

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

**Dated January 27, 2020**

In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

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



**\$24,530,000**  
**CITY OF LANCASTER, TEXAS**  
(Dallas County)  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

**Dated Date: January 15, 2020**

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

**Interest to accrue from Delivery Date (as defined below)**

**PAYMENT TERMS** . . . Interest on the \$24,530,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds") will accrue from the Delivery Date (as defined below), and will be payable February 15 and August 15 of each year, commencing August 15, 2020, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, and are direct obligations of the City of Lancaster, Texas (the "City"), payable from a continuing, annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "THE BONDS - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding debt obligations of the City (the "Refunded Obligations") for debt service savings (see "Schedule I"); and (ii) pay the costs associated with the issuance of the Bonds.

**MATURITY SCHEDULE**

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

Principal Amount	Maturity Feb 15	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Principal Amount	Maturity Feb 15	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 840,000	2021	3.000%	0.940%	K31	\$ 1,210,000	2031	4.000%	1.670% <sup>(2)</sup>	L55
875,000	2022	4.000%	0.980%	K49	1,260,000	2032	4.000%	1.780% <sup>(2)</sup>	L63
915,000	2023	5.000%	1.010%	K56	1,315,000	2033	4.000%	1.860% <sup>(2)</sup>	L71
945,000	2024	2.000%	1.010%	K64	1,370,000	2034	4.000%	1.940% <sup>(2)</sup>	L89
965,000	2025	3.000%	1.040%	K72	1,420,000	2035	4.000%	2.000% <sup>(2)</sup>	L97
990,000	2026	2.000%	1.130%	K80	1,485,000	2036	4.000%	2.050% <sup>(2)</sup>	M21
1,030,000	2027	5.000%	1.240%	K98	1,540,000	2037	4.000%	2.100% <sup>(2)</sup>	M39
1,080,000	2028	5.000%	1.350%	L22	1,605,000	2038	4.000%	2.150% <sup>(2)</sup>	M47
1,120,000	2029	2.000%	1.430%	L30	1,670,000	2039	4.000%	2.190% <sup>(2)</sup>	M54
1,160,000	2030	5.000%	1.530% <sup>(2)</sup>	L48	1,735,000	2040	4.000%	2.220% <sup>(2)</sup>	M62

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

(2) Yield shown is yield to first call date, February 15, 2029

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

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

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on February 19, 2020 (the "Delivery Date").

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

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

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

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

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

*NONE OF THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER OF THE BONDS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.*

*THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.*

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

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## OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Lancaster, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State") located in Dallas County, Texas. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 34 square miles (see "INTRODUCTION - Description of the City").
- THE BONDS**..... The \$24,530,000 General Obligation Refunding Bonds, Series 2020 (the "Bonds") are scheduled to mature on February 15 in the years 2021 through 2040 (see "THE BONDS - Description of the Bonds").
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the Delivery Date and is payable August 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "– Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapter 1207 as amended (see "THE BONDS - Authority for Issuance").
- SECURITY FOR THE BONDS** ..... The Bonds constitute direct obligations of the City, payable from continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS - Security and Source of Payment").
- REDEMPTION** ..... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").
- TAX EXEMPTION** ..... In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding debt obligations of the City (the "Refunded Obligations" as shown in Schedule I) for debt service savings and (ii) pay the costs associated with the issuance of the Bonds.
- RATINGS** ..... The Bonds and presently outstanding tax-supported debt of the City are rated "AA-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") and "Aa3" by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
- PAYMENT RECORD** ..... The City has never defaulted on the payment of its tax-supported indebtedness.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax- Supported Debt <sup>(3)</sup>	Per Capita Tax- Supported Debt	Ratio Tax- Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2016	37,550 <sup>(1)</sup>	\$ 1,980,250,690	\$ 52,736	\$ 82,110,000	\$ 2,187	4.15%	100.86%
2017	37,730 <sup>(1)</sup>	2,157,523,836	57,183	77,825,000	2,063	3.61%	101.11%
2018	37,880 <sup>(1)</sup>	2,248,120,217	59,348	83,060,000	2,193	3.69%	101.44%
2019	38,400 <sup>(1)</sup>	2,564,358,642	66,780	79,030,000	2,058	3.03%	101.91%
2020	38,400 <sup>(2)</sup>	3,060,488,567	79,700	71,685,000 <sup>(4)</sup>	1,867	2.58%	N/A

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

(2) Estimate provided by city staff.

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

(4) Includes the Bonds and excludes the Refunded Obligations.

For additional information regarding the City, please contact:

Opal Mauldin-Jones  
City of Lancaster  
211 North Henry Street  
Lancaster, Texas 75146  
(972) 218-1300

or

Nick Bulaich  
Hilltop Securities Inc.  
777 Main Street, Suite 1200  
Fort Worth, Texas 76102-3123  
(817) 332-9710

**CITY OFFICIALS, STAFF, AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Clyde C. Hairston Mayor	7.8 Years	May, 2021	Minister
Racheal Hill Mayor Pro Tem, Councilmember, District 5	1.8 Years	May, 2022	Manager
Derrick D. Robinson Deputy Mayor Pro Tem, Councilmember, District 4	1.8 Years	May, 2020	Professional Driver
Carol Strain-Burk Councilmember, District 1	13.8 Years	May, 2022	Self-Employed Consultant
Stanley Jaglowski Councilmember, District 2	7.8 Years	May, 2020	Automotive Service Professional
Marco Mejia Councilmember, District 3	8.8 Years	May, 2022	Business Owner, Construction Company
Nina Morris Councilmember, District 6	11.8 Years	May, 2020	Assist Advocate for children with disabilities

**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-Jones	City Manager	16 Years	27 Years
Rona Stringfellow	Deputy City Manager	15 Years	20 Years
M. Kimberly Hall, CPA, PMP	Director of Finance	2 Months <sup>(1)</sup>	4 Years <sup>(1)</sup>
Sorangel "Angie" Arenas	City Secretary	5 Years	9 Years
David T. Ritter	City Attorney	2 Years	11 Years

(1) Ms. Hall joined the City as Director of Finance in November of 2019. She has 4 years previous County Government service.

**INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS**

Independent Auditors .....	BKD, L.L.P. Dallas, Texas
Bond Counsel .....	West & Associates L.L.P. Dallas, Texas
Special Tax Counsel .....	Orrick Herrington & Sutcliffe, LLP Houston, Texas
Financial Advisor.....	Hilltop Securities Inc. Fort Worth, Texas

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**OFFICIAL STATEMENT**  
**RELATING TO**  
**\$24,530,000**  
**CITY OF LANCASTER, TEXAS**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

**INTRODUCTION**

This Official Statement, which includes the cover page, the appendices and schedule hereto, provides certain information regarding the issuance of \$24,530,000 City of Lancaster, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted by the City Council of the City on the date of sale of the Bonds (the "Bond Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION – Forward-Looking Statements Disclaimer").

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered three year terms with elections held annually in May. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 36,361, while the estimated 2020 population is 38,400. The City covers approximately 34 square miles.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding debt obligations of the City (the "Refunded Obligations" as shown in "Schedule I") for debt service savings and (ii) pay the costs associated with the issuance of the Bonds.

**REFUNDED OBLIGATIONS . . .** The principal and interest due on the Refunded Obligations are to be paid on the redemption date of such Refunded Obligations from the funds to be deposited pursuant to an Escrow Agreement between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the escrow agent (the "Escrow Agent").

The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with available funds, if any, which when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America, agency securities guaranteed by the full faith and credit of the United States of America, and/or securities permitted to be deposited into the Escrow Fund by Chapter 1207, Texas Government Code, as amended (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Public Finance Partners LLC, will verify at the time of delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules, and that the Federal Securities will mature at such times and yield interest in amounts, together with uninvested funds, if any in the Escrow Fund sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such funds in the Escrow Fund will not be available to pay the debt service on the Bonds. See "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations".

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to Chapter 1207, Texas Government Code, as amended, and the ordinances authorizing the issuance of the Refunded Obligations. The opinion of Co-Bond Counsel issued in connection with the Bonds will note that as a result of such deposit, the Refunded Obligations will be outstanding only for the purpose of receiving the payments from the Federal Securities and cash held for such purpose by the Escrow Agent, and the Refunded Obligations will not be deemed as being outstanding obligations of the City, payable from the sources and secured in the manner provided in the ordinances authorizing their issuance or for any other purpose.

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

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated January 15, 2020, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of their initial delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing August 15, 2020, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

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

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds constitute direct obligations of the City, payable from continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS - Security and Source of Payment").

**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 to provide for the operations of the City, including the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligations debt, as calculated at the time of issuance and based on a 90% tax collection factor.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

*Notice of Redemption.* Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond 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 last business day next preceding the date of mailing such notice.

ANY NOTICE GIVEN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE, AND ANY REDEMPTION NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

*Limitation on Transfer of Bonds Called for Redemption.* Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, when such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

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

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

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

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

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

**Effect of Termination of Book-Entry-Only System . . .** In the event that the Book-Entry-Only System of the Bonds is discontinued, printed certificates will be issued to the DTC Participants or the registered owner of the Bonds, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, Bond certificates will be printed and delivered to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of such Bond certificates and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "Record Date for Interest Payment" herein), or by such other method, 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 Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are 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 on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original payment date. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be made as described in "Book-Entry-Only System".

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

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

**REMEDIES . . .** The Bond Ordinance provides for specific events of default. If the City defaults in the payment of the principal of or interest on any Bond when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Bonds. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit of money damages, registered owners of the Bonds may not be able to bring suit against the City for breach of the Bond Ordinance or the Bonds.

The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson I"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by such city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("Wasson II", and together with *Wasson I*, "Wasson"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Bond Ordinance provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the City under the Bond Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its obligations, but in connection with the issuance of the obligations, the City has not waived sovereign immunity in the proceedings authorizing the Bonds.

The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**DEFESANCE . . .** The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purposes. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

## **TAX INFORMATION**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

**VALUATION OF TAXABLE PROPERTY . . .** The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board ("Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required 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, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in their jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a 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 homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See Table 1 for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, 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 ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See Table 1 for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "– City and Taxpayer Remedies."

**STATE MANDATED HOMESTEAD EXEMPTIONS.** . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See Table 1 for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

**LOCAL OPTION HOMESTEAD EXEMPTIONS** . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

**LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED** . . . The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

**PERSONAL PROPERTY** . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

**FREPORT EXEMPTIONS** . . . Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

**OTHER EXEMPT PROPERTY** . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

**TAX INCREMENT FINANCING ZONES** . . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, for projects located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and an increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value." During the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See "– City Application of Property Tax Code" for descriptions of any TIRZ created in the City.

**TAX ABATEMENT AGREEMENTS . . .** Taxing units may also enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, 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.

For a discussion of how the various exemptions described above are applied by the City, see “– City’s Application of Property Tax Code” herein.

**PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS . . .** The following terms as used in this section have the meanings provided below:

“adjusted” means lost values are not included in the calculation of the prior year’s taxes and new values are not included in the current year’s taxable values.

“de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“special taxing unit” means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate”.

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its voter-approval tax rate using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

**The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds.**

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.

#### **CITY AND TAXPAYER REMEDIES**

Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of the Appraisal Districts directly to a three-member special panel of the Appraisal Review Board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases. (See "– Public Hearing and Maintenance and Operation Tax Rate Limitations".) The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

**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 August 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on August 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on August 1 of each year and the final installment due on February 1.

#### **LEVY AND COLLECTION OF TAXES**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. 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 for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

**CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for

delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions 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 PROPERTY TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$30,000; the disabled are also granted an exemption of \$30,000.

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

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

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

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

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

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

The City does not tax freeport property.

The City has taken action to continue taxing goods-in-transit in 2015 and future years.

