outstanding Debt	Less: W&S Self-Supporting Requirements <sup>(3)</sup>	Less: Stormwater Self-Supporting Requirements	Less: EDC Self-Supporting Requirements	Less: LRDC Self-Supporting Requirements	Less: Airport Self-Supporting Requirements	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest								
2011	\$ 2,170,000	\$ 4,865,842	\$ -	\$ -	\$ 7,035,842	\$ 1,308,223	\$ 49,013	\$ 227,750	\$ 909,299	\$ 16,418	\$ 4,525,140	
2012	2,815,000	4,164,383	300,000	191,268	7,470,652	1,573,991	48,013	228,050	906,140	16,018	4,698,440	
2013	2,985,000	4,064,178	280,000	199,656	7,528,834	1,566,079	47,013	228,150	916,645	15,618	4,755,330	
2014	3,155,000	3,946,517	285,000	191,256	7,577,773	1,562,004	50,913	228,050	920,310	15,168	4,801,329	
2015	3,215,000	3,814,140	295,000	185,556	7,509,697	1,419,004	49,713	227,750	917,398	19,543	4,876,289	16.52%
2016	3,515,000	3,669,451	300,000	179,656	7,664,107	1,519,379	48,513	227,250	917,685	18,793	4,932,487	
2017	3,705,000	3,510,268	310,000	173,656	7,698,925	1,501,377	47,313	226,550	916,179	11,644	4,995,863	
2018	3,925,000	3,338,062	320,000	167,456	7,750,518	1,503,050	46,113	230,550	918,031	11,702	5,041,072	
2019	3,355,000	3,174,947	330,000	161,056	7,021,003	710,958	49,813	229,250	927,706	11,323	5,091,954	
2020	3,535,000	3,022,937	340,000	154,456	7,052,393	714,913	48,391	227,647	925,139	11,345	5,124,959	37.45%
2021	3,715,000	2,858,703	355,000	147,656	7,076,360	722,768	46,947	225,738	925,170	11,337	5,144,400	
2022	3,900,000	2,682,858	370,000	140,556	7,093,414	730,412	50,375	228,406	928,325	11,309	5,144,587	
2023	4,075,000	2,497,457	385,000	129,456	7,086,913	740,304	48,675	230,544	925,188	11,676	5,130,527	
2024	3,990,000	2,305,384	400,000	117,906	6,813,290	742,057	46,975	227,363	925,363	11,595	4,859,938	
2025	2,840,000	2,135,712	415,000	105,906	5,496,619	688,188	50,141	228,734	-	-	4,529,556	59.25%
2026	2,970,000	1,983,594	430,000	93,456	5,477,050	689,066	48,172	229,547	-	-	4,510,266	
2027	3,110,000	1,820,730	450,000	80,556	5,461,286	699,166	51,094	229,922	-	-	4,481,105	
2028	2,795,000	1,662,088	470,000	67,056	4,994,144	537,056	-	-	-	-	4,457,088	
2029	2,930,000	1,507,791	495,000	52,369	4,985,160	547,369	-	-	-	-	4,437,791	
2030	3,055,000	1,346,555	515,000	36,281	4,952,836	551,281	-	-	-	-	4,401,555	77.60%
2031	3,195,000	1,177,579	540,000	18,900	4,931,479	558,900	-	-	-	-	4,372,579	
2032	3,340,000	1,000,282	-	-	4,340,282	-	-	-	-	-	4,340,282	
2033	1,495,000	860,880	-	-	2,355,880	-	-	-	-	-	2,355,880	
2034	1,560,000	761,165	-	-	2,321,165	-	-	-	-	-	2,321,165	
2035	1,625,000	657,206	-	-	2,282,206	-	-	-	-	-	2,282,206	90.13%
2036	1,700,000	548,678	-	-	2,248,678	-	-	-	-	-	2,248,678	
2037	1,770,000	435,418	-	-	2,205,418	-	-	-	-	-	2,205,418	
2038	1,850,000	317,261	-	-	2,167,261	-	-	-	-	-	2,167,261	
2039	1,925,000	194,045	-	-	2,119,045	-	-	-	-	-	2,119,045	
2040	2,010,000	65,606	-	-	2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 86,225,000</u>	<u>\$ 64,389,718</u>	<u>\$ 7,585,000</u>	<u>\$ 2,594,118</u>	<u>\$ 160,793,836</u>	<u>\$ 20,585,544</u>	<u>\$ 827,181</u>	<u>\$ 3,881,250</u>	<u>\$ 12,878,576</u>	<u>\$ 193,488</u>	<u>\$ 122,427,796</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations. Includes that portion of interest offset by the refundable tax credit to be received by the City from the Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds." See "Table 9 – Interest and Sinking Fund Budget Projection" herein.

(2) Average life of the issue - 11.481 years. Interest on the Certificates has been calculated at the rates illustrated on the cover page hereof.

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

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-11 .....		\$ 4,525,140
Budgeted Interest and Sinking Fund, 9-30-10 .....	\$ 1,081,805	
Budgeted Interest and Sinking Fund Tax Levy .....	3,251,513	
Build America Bonds Subsidy .....	926,763	
Estimated Investment Earnings .....	<u>2,550</u>	<u>5,262,631</u>
Estimated Balance, 9-30-11 .....		\$ 737,491

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

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-10 .....	\$ 2,644,433
Less: Revenue Bonds Requirements, 2011 Fiscal Year .....	<u>104,775</u>
Balance Available for Other Purposes .....	\$ 2,539,658
System General Obligation Bond Requirements, 2011 Fiscal Year .....	<u>1,308,223</u>
Balance .....	\$ 1,231,435
Percentage of System General Obligation Bonds, Self-Supporting .....	100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-10 .....	\$ 114,542
Stormwater General Obligation Bond Requirements, 2011 Fiscal Year .....	<u>49,013</u>
Balance .....	\$ 65,530
Percentage of Stormwater General Obligation Bonds, Self-Supporting .....	100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-10 .....	\$ 615,102 <sup>(2)</sup>
EDC General Obligation Bond Requirements, 2011 Fiscal Year .....	<u>227,750</u>
Balance .....	\$ 387,352
Percentage of LEDC General Obligation Bonds, Self-Supporting .....	100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-10 .....	\$ 485,464
LRDC General Obligation Bond Requirements, 2011 Fiscal Year .....	<u>909,299</u>
Balance .....	\$ (423,835) <sup>(3)</sup>
Percentage of LRDC General Obligation Bonds, Self-Supporting .....	53.39%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-10 .....	\$ 196,068
Airport General Obligation Bond Requirements, 2011 Fiscal Year .....	<u>16,418</u>
Balance .....	\$ 179,650
Percentage of Airport General Obligation Bonds, Self-Supporting .....	100.00%

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

(2) 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 Economic Development Corporation ("LEDC"). See Table 14 for a description of sales and use taxes.

(3) The deficit occurred because the debt service and operating expenses of the Lancaster Recreation Center, Library, and Senior Center - exceed the ½¢ sales tax revenue dedicated for Lancaster Recreational Development Corporation ("LRDC"). The General Fund budgets each year to cover the deficit in the LRDC. Information for fiscal year 2010 indicates that the ½¢ sales tax generated \$1,814,922; debt service was \$906,616, and the amount transferred from the General Fund was \$314,671. Any deficit in fiscal year 2011 will be eliminated through a similar transfer. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

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

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

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

**TABLE 12 - OTHER OBLIGATIONS**

The annual requirements to amortize the capital leases as of September 30, 2010 are as follows:

Fiscal Year	Capital Leases					
	Government Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 228,406	\$ 14,647	\$ 243,053	\$ 206,069	\$ 26,043	\$ 232,112
2012	114,785	5,864	120,649	25,661	277	25,938
2013	43,730	549	44,279	-	-	-
2014	43,912	367	44,279	-	-	-
2015	44,095	184	44,279	-	-	-
Total	<u>\$ 474,928</u>	<u>\$ 21,611</u>	<u>\$ 496,539</u>	<u>\$ 231,730</u>	<u>\$ 26,320</u>	<u>\$ 258,050</u>

**PENSION FUND . . .** The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense.

Plan Description . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS: the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System.

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

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

Actuarial Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Value of Assets	\$ 26,735,438	\$ 26,431,828	\$ 29,362,600
Actuarial Accrued Liability (AAL)	\$ 42,017,867	\$ 42,814,837	\$ 45,558,535
Percentage Funded	63.6%	61.7%	64.5%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 15,282,429	\$ 16,383,009	\$ 16,195,935
Annual Covered Payroll	\$ 13,260,730	\$ 14,507,867	\$ 14,525,485
UAAL as percentage of Cover Payroll	115.2%	112.9%	111.5%
Net Pension Obligation (NPO) at Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual Required contribution (ARC)	\$ 1,481,222	\$ 1,727,903	\$ 1,764,806
Contribution Made	<u>(1,481,222)</u>	<u>(1,727,903)</u>	<u>(1,764,806)</u>
NPO at End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, as follows:

	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single	30 years -	29 years -	28 years -
Amortization Period	closed period	closed period	closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
<u>Actuarial Assumptions:</u>			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

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

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2010, 2009 and 2008, were \$25,157, \$73,918, and \$111,113, respectively, which equaled the required contributions each year.

*Post-Employment Health Care . . .* The City offers its retired employees that meet the eligibility requirements for the TMRS plan described above post-employment health insurance under the City's retiree health plan (the "Plan"). The retiree pays 100% of the retired employees' premium, but the employees' spouses and dependents are not covered. Spouses and eligible dependents convert to COBRA coverage once the retired employee is no longer enrolled in municipal coverage. Coverage supplements Medicare once the retiree, spouse or dependent is eligible for Medicare. As of December 31, 2009, 7 retired employees participated in the Plan. Based on the latest actuarial valuation report, as of December 31, 2009, the City had an actuarial accrued liability of \$498,266, with actuarial value of assets of \$0. As of such date, the City's actuarially-determined required annual contribution, calculated by amortizing the City's unfunded actuarial accrued liability over a period of 30 years, was approximately \$68,395, based on a 3% payroll growth rate.

## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 3,198,615	\$ 3,229,244	\$ 3,682,085	\$ 4,665,593	\$ 5,945,436
Operating Grants & Contributions	8,817,871	8,424,486	10,588,454	8,922,577	9,385,998
Capital Grants & Contributions	1,866,380	1,384,895	132,158	6,557,823	5,066,852
General Revenues:					
Taxes & Fees	18,566,343	19,277,229	18,280,947	16,164,303	14,610,183
Other	1,410,397	1,537,715	1,345,966	1,224,644	653,172
Total Revenues	<u>\$ 33,859,606</u>	<u>\$ 33,853,569</u>	<u>\$ 34,029,610</u>	<u>\$ 37,534,940</u>	<u>\$ 35,661,641</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 4,603,846	\$ 3,689,422	\$ 5,395,286	\$ 4,274,611	\$ 4,538,632
Public Safety	14,829,005	14,487,896	14,116,941	13,169,737	13,718,040
Public Works	5,678,976	4,902,806	3,162,728	3,176,963	1,129,462
Community Development and Recreation	1,317,628	1,506,422	4,290,873	3,635,543	3,937,805
Community Services	-	-	-	29,037	775
Social and Welfare	8,599,376	8,496,435	9,015,301	8,071,230	7,659,020
Non Departmental	-	-	-	1,949,265	2,703,926
Interest and Fiscal Charges	2,880,768	2,053,606	2,367,768	1,514,305	879,335
Total Expenses	<u>\$ 37,909,599</u>	<u>\$ 35,136,587</u>	<u>\$ 38,348,897</u>	<u>\$ 35,820,691</u>	<u>\$ 34,566,995</u>
Increase (Decrease in Net Assets Before Transfers)	\$ (4,049,993)	\$ (1,283,018)	\$ (4,319,287)	\$ 1,714,249	\$ 1,094,646
Transfers	<u>2,381,236</u>	<u>1,327,236</u>	<u>1,327,654</u>	<u>794,510</u>	<u>(236,396)</u>
Change in Net Assets	\$ (1,668,757)	\$ 44,218	\$ (2,991,633)	\$ 2,508,759	\$ 858,250
Net Assets - Beginning	61,263,965	61,219,747	62,459,903	58,857,192	59,398,617
Prior Period Adjustments	(1,492,019)	-	1,751,477	1,093,952	(1,399,675)
Net Assets - Ending	<u>\$ 58,103,189</u>	<u>\$ 61,263,965</u>	<u>\$ 61,219,747</u>	<u>\$ 62,459,903</u>	<u>\$ 58,857,192</u>

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

Revenues	Fiscal Year Ended September 30,				
	2010	2009	2008	2007	2006
Taxes and Fees	\$ 16,014,357	\$ 16,660,858	\$ 16,011,131	\$ 15,135,141	\$ 13,684,059
Licenses and Permits	502,940	495,859	771,028	749,750	1,327,956
Intergovernmental	295,736	223,944	85,190	134,641	695,216
Charges for Services	516,420	517,691	455,084	996,431	844,018
Fines and Forfeitures	839,868	998,405	1,338,090	1,634,682	1,500,360
Interest	7,073	15,629	59,808	100,245	169,919
Miscellaneous	604,188	628,222	1,634,789	372,095	1,486,376
Total Revenues	\$ 18,780,582	\$ 19,540,608	\$ 20,355,120	\$ 19,122,985	\$ 19,707,904
<b>Expenditures</b>					
General Government	\$ 3,332,021	\$ 3,292,946	\$ 4,185,437	\$ 2,791,941	\$ 1,934,675
Public Safety	13,416,346	13,071,145	13,944,602	12,502,555	11,546,216
Public Works	3,243,523	2,088,899	2,753,728	1,104,224	1,012,413
Cultural and Recreational	1,010,385	1,213,686	3,907,702	3,719,050	3,668,960
Community Service	-	-	-	19,073	775
Non Departmental	360,037	79,260	-	1,606,171	2,612,449
Debt Service	54,254	-	124,619	-	-
Total Expenditures	\$ 21,416,566	\$ 19,745,936	\$ 24,916,088	\$ 21,743,014	\$ 20,775,488
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,635,984)	\$ (205,328)	\$ (4,560,968)	\$ (2,620,029)	\$ (1,067,584)
Transfers In	\$ 2,485,236	\$ 1,436,004	\$ 1,429,334	\$ 884,626	\$ 1,281,960
Transfers Out	-	-	(125,035)	(505,079)	(573,319)
Proceeds from Capital Lease	-	-	732,858	-	-
Transfer from Component Unit	-	-	-	-	-
Total Sources (Uses)	\$ 2,485,236	\$ 1,436,004	\$ 2,037,157	\$ 379,547	\$ 708,641
Net Increase (Decrease)	\$ (150,748)	\$ 1,230,676	\$ (2,523,811)	\$ (2,240,482)	\$ (358,943)
Beginning Fund Balance	3,908,328	2,677,652	3,449,986	5,567,938	5,926,881
Prior Period Adjustments	-	-	1,751,477	122,530	-
Ending Fund Balance	\$ 3,757,580	\$ 3,908,328	\$ 2,677,652	\$ 3,449,986	\$ 5,567,938

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

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

**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
2007	\$ 2,934,047	28.62%	\$ 0.1892	\$ 84
2008	2,776,060	22.32%	0.1624	78
2009	3,105,369	23.38%	0.1800	86
2010	3,626,995	29.80%	0.2320	100
2011 <sup>(1)</sup>	2,671,048	20.48%	0.1782	73

(1) Collections through August 1, 2011.

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

Fiscal Year Ended Collected	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2007	\$ 733,512	\$ 1,467,023	\$ 733,512
2008	694,015	1,388,030	694,015
2009	776,342	1,552,684	776,342
2010	906,749	1,813,497	906,749
2011 <sup>(1)</sup>	667,762	1,335,524	667,762

(1) Collections through August 1, 2011.

**FINANCIAL POLICIES**

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

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

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

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

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

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

**INVESTMENTS**

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

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

**TABLE 15 - CURRENT INVESTMENTS**

As of August 1, 2011, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	41.22%	\$ 14,571,293
Logic - Pooled Cash	22.17%	7,838,923
Logic 2010 GO Bond Fund	<u>36.61%</u>	<u>12,941,644</u>
	100.00%	<u>\$ 35,351,860</u>

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

## TAX MATTERS

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

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

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

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

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

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the 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 Bonds is commenced, under current procedures the Service is likely to treat the City as the “taxpayer,” and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

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

**Impact of Proposed Jobs Creation Act.** . . On September 12, 2011, President Obama released the language of his proposed Jobs Creation Act of 2011 (the “Act”). One of the provisions of the Act would have the effect of imposing an additional amount of tax on certain “high income” taxpayers based on, among other things, the amount of interest on tax-exempt obligations, such as the Bonds, received by such taxpayers. As originally proposed, the Act will be effective for taxable years beginning on or after January 1, 2013, and will apply to interest on the Bonds and other tax-exempt obligations received by such taxpayers on or after that date. Purchasers of the Bonds are advised to consult their tax advisors with respect to the impact of the Act on their ownership of the Bonds.

## TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

**Discount Bonds.** . . Some of the Bonds may be offered at initial offering prices which are less than the stated redemption prices at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or Initial Purchaser) at such initial offering price, an initial owner who purchases the Bonds of that maturity (the “Discount Bonds”) have been

considered to have “original issue discount” for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount have been treated for federal income tax purposes as additional interest on a Bond and such initial owner have been entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bonds under the caption “TAX EXEMPTION” generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

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

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

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the City. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

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

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

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

#### QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Code provides, in general, that interest expenses incurred to acquire or carry tax-exempt obligations are not deductible from the gross income of the holder. For certain holders that are “financial institutions” within the meaning of such section, complete disallowance of such expense would apply to taxable years beginning after December 31, 1986, with respect to tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions to carry tax-exempt obligations (other than certain private activity bonds) which are

designated by an issuer as “qualified tax-exempt obligations.” An issuer may only designate an issue as an issue of “qualified tax-exempt obligations” where less than \$10 million of tax-exempt obligations are issued by the issuer during the calendar year in which the issue so designated is issued.

The City will designate the Bonds as “qualified tax-exempt obligations.” Further, the City will represent that it has or will take such action necessary for the Bonds to constitute “qualified tax-exempt obligations.”

Notwithstanding the designation of the Bonds as “qualified tax-exempt obligations,” financial institutions acquiring the Bonds will be subject to a twenty percent (20%) disallowance of interest expenses allocable to the Bonds.

### CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the 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 the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access System.

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data which is customarily prepared by the City and is publicly available to the MSRB on an annual basis. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B to the extent that such information and financial statements are customarily prepared by the City and is publicly available (currently, information that is customarily prepared by the City and is publicly available consists of the City’s annual audited financial statements and annual property tax reports). The City will update and provide this information within six months after the end of each fiscal year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information of the type described in the preceding paragraph by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City’s current fiscal year end is September 30. Accordingly, the City must provide updated information by March 31 in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change prior to the next date by which the City otherwise would be required to provide financial information and operating data.

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

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

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

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of 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 Obligations 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 Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling 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 . . .** During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2005, 2006, 2007, 2008, 2009, and 2010 audited financial statements release dates were January 29, 2007, January 9, 2008, February 25, 2009, February 16, 2010, April 19, 2010, and August 22, 2011 respectively. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

## **OTHER INFORMATION**

### **RATINGS**

The Certificates are expected to be rated "Aa3" (negative outlook) by Moody's and "AA+" (CreditWatch negative) by S&P, by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Certificates to the Purchaser. In addition, the Certificates and the presently outstanding general obligation debt of the City are rated "Aa3" by Moody's and "A" by S&P, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. 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. See "Financial Guaranty Insurance Risk Factors."

### **LITIGATION**

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

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

The sale of the Certificates has not been registered under the United States Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the 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**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Certificates are (1) negotiable instruments, (2) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (3) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State of Texas, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, chapter 2256), the Certificates may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

#### **LEGAL MATTERS**

The delivery of the Certificates is subject to 1) the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, 2) the approving legal opinion of Bond Counsel, to like effect; and 3) the approving legal opinion of Special Tax Counsel 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. The form of Bond and Special Tax Counsels' opinions are attached hereto in Appendix C. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form or the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Special Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Special Tax Counsel, such firm has reviewed the information under the captions "TAX MATTERS" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions 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 fees to be paid Bond and Special Tax Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinions will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

Bond and Special Tax Counsel were engaged by, and only represent the City. The various 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 explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

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

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

## **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, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 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.

## **INITIAL PURCHASER**

After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the cover page hereof of the Official Statement at a price of par plus a cash premium of \$3,447.55. The Initial Purchaser 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.

## **FORWARD LOOKING STATEMENTS**

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 including 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 capacities, 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 the Certificates and the acceptance of the best bid therefor, 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 authorizing the issuance of the Certificates also approved the form and content of this Official Statement, and any addenda, supplement, or amendment thereto, and authorizes its further use in the reoffering of the Certificates by the Initial Purchaser.