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

**TAX ABATEMENTS . . .** The City does not currently have outstanding Tax Abatements.

**TAX INCREMENT FINANCING ZONES . . .** Tax Increment Financing District #1, City of Lancaster (the "Inland Port Water Project TIF" or the "TIF"), was created in October 2014, by the City with the consent of other taxing units overlapping the Inland Port Water Project TIF. The 1337.4 acre TIF encompassed by City limits on the North and East, Belt Line Road and Greene Road on the South and an irregular boundary East of Lancaster-Hutchins Road to the South of Pleasant Run Road and the BNSF RR tracks North of Pleasant Run Road, excluding developed property, this area is called an "inland port" because of its unique characteristics including a Union Pacific intermodal facility, which enable it to quickly receive and ship goods from the West Coast, the East Coast, and the Gulf of Mexico. Ad valorem taxes on incremental growth in real property values (levied at the tax rates of each taxing unit assessing real property in the TIF) within the TIF from a base value established on January 1, 2015, are used to contribute to the development of the TIF; these tax increment revenue funds can be used only for public improvements in the TIF. The TIF terminates December 31, 2041, or when the contributions by the City total \$2,781,759. The base assessed value of real property within the Zone is \$1,387,549; the 2019/2020 assessed value is \$1,743,615, representing \$356,066 in FY 2020-21 of incremental value. The City's participation is 50% of the taxes paid on the incremental increase in value. The City's payments are anticipated to begin in FY 2020-21.

**CHAPTER 380 AGREEMENTS . . .** The City has eighteen (18) active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting business that generates incremental tax revenues. In addition to GASB 77, the agreements are subject to Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. The City Council approves the agreements via resolution. As part of the agreement, the City agrees to rebate the ad valorem tax increment and the local sales tax after confirmation of payment. If a business does not meet the obligations as set forth in the agreement, a clawback provision for default on agreement is included in the agreement and the business agrees to return a percentage of the rebate back to the City. Total rebate of taxes for the year ended September 30, 2018 was \$1,712,577, and total rebate of taxes for the year ended September 30, 2019 was \$1,949,320.

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

2019/20 Market Valuation Established by Dallas Central Appraisal District		\$ 3,762,129,580
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 65,806,189	
Disabled Veterans Exemptions	23,863,289	
Freeport Exemption	168,458,857	
Capped Value Loss	179,745,759	
Pollution Control Exemption	795,048	
Prorated Total Exempt	52,319	
Agricultural and Other Exemptions	111,426,002	
Totally Exempt	<u>151,493,550</u>	<u>701,641,013</u>
2019/20 Taxable Assessed Valuation		\$ 3,060,488,567
City Funded Debt Payable from Ad Valorem Taxes (as of 11-1-19)		
General Obligation Bonds	\$ 41,440,000 <sup>(1)</sup>	
Certificates of Obligation	8,925,000 <sup>(1)</sup>	
The Bonds	<u>24,530,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 74,895,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Water and Sewer System General Obligation Debt	\$ 6,340,000	
Stormwater System General Obligation Debt	300,000	
Airport System General Obligation Debt	50,000	
Economic Development Corporation General Obligation Debt	1,415,000	
Recreational Development Corporation General Obligation Debt	<u>4,150,000</u>	<u>12,255,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 62,640,000
Interest and Sinking Fund (as of 11-1-19)		\$ 5,664,690
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		2.45%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		2.05%
<p>2019 Estimated Population - 38,400  Per Capita Taxable Assessed Valuation - \$79,700  Per Capita Total Funded Debt - \$1,950  Per Capita Net Funded Debt - \$1,631</p>		

(1) Excludes the Refunded Obligations.

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

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

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,710,132,620	45.46%	\$ 1,521,904,110	48.40%	\$ 1,284,662,720	48.64%
Real, Residential, Multi-Family	134,243,830	3.57%	124,608,860	3.96%	111,615,880	4.23%
Real, Vacant Lots/Tracts	90,708,300	2.41%	83,085,740	2.64%	60,637,850	2.30%
Real, Acreage (Land Only)	114,218,390	3.04%	112,601,630	3.58%	105,785,100	4.01%
Real, Farm and Ranch Improvements	858,680	0.02%	2,912,830	0.09%	10,921,120	0.41%
Real, Commercial	891,361,780	23.69%	685,054,280	21.79%	478,949,730	18.13%
Real, Industrial	29,405,890	0.78%	21,278,320	0.68%	36,882,690	1.40%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%	-	0.00%
Real and Tangible Personal, Utilities	180,360,270	4.79%	139,662,110	4.44%	132,620,960	5.02%
Tangible Personal, Commercial	491,096,890	13.05%	375,565,680	11.94%	350,377,960	13.27%
Tangible Personal, Industrial	116,390,220	3.09%	74,539,670	2.37%	64,617,210	2.45%
Tangible Personal, Other	-	0.00%	6,750	0.00%	6,750	0.00%
Tangible Personal, Mobile Homes	581,780	0.02%	562,860	0.02%	577,890	0.02%
Special Inventory	2,770,470	0.07%	2,503,610	0.08%	3,597,440	0.14%
Total Appraised Value Before Exemptions Adjustments	\$ 3,762,129,580	100.00%	\$ 3,144,286,910	100.00%	\$ 2,641,253,300	100.00%
Total Exemptions/Reductions	(701,641,013)		(579,928,268)		(393,133,083)	
Taxable Assessed Value	<u>\$ 3,060,488,567</u>		<u>\$ 2,564,358,642</u>		<u>\$ 2,248,120,217</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,159,793,970	45.98%	\$ 996,753,620	46.52%
Real, Residential, Multi-Family	98,089,920	3.89%	91,753,730	4.28%
Real, Vacant Lots/Tracts	65,642,580	2.60%	60,610,160	2.83%
Real, Acreage (Land Only)	110,493,790	4.38%	90,078,200	4.20%
Real, Farm and Ranch Improvements	11,091,520	0.44%	10,735,530	0.50%
Real, Commercial	467,608,680	18.54%	416,261,200	19.43%
Real, Industrial	35,465,840	1.41%	33,517,340	1.56%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	125,144,770	4.96%	101,873,450	4.76%
Tangible Personal, Commercial	380,592,570	15.09%	269,547,400	12.58%
Tangible Personal, Industrial	64,970,990	2.58%	68,461,580	3.20%
Tangible Personal, Other	13,500	0.00%	13,500	0.00%
Tangible Personal, Mobile Homes	616,300	0.02%	630,110	0.03%
Special Inventory	3,028,570	0.12%	2,203,790	0.10%
Total Appraised Value Before Exemptions Adjustments	\$ 2,522,553,460	100.00%	\$ 2,142,440,070	100.00%
Total Exemptions/Reductions	(454,069,540)		(365,724,840)	
Taxable Assessed Value	<u>\$ 2,157,523,836</u>		<u>\$ 1,980,250,690</u>	

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

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

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year <sup>(3)</sup>	Ratio	Funded Debt Per Capita
					Tax Debt to Taxable Assessed Valuation	
2016	37,550 <sup>(1)</sup>	\$ 1,980,250,690	\$ 52,736	\$ 82,110,000	4.15%	\$ 2,187
2017	37,730 <sup>(1)</sup>	2,157,523,836	57,183	77,825,000	3.61%	2,063
2018	37,880 <sup>(1)</sup>	2,248,120,217	59,348	83,060,000	3.69%	2,193
2019	38,400 <sup>(1)</sup>	2,564,358,642	66,780	79,030,000	3.03%	2,058
2020	38,400 <sup>(2)</sup>	3,060,488,567	79,700	71,685,000 <sup>(4)</sup>	2.58%	1,867

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

(2) Estimate, provided by City Staff.

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

(4) Includes the Bonds and excludes the Refunded Obligations.

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

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2016	\$ 0.8675	\$ 0.6012	\$ 0.2663	\$ 15,433,728	98.03%	100.86%
2017	0.8675	0.6012	0.2663	17,874,075	98.50%	101.11%
2018	0.8675	0.6012	0.2663	19,736,863	98.51%	101.44%
2019	0.8675	0.6012	0.2663	22,150,576	99.76%	101.91%
2020	0.8409	0.5952	0.2457	25,777,498 <sup>(1)</sup>	N/A	N/A

(1) Calculated.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2019/20	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
CSHV 20 35 LLC	Industrial Park	\$ 160,565,110	5.25%
AT&T Mobility LLC	Telephone	99,449,080	3.25%
Oncor Electric Delivery	Utility Delivery	73,756,220	2.41%
United Natural Foods Inc.	Commercial	51,803,472	1.69%
CH Realty VII	Wholesale Supplier/Distribution Center	43,978,030	1.44%
2935 Daniieldale Rd Holdings LLC	Development	40,149,320	1.31%
Liberty Property Ltd.	Industrial Park	40,095,000	1.31%
Duke Realty Land LLC	Wholesale Supplier/Distribution Center	39,552,230	1.29%
Mobis Parts America LLC	Auto Parts Distribution	38,589,740	1.26%
White Tract Tract II LLC	Wholesale Supplier/Distribution Center	31,353,740	1.02%
		<u>\$ 619,291,942</u>	<u>20.24%</u>

Note: Provided by the Dallas Central Appraisal District.

**GENERAL OBLIGATION DEBT LIMITATION** . . . Other than as described under "THE BONDS – Tax Rate Limitation", no general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE BONDS – Tax Rate Limitation").

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

2020 Principal and Interest Requirements	\$ 5,530,759
\$0.1826 Tax Rate at 99.00% Collection Produces	\$ 5,532,568
Average Annual Principal and Interest Requirements, 2020 - 2040	\$ 4,225,055
\$0.1395 Tax Rate at 99.00% Collection Produces	\$ 4,226,688
Maximum Principal and Interest Requirements, 2020	\$ 5,530,759
\$0.1826 Tax Rate at 99.00% Collection Produces	\$ 5,532,568

(1) Includes the Bonds and does not include the Refunded Obligations or self-supporting debt.

**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" (the "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 of the Reports, 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.

<u>Taxing Jurisdiction</u>	2019/2020 Taxable Assessed Value	2019/2020 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt As of 11/1/19	Authorized But Unissued Debt as of 11/1/2019
City of Lancaster	\$ 3,060,488,567	\$ 0.840900	\$ 62,640,000 <sup>(1)</sup>	100.00%	\$ 62,640,000	\$ -
Lancaster Independent School District	3,100,086,281	1.528300	201,126,933	85.58%	172,124,429	-
Dallas Independent School District	128,350,910,821	1.310300	2,676,385,000	0.06%	1,605,831	1,025,595,000
Dallas County	261,927,801,917	0.243100	151,495,000	0.95%	1,439,203	-
Dallas County Community College	269,683,889,444	0.124000	182,800,000	0.95%	1,736,600	1,102,000,000
Dallas County Hospital District	262,400,022,695	0.269500	640,180,000	0.95%	6,081,710	-
Ferris Independent School District	471,658,639	1.447200	31,376,169	0.05%	15,688	-
Total Direct and Overlapping Tax Debt					\$ 245,643,461	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation . . . . .					8.03%	
Per Capita Overlapping Tax Debt . . . . .					\$ 6,396.97	

(1) Includes the Bonds and does not include the Refunded Obligations or self-supporting debt.

**TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 9/30	Outstanding Debt <sup>(1)</sup>		The Bonds <sup>(2)</sup>		Total Outstanding Debt	Less:	Less:	Less:	Less:	Less:	Total Debt Less Self- Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest		W&S Self- Supporting Requirements	Stormwater Self-Supporting Requirements	LEDC Self Supporting Requirements	LRDC Self Supporting Requirements	Airport Self- Supporting Requirements		
2020	\$ 4,105,000	\$ 2,838,753	\$ -	\$ 461,462	\$ 7,405,215	\$ 685,906	\$ 43,150	\$ 212,350	\$ 921,000	\$ 12,050	\$ 5,530,759	
2021	3,350,000	1,795,736	840,000	931,300	6,917,036	687,556	41,750	210,425	922,500	11,550	5,043,255	
2022	3,515,000	1,648,036	875,000	901,200	6,939,236	693,731	45,275	213,125	926,875	11,050	5,049,180	16.74%
2023	3,670,000	1,496,311	915,000	860,825	6,942,136	705,631	43,725	210,450	923,600	10,600	5,048,130	
2024	3,770,000	1,345,961	945,000	828,500	6,889,461	706,806	42,175	207,525	923,100	10,200	4,999,655	
2025	2,985,000	1,208,311	965,000	804,575	5,962,886	672,981	50,375	214,100	-	-	5,025,430	
2026	3,105,000	1,081,486	990,000	780,200	5,956,686	674,031	48,275	214,900	-	-	5,019,480	
2027	3,240,000	947,711	1,030,000	744,550	5,962,261	684,156	46,100	215,050	-	-	5,016,955	45.26%
2028	2,960,000	825,858	1,080,000	691,800	5,557,658	537,056	-	-	-	-	5,020,602	
2029	3,085,000	715,878	1,120,000	653,600	5,574,478	547,369	-	-	-	-	5,027,109	
2030	3,200,000	600,400	1,160,000	613,400	5,573,800	551,281	-	-	-	-	5,022,519	
2031	3,325,000	479,681	1,210,000	560,200	5,574,881	558,900	-	-	-	-	5,015,981	
2032	2,890,000	352,734	1,260,000	510,800	5,013,534	-	-	-	-	-	5,013,534	73.35%
2033	1,975,000	260,806	1,315,000	459,300	4,010,106	-	-	-	-	-	4,010,106	
2034	2,075,000	185,569	1,370,000	405,600	4,036,169	-	-	-	-	-	4,036,169	
2035	2,170,000	105,625	1,420,000	349,800	4,045,425	-	-	-	-	-	4,045,425	
2036	590,000	54,075	1,485,000	291,700	2,420,775	-	-	-	-	-	2,420,775	
2037	615,000	32,988	1,540,000	231,200	2,419,188	-	-	-	-	-	2,419,188	92.55%
2038	635,000	11,113	1,605,000	168,300	2,419,413	-	-	-	-	-	2,419,413	
2039	-	-	1,670,000	102,800	1,772,800	-	-	-	-	-	1,772,800	
2040	-	-	1,735,000	34,700	1,769,700	-	-	-	-	-	1,769,700	100.00%
	<u>\$ 51,260,000</u>	<u>\$ 15,987,033</u>	<u>\$ 24,530,000</u>	<u>\$ 11,385,812</u>	<u>\$ 103,162,845</u>	<u>\$ 7,705,406</u>	<u>\$ 360,825</u>	<u>\$ 1,697,925</u>	<u>\$ 4,617,075</u>	<u>\$ 55,450</u>	<u>\$ 88,726,164</u>	

(1) "Outstanding Debt" includes self-supporting debt. Does not include the Refunded Obligations.  
(2) Average life of the issue – 11.739 Years. Interest on the Bonds has been calculated at the rates shown on the cover page.

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

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-20		\$ 5,530,759
Interest and Sinking Fund Balance, 9-30-19	\$ 3,280,182	
Budgeted Interest and Sinking Fund Tax Levy	7,607,074	
Budgeted Transfers	-	
Estimated Build America Bonds Subsidy	307,849	
Estimated Investment Earnings	<u>25,552</u>	<u>11,220,657</u>
Estimated Balance, 9-30-20		<u>\$ 5,689,898</u>

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

Revenue Available for Debt Service from Waterworks and Sewer System ("System"), Fiscal Year Ended 9-30-19 <sup>(2)</sup>	\$ 2,496,840
Less: Revenue Bonds Requirements, 2019 Fiscal Year	<u>-</u>
Balance Available for Other Purposes	\$ 2,496,840
System General Obligation Bond Requirements, 2020 Fiscal Year	<u>685,906</u>
Balance	\$ 1,810,934
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-19 <sup>(2)</sup>	\$ 634,964
Stormwater General Obligation Bond Requirements, 2020 Fiscal Year	<u>43,150</u>
Balance	\$ 591,814
Percentage of Stormwater General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from LEDC, Fiscal Year Ended 9-30-19 <sup>(2)</sup>	\$ 525,829
LEDC General Obligation Bond Requirements, 2020 Fiscal Year	<u>212,350</u>
Balance	\$ 313,479
Percentage of LEDC General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from LRDC, Fiscal Year Ended 9-30-19 <sup>(2)</sup>	\$ 1,232,073
LRDC General Obligation Bond Requirements, 2020 Fiscal Year	<u>921,000</u>
Balance	\$ 311,073
Percentage of LRDC General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-19 <sup>(2)</sup>	\$ 42,334
Airport General Obligation Bond Requirements, 2020 Fiscal Year	<u>12,050</u>
Balance	\$ 30,284
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 sufficient to pay such debt service.

(2) Unaudited.

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

The City has no authorized but unissued bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . .** The City does not anticipate issuing additional general obligation debt within the next 12 months.

**TABLE 12 - OTHER OBLIGATIONS**

The annual requirements to amortize the capital leases and notes payable as of November 1, 2019 are as follows:

Fiscal Year	Capital Leases Government Activities			Fiscal Year	Note Payable Government Activities		
	Principal	Interest	Total		Principal	Interest	Total
2019	\$ 258,522	\$ 35,866	\$ 294,388	2019	\$ 618,049	\$ 192,087	\$ 810,136
2020	189,507	29,048	218,554	2020	661,313	148,824	810,137
2021	193,068	23,614	216,682	2021	707,605	102,532	810,137
2022	196,758	18,053	214,810	2022	704,137	53,000	757,137
2023	200,579	12,359	212,938	2023	447,841	53,000	500,841
2024-2025	249,644	9,014	258,658	Total	\$ 3,138,945	\$ 549,443	\$ 3,688,388
Total	\$ 1,288,077	\$ 127,954	\$ 1,416,031				

**PENSION FUND . . .** The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.95% and 4.42%, respectively. There were no significant changes in the component unit’s proportion to the plan during fiscal year 2018.

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

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:

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

At December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	189
Inactive Employees Entitled to But Not Yet Receiving Benefits	228
Active Employees	247
	<u>664</u>

## Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method beginning with the 2013 valuations. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City's contributions to TMRS for the year ended September 30, 2018, were \$2,285,017, and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2012, valuation is effective for the rates beginning January 1, 2014).

## Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a *Mortality Experience Investigation Study* covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and longterm funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and longterm funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

## Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7.00% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the longterm expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total	Fiduciary	Net Pension
	Pension Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance as of 10/1/2017	\$ 76,964,679	\$ 62,643,584	\$ 14,321,095
Changes for the year:			
Service cost	2,469,383	-	\$ 2,469,383
Interest on total pension liability	5,149,906	-	5,149,906
Effect of difference in expected and actual experience	312,809	-	312,809
Benefit Payments	(3,808,922)	(3,808,922)	-
Administrative expenses	-	(44,995)	44,995
Member contributions	-	1,110,905	(1,110,905)
Net investment income	-	8,679,960	(8,679,960)
Employer contributions	-	2,199,587	(2,199,587)
Other	-	(2,281)	2,281
Net changes	4,123,176	8,134,254	(4,011,078)
Balance as of 09/30/2018	<u>\$ 81,087,855</u>	<u>\$ 70,777,838</u>	<u>\$ 10,310,017</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary Government	\$ 21,744,397	\$ 9,756,009	\$ 96,028
Lancaster Economic Development Corporation	218,188	97,894	964
Lancaster Recreational Development Corporation	1,016,596	456,114	4,490
Plan's net pension liability	<u>\$ 22,979,182</u>	<u>\$ 10,310,017</u>	<u>\$ 101,481</u>

**OTHER POST-EMPLOYMENT BENEFITS . . .** 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 no assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB 75, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Benefits Provided:

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

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

Funding Policy

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$518 per month for retiree-only coverage, \$1,140 per month for retiree and spouse, and \$1,765 per month for retiree and family. Members receiving PPO medical benefits contribute \$574 per month for retiree-only coverage, \$1,264 per month for retiree and spouse, and \$1,956 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

For more information concerning the OPEB plan and funding progress relating thereto see "APPENDIX B – Excerpts from City's Comprehensive Annual Financial Report".

## FINANCIAL INFORMATION

**TABLE 13 – CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 4,802,605	\$ 4,495,333	\$ 5,649,792	\$ 3,275,363	\$ 2,846,642
Operating Grants & Contributions	2,184,968	748,338	894,947	1,351,379	1,339,640
Capital Grants & Contributions	-	-	-	-	-
General Revenues:					
Taxes & Fees	30,713,903	28,241,385	25,390,599	24,215,602	20,586,653
Other	1,289,978	851,508	404,480	505,390	334,862
Total Revenues	<u>\$ 38,991,454</u>	<u>\$ 34,336,564</u>	<u>\$ 32,339,818</u>	<u>\$ 29,347,734</u>	<u>\$ 25,107,797</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 6,540,944	\$ 7,327,188	\$ 7,337,257	\$ 3,891,404	\$ 4,055,911
Public Safety	20,671,196	18,869,618	18,522,908	16,540,660	14,898,549
Public Works	3,441,079	3,869,238	3,651,258	5,987,362	4,926,327
Community Development and Recreation	2,214,694	1,829,003	1,366,830	1,225,730	1,260,500
Social and Welfare	-	-	-	-	3,623
Interest and Fiscal Charges	4,304,629	2,935,851	3,200,431	3,379,380	3,054,899
Total Expenses	<u>\$ 37,172,542</u>	<u>\$ 34,830,898</u>	<u>\$ 34,078,684</u>	<u>\$ 31,024,536</u>	<u>\$ 28,199,809</u>
Increase (Decrease in Net Assets Before Transfers)	\$ 1,818,912	\$ (494,334)	\$ (1,738,866)	\$ (1,676,802)	\$ (3,092,012)
Transfers	<u>2,099,973</u>	<u>1,722,208</u>	<u>(193,511)</u>	<u>1,635,572</u>	<u>1,679,963</u>
Change in Net Assets	\$ 3,918,885	\$ 1,227,874	\$ (1,932,377)	\$ (41,230)	\$ (1,412,049)
Net Assets - Beginning	46,531,286	45,303,412	47,235,789	54,822,317	56,234,366
Prior Period Adjustments	224,021	-	-	(7,545,298) <sup>(1)</sup>	-
Net Assets - Ending	<u>\$ 50,674,192</u>	<u>\$ 46,531,286</u>	<u>\$ 45,303,412</u>	<u>\$ 47,235,789</u>	<u>\$ 54,822,317</u>

(1) Net position as of October 1, 2014 has been restated for the effects of adopting GASB No. 68.

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

	Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues</u>					
Taxes and Fees	\$ 23,275,808	\$ 20,802,099	\$ 18,439,703	\$ 17,301,959	\$ 15,632,121
Licenses and Permits	1,416,765	1,204,769	1,522,638	657,735	681,212
Intergovernmental	249,444	98,071	369,534	758,579	147,090
Charges for Services	1,196,688	1,447,290	1,516,187	886,838	881,346
Fines and Forfeitures	1,201,137	1,175,488	1,257,743	1,264,493	798,272
Interest	211,996	64,369	26,187	3,918	1,807
Miscellaneous	354,253	528,231	261,553	272,160	254,112
Total Revenues	<u>\$ 27,906,091</u>	<u>\$ 25,320,317</u>	<u>\$ 23,393,545</u>	<u>\$ 21,145,682</u>	<u>\$ 18,395,960</u>
<u>Expenditures</u>					
General Government	\$ 5,045,895	\$ 4,801,896	\$ 4,171,215	\$ 3,648,643	\$ 3,437,170
Public Safety	15,974,581	16,096,810	16,110,529	14,866,020	13,589,450
Public Works	1,860,274	1,873,516	1,191,225	1,655,802	1,471,110
Cultural and Recreational	1,320,316	1,322,065	889,728	808,467	843,176
Capital Outlay	2,240,414	211,039	481,788	1,434,754	734,429
Debt Service	810,136	652,716	947,393	991,290	576,704
Total Expenditures	<u>\$ 27,251,616</u>	<u>\$ 24,958,042</u>	<u>\$ 23,791,878</u>	<u>\$ 23,404,976</u>	<u>\$ 20,652,039</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 654,475	\$ 362,275	\$ (398,333)	\$ (2,259,294)	\$ (2,256,079)
Transfers In	\$ 2,141,187	\$ 1,730,755	\$ 1,673,308	\$ 1,900,157	\$ 1,751,362
Transfers Out	-	-	(968,358)	(80,343)	(85,399)
Proceeds from Capital Lease	431,500	-	-	1,250,000	-
Total Sources (Uses)	<u>\$ 2,572,687</u>	<u>\$ 1,730,755</u>	<u>\$ 704,950</u>	<u>\$ 3,069,814</u>	<u>\$ 1,665,963</u>
Net Increase (Decrease)	\$ 3,227,162	\$ 2,093,030	\$ 306,617	\$ 810,520	\$ (590,116)
Beginning Fund Balance	9,067,940	6,974,910	6,668,293	5,857,773	6,447,889
Prior Period Adjustments	-	-	-	-	-
Ending Fund Balance	<u>\$ 12,295,102</u>	<u>\$ 9,067,940</u>	<u>\$ 6,974,910</u>	<u>\$ 6,668,293</u>	<u>\$ 5,857,773</u>