MARCUS E. KNIGHT  
Mayor  
City of Lancaster, Texas

ATTEST:

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

**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, the University of North Texas at Dallas, Northwood University, and Cedar Valley Junior College.

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

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

**GROWTH INDICES**

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits <sup>(1)</sup></u>		<u>Water Customers</u>
		<u>Number</u>	<u>Value</u>	
2006	33,450	830	119,006,275	10,655
2007	35,050	360	58,349,498	10,489
2008	35,800	119	64,790,861	10,718
2009	36,200	111	21,641,764	10,800
2010	36,361	1,416	35,734,783	11,715

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

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

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

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF LANCASTER, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2010

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Annual Financial Report for the Year Ended September 30, 2010, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster (the City) as of and for the year ended September 30, 2010 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administration. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position, where applicable, cash flows and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Lancaster  
August 16, 2011

Page 2

The accompanying management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules on pages 3 through 11 and 47, 48,49, and 51, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, individual non-major fund financial statements, and discretely presented component units listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The combining and individual non-major and discretely presented component unit fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
August 16, 2011

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the end of the fiscal year 2010, resulting in \$104,642,340 of net assets. Net assets associated with governmental activities are approximately \$58 million, or 56% of the total net assets of the City. Net assets associated with business-type activities are approximately \$47 million, or 44% of the total net assets of the City. The largest portion of net assets consists of invested in capital assets, net of related debt, which is approximately \$90 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$8 million, or 8% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$6 million, or 10% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$2 million, or 4% of total net assets for business-type activities.
- As of the close of fiscal year 2010, the City of Lancaster's governmental funds reported a combined ending fund balance of \$25,735,296 an increase of \$27,969,592 from the prior year. A significant portion of the increase is in the capital projects fund. Bonds of \$34,995,000 were sold in fiscal year 2010 to pay for construction.
- At the end of the current fiscal year, total fund balance for the general fund was \$3,757,580. This represents approximately 18% of general fund expenditures which is more than the 15% required by the City's adopted fund balance policy. Of this amount, 95.40% is available for spending at the government's discretion (unreserved fund balance).
- The City's total capital assets net of accumulated depreciation increased by approximately \$9 million which is primarily attributed to additions to the construction of City buildings and improvements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

The government-wide financial statements can be found on pages 12 through 14 of this report.

**Fund Financial Statements** The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City Council also establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities when using certain taxes, grants, or other money. The City's two kinds of funds – Governmental and Proprietary – utilize different accounting approaches.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**CITY OF LANCASTER, TEXAS**  
**SEPTEMBER 30, 2010**

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

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

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

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

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

The proprietary fund financial statements can be found on pages 19 through 21 of this report.

**Notes to the Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 46 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**Other Information** In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations. Required supplementary information immediately follows the notes to the financial statements. Combining statements for non-major governmental funds and component unit fund financial statements follow the section of required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2010, the City of Lancaster assets exceeded its liabilities by \$104,642,340.

The largest portion of the City's net assets, 86%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, 6%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$7,997,135 or 8%, may be used to meet the City's ongoing obligations to citizens and creditors.

**STATEMENT OF NET ASSETS FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities 2010	Business-type Activities 2010	Total 2010	Governmental Activities 2009	Business-type Activities 2009	Total 2009
Current and Other Assets	\$ 43,316,779	\$ 10,048,366	\$ 53,365,145	\$ 15,805,224	\$ 15,779,059	\$ 31,584,283
Capital Assets	99,407,986	47,685,560	147,093,546	94,214,821	43,713,430	137,928,251
<b>Total Assets</b>	<b>\$ 142,724,765</b>	<b>\$ 57,733,926</b>	<b>\$ 200,458,691</b>	<b>\$ 110,020,045</b>	<b>\$ 59,492,489</b>	<b>\$ 169,512,534</b>
Long-Term Liabilities	\$ 80,566,819	9,468,374	\$ 90,035,193	\$ 45,441,312	\$ 10,541,373	\$ 55,982,685
Other Liabilities	4,054,757	1,726,401	5,781,158	3,314,768	1,641,803	4,956,571
<b>Total Liabilities</b>	<b>\$ 84,621,576</b>	<b>\$ 11,194,775</b>	<b>\$ 95,816,351</b>	<b>\$ 48,756,080</b>	<b>\$ 12,183,176</b>	<b>\$ 60,939,256</b>
<b>Net Assets:</b>						
Invested in Capital assets, net of Related Debt	\$ 51,819,877	\$ 38,435,110	\$ 90,254,987	\$ 40,366,067	\$ 33,653,811	\$ 74,019,878
Restricted	222,762	6,187,456	6,390,218	620,279	6,059,825	6,680,104
Unrestricted	6,060,550	1,936,585	7,997,135	20,277,619	7,595,677	27,873,296
<b>Total Net Assets</b>	<b>\$ 58,103,189</b>	<b>\$ 46,539,151</b>	<b>\$ 104,642,340</b>	<b>\$ 61,263,965</b>	<b>\$ 47,309,313</b>	<b>\$ 108,573,278</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**Analysis of City's Operations** The following table provides a summary of the City's operations for the year ended September 30, 2010. Overall, the City had a decrease in net assets of \$3,930,938.

**REVENUES AND EXPENSES FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

	Governmental Activities 2010	Business-type Activities 2010	Total 2010	Governmental Activities 2009	Business-type Activities 2009	Total 2009
<b>REVENUES:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 3,198,615	\$ 13,372,728	\$ 16,571,343	\$ 3,229,244	\$ 12,957,175	\$ 16,186,419
Operating Grant & Contribution	8,817,871	382,600	9,200,471	8,424,486	30,695	8,455,181
Capital Grants & Contributions	1,866,380	565,364	2,431,744	1,384,895	530,710	1,915,605
<b>General Revenue</b>						
Taxes & Fees	18,566,343	-	18,566,343	19,277,229	-	19,277,229
Others	1,410,397	40,060	1,450,457	1,537,715	52,271	1,589,986
<b>Total Revenues</b>	<b>33,859,606</b>	<b>14,360,752</b>	<b>48,220,358</b>	<b>33,853,569</b>	<b>13,570,851</b>	<b>47,424,420</b>
<b>Program Expenses</b>						
General Government	4,603,846	-	4,603,846	3,689,422	-	3,689,422
Public Safety	14,829,005	-	14,829,005	14,487,896	-	14,487,896
Public Works	5,678,976	-	5,678,976	4,902,806	-	4,902,806
Community Development and Recreation	1,317,628	-	1,317,628	1,506,422	-	1,506,422
Social and Welfare	8,599,376	-	8,599,376	8,496,435	-	8,496,435
Interest and Fiscal Charges	2,880,768	-	2,880,768	2,053,606	-	2,053,606
Water & Sewer	-	10,082,971	10,082,971	-	9,621,112	9,621,112
Refuse	-	1,769,530	1,769,530	-	135,276	135,276
Airport	-	810,211	810,211	-	1,247,727	1,247,727
Golf Course	-	86,966	86,966	-	923,923	923,923
<b>Total Expenses</b>	<b>37,909,599</b>	<b>12,749,678</b>	<b>50,659,277</b>	<b>35,136,587</b>	<b>11,928,038</b>	<b>47,064,625</b>
Increase (decrease in net assets before transfers)	(4,049,993)	1,611,074	(2,438,919)	(1,283,018)	1,642,813	359,795
Transfers	2,381,236	(2,381,236)	-	1,327,236	(1,327,236)	-
<b>Change in Net Assets</b>	<b>(1,668,757)</b>	<b>(770,162)</b>	<b>(2,438,919)</b>	<b>44,218</b>	<b>315,577</b>	<b>359,795</b>
Net Assets - Beginning	61,263,965	47,309,313	108,573,278	61,219,747	46,993,736	108,213,483
Prior Period Adjustment	(1,492,019)	-	(1,492,019)	-	-	-
Net Assets - Beginning, as Restated	59,771,946	47,309,313	107,081,259	61,219,747	46,993,736	108,213,483
<b>Net Assets - Ending</b>	<b>\$ 58,103,189</b>	<b>\$ 46,539,151</b>	<b>\$ 104,642,340</b>	<b>\$ 61,263,965</b>	<b>\$ 47,309,313</b>	<b>\$ 108,573,278</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

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

**Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$25,735,296, an increase of \$27,969,592 from the prior year. This amount includes fund balance reserved for debt service of \$1,081,805 and reserved for inventory and prepaid items of \$690,548. The net unreserved fund balance was \$23,796,351, an increase of \$26,784,821 from prior year. The majority of this increase was due to the sale of bonds in fiscal year 2010 to pay for construction.

In the General Fund, the original budget projected a \$44,241 increase in fund balance this fiscal year, however the actual decrease was \$150,748. The largest area of decrease was in building permit fees which is related to the national housing crisis and recession.

The HUD Fund has a total fund balance of \$960,264 an increase of \$76,186 from the prior year. The budget includes a planned reduction in housing assistance based on a decrease in revenues from HUD due to overall economic conditions.

**Proprietary Funds** The City's proprietary fund statements provide detail on the City's individual business-like activities.

Unrestricted net assets of the proprietary funds at the end of the year were \$1,936,585. The total decrease in net assets was \$0.8 million from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**Capital Assets** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amount to \$147,093,546 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-Type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Land	\$ 11,999,383	\$ 12,337,857	\$ 3,596,261	\$ 4,879,781	\$ 15,595,644	\$ 17,217,638
Buildings	22,769,952	24,487,196	4,867,634	4,941,048	27,637,586	29,428,244
Equipment	14,608,568	15,425,946	2,658,003	2,803,307	17,266,571	18,229,253
Construction in Progress	4,037,011	3,779,844	1,945,797	4,562,766	5,982,808	8,342,610
Other Structures	-	-	936,717	951,622	936,717	951,622
Improvements	1,660,169	1,660,169	54,967,088	55,664,932	56,627,257	57,325,101
Streets and Bridges	77,346,463	83,860,110	-	-	77,346,463	83,860,110
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways & Taxiways	-	-	2,796,087	3,410,079	2,796,087	3,410,079
Accumulated Depreciation	(45,526,344)	(49,462,755)	(28,054,157)	(29,527,975)	(73,580,501)	(78,990,730)
<b>Total</b>	<b>\$ 94,214,821</b>	<b>\$ 99,407,986</b>	<b>\$ 43,713,430</b>	<b>\$ 47,685,560</b>	<b>\$ 137,928,251</b>	<b>\$ 147,093,546</b>

**Long-term Debt** At the end of the current fiscal year, the City had total bonds outstanding of \$86,455,002. Of this amount \$86,005,002 is tax supported debt. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

	Governmental Activities		Business-Type Activities		Totals	
	2009	2010	2009	2010	2009	2010
General Obligation Bonds	\$ 30,181,531	\$ 52,441,531	\$ 6,153,471	\$ 5,648,471	\$ 36,335,002	\$ 58,090,002
Certificates of Obligation	13,710,000	25,345,000	2,770,000	2,570,000	16,480,000	27,915,000
Notes payable	-	-	417,356	152,560	417,356	152,560
Revenue Bonds	-	-	530,000	450,000	530,000	450,000
Capital Leases	715,197	498,961	452,545	447,600	1,167,742	946,561
<b>Total</b>	<b>\$ 44,606,728</b>	<b>\$ 78,285,492</b>	<b>\$ 10,323,372</b>	<b>\$ 9,268,631</b>	<b>\$ 54,930,100</b>	<b>\$ 87,554,123</b>

The City's total long-term debt increased by \$32,624,023, during the current fiscal year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**Long-term Debt - continued**

- The City issued \$22,995,000 General Obligation Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment) and \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds – Direct Payment) on March 15, 2010 and payable on February 15 and August 15 of each year, commencing on February 15, 2011, until maturity or prior redemption.

Proceeds from the sale of the Bonds will be used for (i) constructing and equipping permanent public improvements, and (ii) to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for: (a) improvements to the Lancaster Municipal airport; (b) acquisition of land at the south end of the runway for the expansion of the Lancaster Municipal Airport; (c) City-wide park design, renovations, improvements and equipping of such parks; (d) City-wide hike and bike trail design and construction, and equipping of such trails; (e) City-wide sidewalk design and construction; (f) Design, construction and the equipping thereof of a retaining wall in the Westwood neighborhood, including drainage improvements incidental thereto; (g) Design of the Nokomis Road Bridge at Ten Mile Creek; (h) Street and alley design, improvements and the equipping thereof, including drainage improvements incidental thereto; (i) Acquisition of the right-of-way for Longhorn Drive to extend it to the I-20 Service Road; (j) Design, renovation and improvements to Historic Town Square and the Municipal Court, including the beautification, improvements, landscaping, the addition of sidewalks and parking lots, infrastructure improvements, and the equipping thereof; (k) Purchase of police cars and fleet trucks; and (l) payment for professional services rendered in connection with the above listed projects.

The City has designated all of each series of the Bonds and Certificates as "Build America Bonds" under and pursuant to the Federal American Recovery and Reinvestment Act of 2009, and in accordance with the guidance included in the Internal Revenue Service's Notice 2009-26, effective as of April 3, 2009, and has irrevocably elected to receive directly from the United States Department of the Treasury direct subsidy payments equal to 35% of the interest payable by the City.

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

In the fiscal year 2011 budget, general fund revenues are budgeted to decrease by 4.0% from the 2010 budget year. This decrease is mostly attributed to a decrease in fines and forfeitures and licenses and permits due to current economic conditions.

Property taxes make up about 46% of budgeted revenues and sales tax make up about 20% of budgeted revenues.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF LANCASTER, TEXAS  
SEPTEMBER 30, 2010**

**Request for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF LANCASTER  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
<b>ASSETS</b>					
Cash and cash equivalents	\$ 25,583,636	\$ 7,228,469	\$ 32,812,105	\$ 2,339,745	\$ 25,422
Receivables (net of allowance)					
Notes	12,405,000	-	12,405,000	-	-
Delinquent taxes	1,181,333	-	1,181,333	-	-
Accounts	1,045,301	1,737,883	2,783,184	-	26
Sales tax	781,294	-	781,294	149,996	312,518
Fines	113,580	-	113,580	-	-
Due from other governments	13,092	-	13,092	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid items	686,637	-	686,637	-	-
Inventory	3,911	46,175	50,086	-	-
Debt issuance costs	974,242	282,282	1,256,524	-	-
Restricted assets:					
Cash and cash equivalents	-	753,557	753,557	-	-
Capital assets:					
Land and construction in progress	16,117,701	9,442,547	25,560,248	100,378	989,118
Other capital assets, net of accumulated depreciation	83,290,285	38,243,013	121,533,298	-	12,916,728
<b>Total assets</b>	<b>142,724,765</b>	<b>57,733,926</b>	<b>200,458,691</b>	<b>2,590,119</b>	<b>14,243,812</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts and contracts payable	1,714,549	640,613	2,355,162	4,657	45,634
Accrued liabilities	699,862	278,597	978,459	7,549	78,250
Accrued interest	1,099,766	53,634	1,153,400	14,381	50,398
Due to primary government	-	-	-	-	528,753
Deposits	75,580	753,557	829,137	-	-
Deferred Revenue	465,000	-	465,000	-	-
Noncurrent liabilities:					
Due within one year	1,892,380	1,374,571	3,266,951	115,000	515,000
Due in more than one year	78,674,439	8,093,803	86,768,242	2,655,000	9,120,000
<b>Total Liabilities</b>	<b>84,621,576</b>	<b>11,194,775</b>	<b>95,816,351</b>	<b>2,796,587</b>	<b>10,338,035</b>
Net Assets:					
Invested in capital assets, net of related debt	51,819,877	38,435,110	90,254,987	100,378	4,270,846
Restricted for debt service	222,762	731,987	954,749	-	-
Restricted for capital	-	5,435,469	5,435,469	-	-
Unrestricted	6,060,550	1,936,585	7,997,135	(306,846)	(365,069)
<b>Total Net Assets</b>	<b>\$ 58,103,189</b>	<b>\$ 46,539,151</b>	<b>\$ 104,642,340</b>	<b>\$ (206,468)</b>	<b>\$ 3,905,777</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 4,603,846	\$ -	\$ -	\$ -
Public safety	14,829,005	1,759,747	-	59,316
Public works	5,678,976	920,361	-	898,883
Community development and recreation	1,317,628	518,507	3,234	908,181
Social and welfare	8,599,376	-	8,814,637	-
Interest and fiscal charges	2,880,768	-	-	-
<b>Total governmental activities</b>	<b>37,909,599</b>	<b>3,198,615</b>	<b>8,817,871</b>	<b>1,866,380</b>
Business-type activities:				
Water and sewer	10,082,971	10,924,161	-	565,364
Refuse	1,769,530	1,799,068	-	-
Airport	810,211	576,949	382,600	-
Golf course	86,966	72,550	-	-
<b>Total business-type activities</b>	<b>12,749,678</b>	<b>13,372,728</b>	<b>382,600</b>	<b>565,364</b>
<b>Total primary government</b>	<b>\$ 50,659,277</b>	<b>\$ 16,571,343</b>	<b>\$ 9,200,471</b>	<b>\$ 2,431,744</b>
<b>Component Units:</b>				
Lancaster Economic Development Corporation	\$ 411,082	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	2,988,063	480,677	22,996	-
	<b>\$ 3,399,145</b>	<b>\$ 480,677</b>	<b>\$ 22,996</b>	<b>\$ -</b>

**GENERAL REVENUES:**

Taxes:  
Property taxes  
Sales taxes  
Franchise taxes  
Other local taxes  
Interest on investments  
Miscellaneous  
Transfers

**Total general revenues and transfers**

Change in net assets  
**NET ASSETS (DEFICIT), beginning of year**  
**PRIOR PERIOD ADJUSTMENT**  
**NET ASSETS (DEFICIT), end of year**

The Notes to Financial Statements are an integral part of these statements.

**Net (Expense) Revenue and  
Changes in Net Assets**

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
\$ (4,603,846)	\$ -	\$ (4,603,846)	\$ -	\$ -
(13,009,942)	-	(13,009,942)	-	-
(3,859,732)	-	(3,859,732)	-	-
112,294	-	112,294	-	-
215,261	-	215,261	-	-
(2,880,768)	-	(2,880,768)	-	-
(24,026,733)	-	(24,026,733)	-	-
-	1,406,554	1,406,554	-	-
-	29,538	29,538	-	-
-	149,338	149,338	-	-
-	(14,416)	(14,416)	-	-
-	1,571,014	1,571,014	-	-
\$ (24,026,733)	\$ 1,571,014	\$ (22,455,719)	\$ -	\$ -
\$ -	\$ -	\$ -	\$ (411,082)	\$ -
-	-	-	-	(2,484,390)
\$ -	\$ -	\$ -	\$ (411,082)	\$ (2,484,390)
12,194,286	-	12,194,286	-	-
4,532,556	-	4,532,556	906,511	1,814,922
1,722,966	-	1,722,966	-	-
116,535	-	116,535	-	-
36,118	15,963	52,081	2,973	7
1,374,279	24,097	1,398,376	-	8,536
2,381,236	(2,381,236)	-	-	-
22,357,976	(2,341,176)	20,016,800	909,484	1,823,465
(1,668,757)	(770,162)	(2,438,919)	498,402	(660,925)
61,263,965	47,309,313	108,573,278	(704,870)	4,566,702
(1,492,019)	-	(1,492,019)	-	-
\$ 58,103,189	\$ 46,539,151	\$ 104,642,340	\$ (206,468)	\$ 3,905,777