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

In addition to the sales and use tax levied by the State, 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, Texas, who remits the proceeds of the taxes, after deduction of a 2% service fee, to the City monthly. **Such sales tax revenues are not pledged to the payment of the Bonds.**

**DISTRIBUTION OF SALES AND USE TAXES**

Property Tax Relief	0.25%
Economic and Community Development	0.25%
Recreational Development Corporation	0.50%
City Sales & Use Tax	1.00%
State Sales & Use Tax	<u>6.25%</u>
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
2015	\$ 5,545,413	39.92%	\$ 0.3283	\$ 148
2016	5,633,760	36.50%	0.2845	150
2017	6,168,242	34.51%	0.2859	163
2018	7,160,171	36.28%	0.3185	189
2019	6,869,093 <sup>(1)</sup>	31.01%	0.2679	179

(1) Unaudited.

**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
2015	\$ 1,109,083	\$ 2,176,600	\$ 1,386,353
2016	1,126,752	2,253,504	1,408,440
2017	1,233,648	2,467,297	1,233,648
2018	1,432,034	2,864,069	1,432,034
2019	1,373,817	2,747,633	1,373,817

**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 12%, with a stated target of 15% of the respective fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the related 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 City Council fails to adopt a budget then the budget presented to the City Council by the City Manager becomes the adopted budget.

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

## **INVESTMENTS**

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

### **LEGAL INVESTMENTS . . .**

Pursuant to the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA"), the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body of the City or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of PFIA, that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State 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 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the PFIA, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be 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; (11) 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a

loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

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

**TABLE 15 - CURRENT INVESTMENTS**

As of November 30, 2019, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	47.79%	\$ 35,161,421
Logic	36.98%	27,208,315
Logic 2010 GO Bond Fund	1.77%	1,305,627
Logic 2015 GO Bond Fund	1.90%	1,394,714
Logic 2018 GO Bond Fund	5.06%	3,724,191
Texas Class	6.50%	4,786,230
	<u>100.00%</u>	<u>\$ 73,580,498</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.

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## TAX MATTERS

**TAX EXEMPTION . . .** In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

### CONTINUING DISCLOSURE OF INFORMATION

In the Bond Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement while it remains obligated to advance funds to pay such Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City ending in or after 2019, 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 (2) if not provided as part of such financial information and operating data, audited financial statements of the City when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Bond Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule").

Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

**NOTICE OF CERTAIN EVENTS . . .** The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Obligations: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Certificates; (7) Modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Certificates, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into 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; (14) Appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. 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, (a) any event described in the immediately preceding clause (12) 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 of business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and the definition of Financial Obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

**AVAILABILITY OF INFORMATION . . .** The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

The City's continuing disclosure agreements for the Bonds may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of such Bonds. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2014 audited financial statements release date was May 12, 2015. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding unenhanced tax supported debt of the City are rated "AA-" by S&P and "Aa3" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

The City is currently involved in litigation and is appealing judgment regarding the White Rock Commercial, LLC vs. City of Lancaster, Cause No. DC-14-06471. This case is filed in the City involving a Chapter 380 Agreement by and between White Rock Commercial, LLC and the City. Under terms of the Chapter 380 Agreement, the City was to make certain payments in consideration for the construction of certain infrastructures stemming from the development of the property owned by White Rock Commercial, LLC. The infrastructure is purported to have been constructed in accordance with the terms of the Chapter 380 Agreement. It does appear that the City may, in fact, owe in the future economic development payments for the total amount of \$2.1 million dollars over a 20-year period to repay the cost of the infrastructure improvements placed by White Rock Commercial, LLC. To date, the City has been unable to determine what, if any, amounts are due and owing under the terms of the Chapter 380 Agreement due to the imposition of impact fees and other considerations concerning the payment of the funds. The trial court has ruled in favor of the developer and determined that the City's liability is \$4.7 million plus pre-judgment and post judgment interest under the development agreement. The City does not believe this litigation will have a material impact on its finances or its ability to make debt service payments.

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

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

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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds 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 the Bonds 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 Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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 Bonds to any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

## **LEGAL MATTERS**

The City will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the respective Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon an examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect. The City will also furnish an opinion of Special Tax Counsel to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING", "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System" and "Remedies", and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings") and the "Legal Matters" (except for the last sentence of the first paragraph hereof), "Registration and Qualification of Bonds for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond 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 Bonds and the legal issues contained under such caption is an accurate and fair description of the laws and legal issues addressed therein. The legal fee to be paid to Bond and Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond and Special Tax Counsels' legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Locke Lord LLP, Dallas, Texas, whose fee is also contingent on the sale and delivery of the Bonds.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Public Finance Partners LLC will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash, if any, and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and the related call premium requirements, if any, of the Refunded Obligations.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Public Finance Partners LLC has relied on any information provided to it by the City's retained advisor's consultants or legal counsel.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

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

The financial data and other information contained herein have been obtained from City records, audited and unaudited 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 Bond Ordinance contained in this Preliminary Official Statement are made subject to all of the provisions of such statutes, documents and Bond Ordinance. 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**

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

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

## **USE OF AUDITED FINANCIAL STATEMENTS**

BKD LLP, the City's independent auditor for fiscal year 2018, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the fiscal year 2018 financial statements addressed in that report. BKD also has not performed any procedures relating to this Official Statement.

The information contained in this document consists of excerpts from the City of Lancaster, Texas Annual Financial Report for the Year Ended September 30, 2018, 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.

## **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions contained in the bond purchase agreement with the City, to purchase the Bonds from the City, at a price equal to the initial offering prices to the public, as shown on the cover page, less an underwriting discount of \$134,570.50. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

## **CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the Bonds, the City will furnish to the Underwriter a certificate, executed by a proper authorized City officer, acting in such officer's official capacity, to the effect that to the best of such officer's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the Bonds, 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, the 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 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 the 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.

## **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

**MISCELLANEOUS**

The Bond Ordinance authorized the issuance of the Bonds and approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter.