**CITY OF LANCASTER  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

ASSETS	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,235,147	\$ 1,027,265	\$ 20,062,609	\$ 1,054,451	\$ 204,164	\$ 25,583,636
Receivables (net of allowance for uncollectibles):						
Notes	-	-	-	12,405,000	-	12,405,000
Delinquent taxes	906,504	-	-	268,077	6,752	1,181,333
Accounts	456,952	-	382,600	-	205,749	1,045,301
Sales tax	781,294	-	-	-	-	781,294
Fines	113,580	-	-	-	-	113,580
Due from:						
Other funds	-	-	-	-	38,051	38,051
Other governments	13,092	-	-	-	-	13,092
Component unit	528,753	-	-	-	-	528,753
Inventory, at cost	3,911	-	-	-	-	3,911
Prepaid items	2,411	-	-	-	684,226	688,637
<b>TOTAL ASSETS</b>	<b>\$ 6,041,644</b>	<b>\$ 1,027,265</b>	<b>\$ 20,445,209</b>	<b>\$ 13,727,528</b>	<b>\$ 1,138,942</b>	<b>\$ 42,380,588</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts and contracts payable	\$ 620,040	\$ 10,627	\$ 1,017,047	\$ -	\$ 66,835	\$ 1,714,549
Accrued liabilities	588,849	56,374	-	-	54,639	699,862
Deposits	75,580	-	-	-	-	75,580
Due to:						
Other funds	-	-	-	-	38,051	38,051
Deferred revenue	999,595	-	-	12,645,723	471,932	14,117,250
<b>Total liabilities</b>	<b>2,284,064</b>	<b>67,001</b>	<b>1,017,047</b>	<b>12,645,723</b>	<b>631,457</b>	<b>16,645,292</b>
Fund balances:						
Reserved for:						
Debt service	-	-	-	1,081,805	-	1,081,805
Inventory and prepaid items	6,322	-	-	-	684,226	690,548
Court technology	35,871	-	-	-	-	35,871
Westwood wall	30,000	-	-	-	-	30,000
Unreserved, designated reported in:						
General fund	100,721	-	-	-	-	100,721
Unreserved and undesignated	3,584,666	960,264	19,428,162	-	(176,741)	23,796,351
<b>Total fund balances</b>	<b>3,757,580</b>	<b>960,264</b>	<b>19,428,162</b>	<b>1,081,805</b>	<b>507,485</b>	<b>25,735,296</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,041,644</b>	<b>\$ 1,027,265</b>	<b>\$ 20,445,209</b>	<b>\$ 13,727,528</b>	<b>\$ 1,138,942</b>	<b>\$ 42,380,588</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2010**

Total fund balance-governmental funds	\$ 25,735,296
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and are capitalized and amortized over the life of the debt in the government-wide statements.	974,242
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	99,407,986
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(1,099,766)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	1,247,250
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.	12,405,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
General obligation bonds	(52,441,531)
Certificates of obligation bonds	(25,345,000)
OPEB liability	(23,320)
Premium payable	(291,946)
Capital lease	(498,961)
Compensated absences	(2,733,874)
Deferred loss on refunding	<u>767,813</u>
Total net assets - governmental activities	<u>\$ 58,103,189</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes and fees	\$ 16,014,357	\$ -	\$ -	\$ 2,555,547	\$ 1,068,475	\$ 19,638,379
Licenses and permits	502,940	-	-	-	305,005	807,945
Intergovernmental	295,736	8,733,102	608,681	1,133,868	299,500	11,070,885
Charges for services	516,420	-	-	-	-	516,420
Fines and forfeits	839,868	-	67,029	-	-	906,897
Interest	7,073	1,679	24,582	2,061	723	36,118
Miscellaneous	604,188	81,575	-	10,102	31,597	727,462
<b>Total revenues</b>	<b>18,780,582</b>	<b>8,816,356</b>	<b>700,292</b>	<b>3,701,576</b>	<b>1,705,300</b>	<b>33,704,106</b>
<b>EXPENDITURES:</b>						
Current:						
General government	3,332,021	-	-	-	-	3,332,021
Public safety	13,416,346	-	339	-	589,743	14,006,428
Public works	3,243,523	-	-	-	761,607	4,005,130
Community development and recreation	1,010,385	-	-	-	176,302	1,186,687
Social and welfare	-	8,599,376	-	-	-	8,599,376
Capital outlay	360,037	78,794	7,337,728	-	449,993	8,226,552
Debt service:						
Principal retirement	54,254	-	-	1,291,236	25,000	1,370,490
Interest and fiscal charges	-	-	443,781	1,915,247	25,038	2,384,066
<b>Total expenditures</b>	<b>21,416,566</b>	<b>8,678,170</b>	<b>7,781,848</b>	<b>3,206,483</b>	<b>2,027,683</b>	<b>43,110,750</b>
Excess (deficiency) of revenues over (under) expenditures	(2,635,984)	138,186	(7,081,556)	495,093	(322,383)	(9,406,644)
Other financing sources (uses):						
Operating transfers in	2,485,236	-	-	-	-	2,485,236
Operating transfers out	-	(62,000)	-	-	(42,000)	(104,000)
Bonds issued	-	-	34,995,000	-	-	34,995,000
<b>Total other financing sources (uses)</b>	<b>2,485,236</b>	<b>(62,000)</b>	<b>34,995,000</b>	<b>-</b>	<b>(42,000)</b>	<b>37,376,236</b>
Net change in fund balances	(150,748)	76,166	27,913,444	495,093	(364,383)	27,969,592
Fund balances, beginning of year	3,908,328	884,078	(8,485,282)	586,712	871,868	(2,234,296)
Fund balances, end of year	<b>\$ 3,757,580</b>	<b>\$ 960,264</b>	<b>\$ 19,428,162</b>	<b>\$ 1,081,805</b>	<b>\$ 507,485</b>	<b>\$ 25,735,296</b>

The Notes to Financial Statements are  
an integral part of these statements.

**CITY OF LANCASTER  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - total governmental funds		\$ 27,969,592
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the amount of capital outlay recorded as capital assets in the current period.		8,230,693
Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.		898,883
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(3,936,411)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:		
General and certificates of obligation bonds	\$ 1,100,000	
Capital leases	<u>216,236</u>	1,316,236
The issuance of long term debt, such as bonds and capital leases, are shown as "Other Sources" and "Other Uses" in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:		
Issuance of Bonds	\$ (34,995,000)	
Bond Issuance Costs	443,781	
Amortization of issuance costs	(38,787)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>13,605</u>	(34,632,065)
Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		87,335
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(859,637)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		<u>(743,383)</u>
Change in net assets of governmental activities		<u>\$ (1,668,757)</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010**

<b>ASSETS</b>	<b>Water and Sewer</b>	<b>Non-major Enterprise Funds</b>	<b>Total Proprietary Funds</b>
Current assets:			
Cash and cash equivalents	\$ 6,980,140	\$ 248,329	\$ 7,228,469
Receivables (net of allowance for uncollectibles):			
Accounts	844,700	130,259	974,959
Unbilled	675,718	87,206	762,924
Due from other funds	2,851,393	-	2,851,393
Inventory	-	46,175	46,175
<b>Total current assets</b>	<b>11,351,951</b>	<b>511,969</b>	<b>11,863,920</b>
Restricted assets:			
Cash	753,557	-	753,557
Deferred bond issuance costs	279,183	3,099	282,282
Capital assets:			
Non-depreciable	4,648,327	4,794,220	9,442,547
Depreciable (net of accumulated depreciation)	34,546,311	3,696,702	38,243,013
<b>TOTAL ASSETS</b>	<b>51,579,329</b>	<b>9,005,990</b>	<b>60,585,319</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts and contracts payable	352,416	288,197	640,613
Accrued liabilities	248,427	30,170	278,597
Accrued interest	51,385	2,249	53,634
Due to other funds	-	2,851,393	2,851,393
Deposits	753,557	-	753,557
<b>Total current liabilities</b>	<b>1,405,785</b>	<b>3,172,009</b>	<b>4,577,794</b>
Non-current liabilities:			
Due within one year	1,282,910	91,661	1,374,571
Due in more than one year	7,877,937	215,866	8,093,803
<b>Total non-current liabilities</b>	<b>9,160,847</b>	<b>307,527</b>	<b>9,468,374</b>
<b>TOTAL LIABILITIES</b>	<b>10,566,632</b>	<b>3,479,536</b>	<b>14,046,168</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	30,092,306	8,342,804	38,435,110
Restricted for debt service	731,987	-	731,987
Restricted for capital	5,435,469	-	5,435,469
Unrestricted	4,752,935	(2,816,350)	1,936,585
<b>TOTAL NET ASSETS</b>	<b>\$ 41,012,697</b>	<b>\$ 5,526,454</b>	<b>\$ 46,539,151</b>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 10,676,700	\$ 2,448,567	\$ 13,125,267
Intergovernmental	-	382,600	382,600
Miscellaneous	139,830	-	139,830
<b>Total operating revenues</b>	<u>10,816,530</u>	<u>2,831,167</u>	<u>13,647,697</u>
<b>OPERATING EXPENSES:</b>			
Personnel services	1,244,262	216,747	1,461,009
Maintenance	411,567	157,673	569,240
Purchase of water	2,197,353	-	2,197,353
Materials and supplies	70,754	298,892	369,646
Heat, light and power	147,403	33,215	180,618
Depreciation	1,384,054	89,764	1,473,818
Benefit payments	395,544	56,325	451,869
Sewage treatment	3,520,703	-	3,520,703
Special services	301,678	1,760,565	2,062,243
Equipment rental	6,071	29,726	35,797
<b>Total operating expenses</b>	<u>9,679,389</u>	<u>2,642,907</u>	<u>12,322,296</u>
<b>OPERATING INCOME</b>	<u>1,137,141</u>	<u>188,260</u>	<u>1,325,401</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest revenue	15,607	356	15,963
Interest and fiscal charges	(403,582)	(23,800)	(427,382)
Impact fee revenue	107,631	-	107,631
Other nonoperating revenue	-	24,097	24,097
<b>Total nonoperating revenues (expenses)</b>	<u>(280,344)</u>	<u>653</u>	<u>(279,691)</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>856,797</u>	<u>188,913</u>	<u>1,045,710</u>
<b>CONTRIBUTIONS AND TRANSFERS:</b>			
Capital contributions	565,364	-	565,364
Operating transfers out	(2,374,236)	(7,000)	(2,381,236)
<b>Total contributions and transfers</b>	<u>(1,808,872)</u>	<u>(7,000)</u>	<u>(1,815,872)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(952,075)</u>	<u>181,913</u>	<u>(770,162)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>41,964,772</u>	<u>5,344,541</u>	<u>47,309,313</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 41,012,697</u>	<u>\$ 5,526,454</u>	<u>\$ 46,539,151</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 10,741,960	\$ 2,805,982	\$ 13,547,942
Receipts from other funds	5,005,178	2,046,817	7,051,995
Payments to employees	(1,844,718)	(267,174)	(1,911,892)
Payments to suppliers	(6,656,352)	(2,234,571)	(8,890,923)
<b>Net cash provided by operating activities</b>	<u>7,446,068</u>	<u>2,351,054</u>	<u>9,797,122</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(2,814,013)	(2,066,571)	(4,880,584)
Principal payments on debt	(775,000)	(274,796)	(1,049,796)
Interest payments on debt	(405,546)	(23,830)	(429,376)
Payments on capital leases	(4,945)	-	(4,945)
Impact fees collected	107,631	-	107,631
<b>Net cash used in capital and related financing activities</b>	<u>(3,891,873)</u>	<u>(2,365,197)</u>	<u>(6,257,070)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating transfers out to other funds	(2,374,236)	(7,000)	(2,381,236)
Proceeds from other nonoperating revenue	-	24,097	24,097
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(2,374,236)</u>	<u>17,097</u>	<u>(2,357,139)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest on investments	15,607	356	15,963
Net increase in cash and cash equivalents	1,195,566	3,310	1,198,876
Cash and cash equivalents, beginning of year	6,538,131	245,019	6,783,150
Cash and cash equivalents, end of year	<u>\$ 7,733,697</u>	<u>\$ 248,329</u>	<u>\$ 7,982,026</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
Unrestricted cash and cash equivalents	\$ 6,980,140	\$ 248,329	\$ 7,228,469
Restricted cash and cash equivalents	753,557	-	753,557
<b>Total cash and cash equivalents</b>	<u>\$ 7,733,697</u>	<u>\$ 248,329</u>	<u>\$ 7,982,026</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 1,137,141	\$ 188,260	\$ 1,325,401
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,384,054	89,350	1,473,404
Provision for bad debts	141,992	-	141,992
Change in assets and liabilities:			
Accounts receivable	(269,669)	(25,185)	(294,854)
Due to/ from other funds	5,005,178	2,046,817	7,051,995
Prepays	-	10,534	10,534
Accounts and contracts payable	(697)	18,502	17,805
Accrued liabilities	(126)	16,977	16,851
Deposits	53,107	-	53,107
Compensated absences	(4,912)	5,799	887
<b>Net cash provided by operating activities</b>	<u>\$ 7,446,068</u>	<u>\$ 2,351,054</u>	<u>\$ 9,797,122</u>

The Notes to Financial Statements are an integral part of these statements.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

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

**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's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, "The Financial Reporting Entity" as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units". GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (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 boards of directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. Economic and Recreational have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Basis of Presentation**

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Basis of Presentation – Continued**

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

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

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

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

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

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

**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 per fund.

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

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

**CITY OF LANCASTER**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Measurement Focus – Continued**

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

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

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

**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.

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

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

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**E. 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.

**F. Investments**

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

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

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

**G. Allowance for Uncollectible Accounts**

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2010 were \$229,749 for uncollectible taxes, \$961,877 for water and sewer billings, \$75,730 for court fees and fines, and \$665,800 for ambulance fees is reflected in the financial statements.

**H. Inventory**

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

**I. Prepaid Items**

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**J. Interfund Receivables and Payables**

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

**K. Transactions Between Funds**

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

**L. Capital Assets**

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

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

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

**M. 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.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**M. Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts – Continued**

The liability for unused vested vacation leave as of September 30, 2010, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the proprietary funds. The amount to be paid from current available financial resources is not considered significant.

**NOTE 2. CASH AND INVESTMENTS**

At year-end, the carrying amount of the City's bank deposits was \$1,749,250 (composed of \$1,574,210 related to the primary government and \$175,040 related to discretely presented component units) and the bank balances were \$2,094,161. The bank balances on September 30, 2010 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, 2010, 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, 2010 the City invested in Texpool and LOGIC funds. Texpool 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. 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. Texpool is rated as a AAA money market fund by Standard and Poor's and Moody's.

**Interest Rate Risk**

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Credit Risk**

In compliance with the City's Investment Policy as of September 30, 2010, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, broker/dealers, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities are minimized.

Investments at year end are shown below:

	<u>Carrying amount</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>
Primary Government			
Texpool	\$ 12,946,363	\$ 12,946,363	0.003
LOGIC	<u>19,045,089</u>	<u>19,045,089</u>	0.003
Total Primary Government	<u>31,991,452</u>	<u>31,991,452</u>	
Component Units			
Texpool	1,540,145	1,540,145	0.003
LOGIC	<u>649,982</u>	<u>649,982</u>	0.003
Total Component Units	<u>2,190,127</u>	<u>2,190,127</u>	
Total	<u>\$ 34,181,579</u>	<u>\$ 34,181,579</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, 2010, were 97.0% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30 which are not expected to be collected within 60 days are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the State of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000, population limits ad valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city, which operates under a Home Rule Charter, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2010, the City had a tax rate of \$.7775 per \$100 assessed valuation, of which \$.6441 was allocated for general government and \$.1334 was allocated for the payment of principal and interest on general obligation debt.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3. PROPERTY TAXES – CONTINUED**

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.

**NOTE 4. INTERFUND TRANSACTIONS**

At September 30, 2010, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund	\$ -	\$ -	\$ 2,485,236	\$ -
HUD Fund	-	-	-	62,000
Capital Projects Fund	-	-	-	-
Non-major Governmental Funds	38,051	38,051	-	42,000
Water and Sewer Fund	2,851,393	-	-	2,374,236
Non-major Enterprise Funds	-	2,851,393	-	7,000
	<u>\$ 2,889,444</u>	<u>\$ 2,889,444</u>	<u>\$ 2,485,236</u>	<u>\$ 2,485,236</u>

The Water and Sewer Fund and Non-major Governmental Funds interfund receivables are a temporary cash overdraft for a Non-major Enterprise fund and Non-major Governmental Fund. The interfund transfer to the General Fund from the HUD Fund, Non-major Governmental Funds, Water and Sewer Funds, and Non-major Enterprise Funds is for indirect services provided by central service departments accounted for in the General Fund.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS**

**Governmental Funds**

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2009	Increases	Decreases	Transfers	Balance September 30, 2010
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 11,999,383	\$ 338,474	\$ -	\$ -	\$ 12,337,857
Construction in progress	4,037,011	2,747,596	-	(3,004,763)	3,779,844
Total capital assets not being depreciated	<u>16,036,394</u>	<u>3,086,070</u>	<u>-</u>	<u>(3,004,763)</u>	<u>16,117,701</u>
Capital assets being depreciated:					
Buildings	22,769,952	-	-	1,717,244	24,487,196
Improvements	86,326,251	5,226,128	-	1,287,519	92,839,898
Equipment and furniture	14,608,568	817,378	-	-	15,425,946
Total capital assets being depreciated	123,704,771	6,043,506	-	3,004,763	132,753,040
Less accumulated depreciation	<u>45,526,344</u>	<u>3,936,411</u>	<u>-</u>	<u>-</u>	<u>49,462,755</u>
Total capital assets being depreciated, net	<u>78,178,427</u>	<u>2,107,095</u>	<u>-</u>	<u>3,004,763</u>	<u>83,290,285</u>
Governmental activities capital assets, net	<u>\$ 94,214,821</u>	<u>\$ 5,193,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,407,986</u>

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

General and administrative	\$ 1,226,305
Public safety	893,092
Public works	1,677,339
Community development and recreation	<u>139,675</u>
Total depreciation expense - governmental activities	<u>\$ 3,936,411</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS – CONTINUED**

**Enterprise Funds**

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,596,261	\$ 1,283,520	\$ -	\$ 4,879,781
Construction in progress	1,945,797	2,616,969	-	4,562,766
Total capital assets not being depreciated	<u>5,542,058</u>	<u>3,900,489</u>	<u>-</u>	<u>9,442,547</u>
Capital assets being depreciated:				
Plants and buildings	4,867,634	73,414	-	4,941,048
Improvements	54,967,088	697,844	-	55,664,932
Runways and taxiways	2,796,087	613,992	-	3,410,079
Other structures	936,717	14,905	-	951,622
Machinery and equipment	2,658,003	145,304	-	2,803,307
Total capital assets being depreciated	<u>66,225,529</u>	<u>1,545,459</u>	<u>-</u>	<u>67,770,988</u>
Less accumulated depreciation	<u>28,054,157</u>	<u>1,473,818</u>	<u>-</u>	<u>29,527,975</u>
Total capital assets being depreciated, net	<u>38,171,372</u>	<u>71,641</u>	<u>-</u>	<u>38,243,013</u>
Business-type activities capital assets, net	<u>\$ 43,713,430</u>	<u>\$ 3,972,130</u>	<u>\$ -</u>	<u>\$ 47,685,560</u>

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

Water and sewer	\$ 1,384,054
Airport	22,930
Golf	66,834
	<u>66,834</u>
Total depreciation expense - business-type activities	<u>\$ 1,473,818</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. FIXED ASSETS – CONTINUED**

**Discretely Presented Component Units**

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

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Lancaster Economic Development Corporation: Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	Balance September 30, 2009	Increases	Decreases	Balance September 30, 2010
Lancaster Recreational Development Corporation: Capital assets not being depreciated:				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated:				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	<u>384,299</u>	<u>46,447</u>	<u>-</u>	<u>430,746</u>
Total capital assets being depreciated	20,147,468	46,447	-	20,193,915
Less accumulated depreciation	<u>6,493,925</u>	<u>783,262</u>	<u>-</u>	<u>7,277,187</u>
Total capital assets being depreciated, net	<u>13,653,543</u>	<u>(736,815)</u>	<u>-</u>	<u>12,916,728</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 14,642,661</u>	<u>\$ (736,815)</u>	<u>\$ -</u>	<u>\$ 13,905,846</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES**

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

	Balance September 30, 2009	Prior Period Adjustment	Additions	Retirements	Balance September 30, 2010	Due Within One Year
<b>Governmental activities</b>						
General obligation bonds	\$ 30,181,531	\$ -	\$ 22,995,000	\$ (735,000)	\$ 52,441,531	\$ 825,000
Certificates of obligation	13,710,000	-	12,000,000	(365,000)	25,345,000	380,000
Premiums on bond debt	305,551	-	-	(13,605)	291,946	-
Deferred loss on refunding	(823,477)	-	-	55,664	(767,813)	-
Compensated absences	1,329,190	1,492,019	580,186	(667,521)	2,733,874	470,690
OPEB liability	23,320	-	-	-	23,320	-
Capital leases	715,197	-	-	(216,236)	498,961	216,690
<b>Total governmental activities</b>	<b>\$ 45,441,312</b>	<b>\$ 1,492,019</b>	<b>\$ 35,575,186</b>	<b>\$ (1,941,698)</b>	<b>\$ 80,566,819</b>	<b>\$ 1,892,380</b>
<b>Business-type activities</b>						
General obligation bonds	\$ 6,153,471	\$ -	\$ -	\$ (505,000)	\$ 5,648,471	\$ 535,000
Notes payable	417,356	-	-	(264,796)	152,560	80,008
Certificates of obligation	2,770,000	-	-	(200,000)	2,570,000	210,000
Premiums on bond debt	238,647	-	-	(28,377)	210,270	-
Deferred loss on refunding	(85,044)	-	-	9,153	(75,891)	-
Revenue bonds	530,000	-	-	(80,000)	450,000	80,000
Compensated absences	64,398	-	16,182	(15,216)	65,364	28,259
Capital leases	452,545	-	-	(4,945)	447,600	441,304
<b>Total business-type activities</b>	<b>\$ 10,541,373</b>	<b>\$ -</b>	<b>\$ 16,182</b>	<b>\$ (1,089,181)</b>	<b>\$ 9,468,374</b>	<b>\$ 1,374,571</b>
<b>Discretely presented component units</b>						
Notes payable to primary government	\$ 13,010,000	\$ -	\$ -	\$ (605,000)	\$ 12,405,000	\$ 630,000
<b>Total discretely presented component units</b>	<b>\$ 13,010,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (605,000)</b>	<b>\$ 12,405,000</b>	<b>\$ 630,000</b>

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

On March 15, 2010, the City sold \$22,995,000 General Obligation Build America Bonds and \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue, Certificates of Obligation Build America Bonds. The American Recovery and Reinvestment Act of 2009 authorized the City to issue taxable obligations to finance capital expenditures that could be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable obligations. The City will deposit the subsidy payments for the Bonds within the interest and sinking fund to be used to reduce the amount of regularly scheduled debt service payments on the Bonds.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

General obligation bonds, revenue bonds, certificates of obligation, notes payable, and capital leases outstanding at September 30, 2010, consist of the following:

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>
<u>General Obligation Bonds</u>				
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 3.00% - 4.50%	\$ 11,856,531	\$ 371,191	\$ 77,280	\$ 12,305,002
\$24,300,000 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	17,590,000	5,130,000	70,000	22,790,000
\$22,995,000 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% - 6.53%	<u>22,995,000</u>	-	-	<u>22,995,000</u>
	<u>\$ 52,441,531</u>	<u>\$ 5,501,191</u>	<u>\$ 147,280</u>	<u>\$ 58,090,002</u>
<u>Revenue Bonds</u>				
\$2,905,000 1995 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, due in annual installments through September 1, 2015, 3.90% - 5.60%	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 450,000</u>
<u>Certificates of Obligation</u>				
\$3,210,000 2003 Certificate of Obligation Bonds, due in annual installments through February 15, 2023, 3.25% - 4.50%	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	10,945,000	2,570,000	-	13,515,000
\$12,000,000 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% - 6.53%	<u>12,000,000</u>	-	-	<u>12,000,000</u>
	<u>\$ 25,345,000</u>	<u>\$ 2,570,000</u>	<u>\$ -</u>	<u>\$ 27,915,000</u>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
<u>Note payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% - 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 9,635,000
\$3,035,000 note payable, due in annual installments through February 15, 2032; 4.00% - 4.375%	-	-	-	-	2,770,000
\$812,500 note payable, due in quarterly installments through November 15, 2010; 6.5%	-	-	62,500	62,500	-
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	-	90,060	90,060	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,560</u>	<u>\$ 152,560</u>	<u>\$ 12,405,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011; 4.35% - 5.00%	\$ -	\$ 435,000	\$ -	\$ 435,000	\$ -
\$500,000 Lease Purchase Agreement, due in annual installments through January 1, 2012; 4.38%	182,877	12,600	-	195,477	-
\$260,128 Lease Purchase Agreement, due in annual installments through January 1, 2012; 4.38%	97,430	-	-	165,457	-
\$265,987 Lease Purchase Agreement, due in annual installments through September 30, 2015; 5.00%	218,654	-	-	218,654	-
	<u>\$ 498,961</u>	<u>\$ 447,600</u>	<u>\$ -</u>	<u>\$ 1,014,588</u>	<u>\$ -</u>

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

As of September 30, 2010, property and equipment under capital leases is carried at \$1,111,117, with \$283,652 in accumulated depreciation.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

The annual requirements to amortize the long-term debt as of September 30, 2010 are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 825,000	\$ 3,032,724	\$ 3,857,724	\$ 535,000	\$ 252,435	\$ 787,435
2012	1,345,000	2,596,907	3,941,907	555,000	230,635	785,635
2013	1,440,000	2,552,652	3,992,652	580,000	207,935	787,935
2014	1,530,000	2,498,418	4,028,418	605,000	181,210	786,210
2015	1,610,000	2,435,031	4,045,031	640,000	150,085	790,085
2016-2020	10,180,139	10,949,010	21,129,149	2,489,862	253,485	2,743,347
2021-2025	12,231,392	8,253,768	20,485,160	243,609	22,715	266,324
2026-2030	9,635,000	5,542,413	15,177,413	-	-	-
2031-2035	7,570,000	2,935,022	10,505,022	-	-	-
2036-2040	6,075,000	1,025,060	7,100,060	-	-	-
<b>Total</b>	<b>\$ 52,441,531</b>	<b>\$ 41,821,005</b>	<b>\$ 94,262,536</b>	<b>\$ 5,648,471</b>	<b>\$ 1,298,500</b>	<b>\$ 6,946,971</b>

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 380,000	\$ 1,473,477	\$ 1,853,477	\$ 210,000	\$ 101,706	\$ 311,706
2012	695,000	1,243,736	1,938,736	220,000	93,106	313,106
2013	735,000	1,219,466	1,954,466	230,000	84,106	314,106
2014	780,000	1,192,184	1,972,184	240,000	74,706	314,706
2015	865,000	1,161,120	2,026,120	100,000	67,906	167,906
2016-2020	4,805,000	5,238,316	10,043,316	560,000	274,855	834,855
2021-2025	5,355,000	4,056,788	9,411,788	690,000	146,841	836,841
2026-2030	4,905,000	2,764,134	7,669,134	320,000	14,218	334,218
2031-2035	3,645,000	1,522,090	5,167,090	-	-	-
2036-2040	3,180,000	535,948	3,715,948	-	-	-
<b>Total</b>	<b>\$ 25,345,000</b>	<b>\$ 20,407,279</b>	<b>\$ 45,752,279</b>	<b>\$ 2,570,000</b>	<b>\$ 857,444</b>	<b>\$ 3,427,444</b>

Note Payable						
Fiscal Year	Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 80,008	\$ 5,678	\$ 85,686	\$ 630,000	\$ 507,049	\$ 1,137,049
2012	18,588	3,660	22,248	650,000	464,190	1,134,190
2013	19,734	2,514	22,248	685,000	459,795	1,144,795
2014	20,951	1,297	22,248	715,000	433,360	1,148,360
2015	13,279	97	13,376	740,000	405,147	1,145,147
2016-2020	-	-	-	4,215,000	1,530,987	5,745,987
2021-2025	-	-	-	4,330,000	514,830	4,844,830
2026-2030	-	-	-	440,000	19,469	459,469
<b>Total</b>	<b>\$ 152,560</b>	<b>\$ 13,246</b>	<b>\$ 165,806</b>	<b>\$ 12,405,000</b>	<b>\$ 4,354,827</b>	<b>\$ 16,759,827</b>

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES – CONTINUED**

Revenue Bonds			
Fiscal Year	Business-type Activities		
	Principal	Interest	Total
2011	\$ 80,000	\$ 24,775	\$ 104,775
2012	85,000	20,455	105,455
2013	90,000	15,823	105,823
2014	95,000	10,872	105,872
2015	100,000	5,600	105,600
<b>Total</b>	<b>\$ 450,000</b>	<b>\$ 77,525</b>	<b>\$ 527,525</b>

Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
	2011	\$ 216,690	\$ 20,294	\$ 236,984	\$ 441,304	\$ 22,364
2012	150,534	5,864	156,398	6,296	277	6,573
2013	43,730	549	44,279	-	-	-
2014	43,912	367	44,279	-	-	-
2015	44,095	184	44,279	-	-	-
2016-2020	-	-	-	-	-	-
<b>Total</b>	<b>\$ 498,961</b>	<b>\$ 27,258</b>	<b>\$ 526,219</b>	<b>\$ 447,600</b>	<b>\$ 22,641</b>	<b>\$ 470,241</b>

**NOTE 7. RETIREMENT PLAN**

**Plan Description**

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

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN – CONTINUED**

**Plan Description – Continued**

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

	12/31/09	12/31/08
Deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers 70% of CPI	100% Repeating Transfers 70% of CPI
Annuity increase (to retirees)	Repeating	Repeating

**Contributions**

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

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN – CONTINUED**

**Annual Pension Cost**

Contributions by the City were \$1,764,806, or 12.15% of the covered payroll of \$14,525,485 as required by the actuarial valuation. The total fiscal year 2010 payroll was \$13,565,513.

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

<u>Actuarial Information</u>	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
	Project Unit	Project Unit	Project Unit
Actuarial cost method	Credit	Credit	Credit
Amortization method	Level %	Level %	Level %
Amortization period	28 years-closed period	29 years-closed period	30 years-closed period
Asset valuation method	10-year smoothed market	Amortized cost	Amortized cost
Assumptions			
Investment return	7.5%	7.5%	7.0%
Projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustment	2.1%	2.1%	2.1%
City specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High
 <u>Schedule of Funding Information</u>			
Actuarial valuation date	<u>12/31/09</u>	<u>12/31/08</u>	<u>12/31/07</u>
Actuarial Value of Assets	\$ 29,362,600	\$ 26,431,828	\$ 26,735,438
Actuarial Accrued Liability	\$ 45,558,535	\$ 42,814,837	\$ 42,017,867
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 16,195,935	\$ 16,383,009	\$ 15,282,429
Funded ratio	64.5%	61.7%	63.6%
Annual Covered Payroll	\$ 14,525,485	\$ 14,507,867	\$ 13,260,730
UAAL as a Percentage of Covered Payroll	111.5%	112.9%	115.2%

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RETIREMENT PLAN – CONTINUED**

**Annual Pension Cost – Continued**

The City's net pension obligation (NPO) for TMRS at December 31, 2009, 2008 and 2007 is calculated as follows:

Actuarial valuation date:	December 31,		
	2009	2008	2007
NPO, beginning of the year	\$ -	\$ -	\$ -
Annual pension cost:			
Annual required contribution (ARC)	1,764,806	1,727,903	1,481,222
Contributions Made	(1,764,806)	(1,727,903)	(1,481,222)
NPO, end of the year	\$ -	\$ -	\$ -

**Supplemental Death Benefit Fund**

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

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2010, 2009 and 2008, were \$25,157, \$73,918, and \$111,113, respectively, which equaled the required contributions each year.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

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

**Benefits Provided**

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

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

As of September 30, 2010, membership consisted of:

Retirees and beneficiaries receiving benefits	7
Active employees	<u>275</u>
Total	<u><u>282</u></u>

**Funding Policy**

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

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED**

**Annual OPEB Costs**

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2010:

	2010
Annual required contribution	\$ 68,395
Interest on prior year Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	68,395
Contributions made	(68,395)
Increase in net OPEB obligation	-
Net Obligation - beginning of year	23,320
Net Obligation - end of year	\$ 23,320
Percentage of OPEB costs contributed	100.00%

**Funded Status and Funding Progress**

The funded status of the plan as of actuarial measurement date of December 31, 2009 was as follows:

Actuarial accrued liability	\$ 498,266
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 498,266
Funded ratio	0.0%
Covered payroll	14,525,485
Unfunded actuarial accrued liability as a percentage of covered payroll	3.43%

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. OTHER POST EMPLOYMENT BENEFITS – CONTINUED**

**Actuarial Methods and Assumptions**

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

In the December 31, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. The rate of inflation is assumed to be 3%.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**Risk Management**

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

**Trinity River Authority of Texas**

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby 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. The City's share of costs for the fiscal year ended September 30, 2010 was \$3,615,468. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2010.

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. COMMITMENTS AND CONTINGENCIES – CONTINUED**

**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 collectability of any related receivable at September 30, 2010 may be impaired.

Subsequent to the fiscal year ended September 30, 2007, potential improprieties were discovered and an investigation was performed. The information related to this investigation has been provided to the Office of the Inspector General for the Federal Department of Housing and Urban Development and they are continuing the investigation. The resolution of this matter and financial impact to the Lancaster Housing Agency has not been determined.

**Other Contingencies**

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

**NOTE 10. RESERVATIONS AND DESIGNATIONS OF FUND BALANCE / RETAINED EARNINGS**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Amounts are designated within the General Fund's unreserved fund balance as the City Council has designated current revenues for future period expenditures of Bear Creek Park.

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).

**CITY OF LANCASTER  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 11. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

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

Fund	Excess Expenditures over Appropriations
General Fund	\$ 1,170,821
HUD Fund	580,173

**NOTE 12. DEFICIT FUND BALANCES**

A deficit undesignated fund balance of \$5,857 and \$18,615 exists in the Police State Seized Fund and Emergency 911 Fund, respectively. The deficit results from the unfunded expenditures approved by the City. The City plans to eliminate the deficit.

**NOTE 13. SUBSEQUENT EVENTS**

The date to which events occurring after September 30, 2010 have been evaluated for possible adjustment to the financial statements or disclosure is August 16, 2011, the date these financial statements were available to be issued. During this period, there were no material recognizable subsequent events.

**NOTE 14. PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was made for the correction of prior year's accrued sick leave liability for the public safety department. The prior year accrual had vacation leave accrued but did not include the sick leave that the public safety department had accumulated. Upon termination of employment, the public safety department receives their accumulated sick pay and therefore a liability for the balance should be included. The adjustment increased the current year liabilities and decreased net assets on the government-wide financial statements by \$1,492,019.



*Lancaster*

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LANCASTER, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION  
IN TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a percentage of Covered Payroll
	[1]	[2]	[3] [1] / [2]	[4] [2] - [1]	[5]	[6] [4] / [5]
12/31/2007	26,735,438	42,017,867	63.6%	15,282,429	13,260,730	115.2%
12/31/2008	26,431,828	42,814,837	61.7%	16,383,009	14,507,867	112.9%
12/31/2009	29,362,600	45,558,535	64.5%	16,195,935	13,887,238	116.6%

**CITY OF LANCASTER, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 EMPLOYEES' OTHER POSTEMPLOYMENT BENEFITS PLAN  
 ANALYSIS OF FUNDING PROGRESS  
 (UNAUDITED)  
 SEPTEMBER 30, 2010**

Fiscal Year	Actuarial Value of Assets [1]	Actuarial Accrued Liability (AAL) [2]	Funded Ratio [3] [1] / [2]	Unfunded AAL (UAAL) [4] [2] - [1]	Covered Payroll [5]	UAAL as a percentage of Covered Payroll [6] [4] / [5]
2009	-	\$ 498,266	0.0%	\$ 498,266	\$ 14,507,867	3.4%
2010	-	\$ 498,266	0.0%	\$ 498,266	\$ 13,887,238	3.6%

**CITY OF LANCASTER, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2010**

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes and fees	\$ 15,425,632	\$ 15,425,632	\$ 16,014,357	\$ 588,725
Licenses and permits	463,750	463,750	502,940	39,190
Intergovernmental	339,608	339,608	295,736	(43,872)
Charges for services	584,358	584,358	516,420	(67,938)
Fines and forfeits	1,049,822	1,049,822	839,868	(209,954)
Interest	12,818	12,818	7,073	(5,745)
Miscellaneous	726,577	726,577	604,188	(122,389)
<b>Total revenues</b>	<b>18,602,565</b>	<b>18,602,565</b>	<b>18,780,582</b>	<b>178,017</b>
Expenditures:				
Current:				
General government	3,070,791	3,070,791	3,332,021	(261,230)
Public safety	13,636,205	13,623,124	13,416,346	206,778
Public works	2,225,275	2,225,275	3,243,523	(1,018,248)
Community development and recreation	1,162,108	1,162,108	1,010,385	151,723
Capital outlay	59,500	72,581	360,037	(287,456)
Debt service:				
Principal retirement	73,072	73,072	54,254	18,818
Interest and fiscal charges	18,794	18,794	-	18,794
<b>Total expenditures</b>	<b>20,245,745</b>	<b>20,245,745</b>	<b>21,416,566</b>	<b>(1,170,821)</b>
Deficiency of revenues under expenditures	(1,643,180)	(1,643,180)	(2,635,984)	(992,804)
Other financing sources:				
Operating transfers in	1,687,421	1,687,421	2,485,236	797,815
<b>Total other financing sources</b>	<b>1,687,421</b>	<b>1,687,421</b>	<b>2,485,236</b>	<b>797,815</b>
Net change in fund balances	44,241	44,241	(150,748)	(194,989)
Fund balances - beginning of year	3,908,328	3,908,328	3,908,328	-
Fund balances - end of year	<b>\$ 3,952,569</b>	<b>\$ 3,952,569</b>	<b>\$ 3,757,580</b>	<b>\$ (194,989)</b>

**CITY OF LANCASTER, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL**  
**HUD FUND**  
**YEAR ENDED SEPTEMBER 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Intergovernmental	\$ 8,046,054	\$ 8,046,054	\$ 8,733,102	\$ 687,048
Interest	5,757	5,757	1,679	(4,078)
Miscellaneous	59,600	59,600	81,575	21,975
<b>Total revenues</b>	<u>8,111,411</u>	<u>8,111,411</u>	<u>8,816,356</u>	<u>704,945</u>
Expenditures:				
Social and welfare	8,037,997	8,037,997	8,599,376	(561,379)
Capital outlay	60,000	60,000	78,794	(18,794)
<b>Total expenditures</b>	<u>8,097,997</u>	<u>8,097,997</u>	<u>8,678,170</u>	<u>(580,173)</u>
Excess of revenues over expenditures	<u>13,414</u>	<u>13,414</u>	<u>138,186</u>	<u>124,772</u>
Other financing uses:				
Operating transfers out	(62,000)	(62,000)	(62,000)	-
<b>Total other financing uses</b>	<u>(62,000)</u>	<u>(62,000)</u>	<u>(62,000)</u>	<u>-</u>
Net change in fund balances	(48,586)	(48,586)	76,186	124,772
Fund balances - beginning of year	<u>884,078</u>	<u>884,078</u>	<u>884,078</u>	<u>-</u>
Fund balances - end of year	<u>\$ 835,492</u>	<u>\$ 835,492</u>	<u>\$ 960,264</u>	<u>\$ 124,772</u>

**CITY OF LANCASTER, TEXAS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETS AND BUDGETARY ACCOUNTING**

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

An operating budget for the General Fund and HUD Fund is legally adopted each fiscal year.

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

The City generally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget including proposed expenditures and the means of financing them is submitted to the City Council by the City Manager.
2. Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City.
3. A public hearing on the budget is held.
4. Prior to October 1, the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

Departmental appropriations that have not been expended or encumbered by the departments at the end of the fiscal year will lapse.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following funds had expenditures in excess of appropriations for the fiscal year ended September 30, 2010:

<u>Fund</u>	<u>Excess Expenditures over Appropriations</u>
General Fund	\$ 1,170,821
HUD Fund	580,173

**APPENDIX C**

FORM OF BOND AND SPECIAL TAX COUNSELS' OPINIONS

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**[FORM OF BOND COUNSEL'S OPINION]**

October \_\_\_\_, 2011

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

CITY OF LANCASTER, TEXAS TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011, dated September 15, 2011, in the aggregate principal amount of \$7,585,000, maturing on August 15 in the years 2011 through and including 2025, and as a Term Certificate maturing August 15, 2027, and maturing on August 15 in the years 2028 through and including 2031. The Certificates are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. R-1.

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

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

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to

bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law;

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

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

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

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

Respectfully submitted,

October \_\_, 2011

WE HAVE ACTED as Special Tax Counsel for the CITY OF LANCASTER, TEXAS, a municipal corporation of the State of Texas (the "City"), in connection with an issue of certificates of obligations (the "Certificates") described as follows:

CITY OF LANCASTER, TEXAS TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2011, dated September 15, 2011, in initial denominations of \$5,000 each or integral multiples thereof, aggregating \$7,585,000. The Certificates mature, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance of the City Council of the City authorizing the Certificates (the "Ordinance"). The Certificates are subject to optional redemption prior to maturity as set out in the Certificates and in the Ordinance.

WE HAVE ACTED as Special Tax Counsel for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity we have examined the federal income tax law and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates.

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

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, and on the opinion of West & Associates, L.L.P., Bond Counsel, dated the date hereof, that the Certificates are issued in full compliance with the Constitution and laws of the State of Texas presently in effect and constitute valid and legally binding obligations of the City, it is our opinion that, subject to the restrictions hereinafter described, interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Special Tax Counsel are based,

are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof for federal income tax purposes.

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

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters except with respect to the excludability of the interest on the Certificates from gross income from the owners thereof for federal income tax purposes.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the City with respect to matters solely within the knowledge of the City, which we have not independently verified, and have assumed the accuracy and completeness thereof.

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, 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 income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

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

**APPENDIX D**

SPECIMEN INSURANCE POLICY

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer



Financial Advisory Services  
Provided By