/s/ CLYDE C. HAIRSTON

Mayor  
City of Lancaster, Texas

ATTEST:

/s/ SORANGEL ARENAS

City Secretary  
City of Lancaster, Texas

## Schedule I

## SCHEDULE OF REFUNDED OBLIGATIONS

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A  
(Build America Bonds – Direct Payment)

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded
3/15/2010	2/15/2021	5.761% <sup>(1)</sup>	\$ 315,000	\$ 315,000
	2/15/2022	5.761% <sup>(1)</sup>	330,000	330,000
	2/15/2023	5.761% <sup>(1)</sup>	340,000	340,000
	2/15/2024	5.761% <sup>(1)</sup>	355,000	355,000
	2/15/2025	5.761% <sup>(1)</sup>	365,000	365,000
	2/15/2026	6.428% <sup>(2)</sup>	380,000	380,000
	2/15/2027	6.428% <sup>(2)</sup>	400,000	400,000
	2/15/2028	6.428% <sup>(2)</sup>	415,000	415,000
	2/15/2029	6.428% <sup>(2)</sup>	435,000	435,000
	2/15/2030	6.428% <sup>(2)</sup>	450,000	450,000
	2/15/2031	6.528% <sup>(3)</sup>	470,000	470,000
	2/15/2032	6.528% <sup>(3)</sup>	490,000	490,000
	2/15/2033	6.528% <sup>(3)</sup>	515,000	515,000
	2/15/2034	6.528% <sup>(3)</sup>	535,000	535,000
	2/15/2035	6.528% <sup>(3)</sup>	560,000	560,000
	2/15/2036	6.528% <sup>(3)</sup>	585,000	585,000
	2/15/2037	6.528% <sup>(3)</sup>	610,000	610,000
	2/15/2038	6.528% <sup>(3)</sup>	635,000	635,000
	2/15/2039	6.528% <sup>(3)</sup>	660,000	660,000
	2/15/2040	6.528% <sup>(3)</sup>	690,000	690,000
			<u>\$ 9,535,000</u>	<u>\$ 9,535,000</u>

(1) Represents a Term Bond with a final maturity of February 15, 2025.

(2) Represents a Term Bond with a final maturity of February 15, 2030.

(3) Represents a Term Bond with a final maturity of February 15, 2040.

The 2021 – 2040 maturities will be redeemed prior to original maturity on March 20, 2020 at par.

General Obligation Bonds, Taxable Series 2010A  
(Build America Bonds – Direct Payment)

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded
3/15/2010	2/15/2021	5.161%	\$ 610,000	\$ 610,000
	2/15/2022	5.311%	630,000	630,000
	2/15/2023	5.461%	655,000	655,000
	2/15/2024	5.611%	675,000	675,000
	2/15/2025	5.761%	700,000	700,000
	2/15/2026	6.428% <sup>(1)</sup>	730,000	730,000
	2/15/2027	6.428% <sup>(1)</sup>	760,000	760,000
	2/15/2028	6.428% <sup>(1)</sup>	795,000	795,000
	2/15/2029	6.428% <sup>(1)</sup>	830,000	830,000
	2/15/2030	6.428% <sup>(1)</sup>	865,000	865,000
	2/15/2031	6.528% <sup>(2)</sup>	900,000	900,000
	2/15/2032	6.528% <sup>(2)</sup>	940,000	940,000
	2/15/2033	6.528% <sup>(2)</sup>	980,000	980,000
	2/15/2034	6.528% <sup>(2)</sup>	1,025,000	1,025,000
	2/15/2035	6.528% <sup>(2)</sup>	1,065,000	1,065,000
	2/15/2036	6.528% <sup>(2)</sup>	1,115,000	1,115,000
	2/15/2037	6.528% <sup>(2)</sup>	1,160,000	1,160,000
	2/15/2038	6.528% <sup>(2)</sup>	1,215,000	1,215,000
	2/15/2039	6.528% <sup>(2)</sup>	1,265,000	1,265,000
	2/15/2040	6.528% <sup>(2)</sup>	1,320,000	1,320,000
			<u>\$ 18,235,000</u>	<u>\$ 18,235,000</u>

(1) Represents a Term Bond with a final maturity of February 15, 2030

(2) Represents a Term Bond with a final maturity of February 15, 2040.

The 2021 – 2040 maturities will be redeemed prior to original maturity on March 20, 2020 at par.

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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**LOCATION . . .** The City of Lancaster (the “City”) is a growing community located in southern central Dallas County approximately fifteen miles south of the downtown Dallas business district. The City is located near the major intersections of Interstate Highways 35E, 20, 45 and future Loop 9, providing access to all parts of the Dallas-Fort Worth Metroplex.

**POPULATION . . .** The City has grown steadily from a small bedroom community to a thriving residential and commercial center. The 2019 population was estimated at 38,400 residents.

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	2013	36,980
1980 Census	14,807	2014	37,150
1990 Census	22,117	2015	37,360
2000 Census	25,894	2016	37,550
2010 Census	36,361	2017	37,730
2011	36,390	2018	37,880
2012	36,700	2019	38,400

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

**EDUCATION . . .** Lancaster Independent School District (“LISD”) provides educational facilities including the following: a developmental center, six elementary schools, one 6<sup>th</sup> grade center (George Washington Carver STEM 6<sup>th</sup> Grade School), one middle school (Elsie Robertson), one ninth grade center (Barack and Michelle Obama 9<sup>th</sup> Grade School), and one high school (Lancaster High School). LISD was the first K-12 Science, Technology, Engineering and Mathematics (“STEM”) district in Texas. All campuses in LISD are accredited by the Southern Association of Colleges and Schools and the Texas Education Agency (“TEA”). In 2019, LISD received an overall “B” rating from the TEA. This includes 38 academic distinctions, with 100% of campuses meeting or exceeding standards. LISD also received a coveted District Distinction in Post-Secondary Readiness. LISD was the only district in southwestern Dallas County to receive this Distinction. The high school curriculum offers preparation STEM Early College High School Program with college credit available in senior-level honors courses.

Higher education facilities located within a 45-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, the University of Texas at Dallas, the University of Texas Southwestern Medical School, Texas Christian University, the University of North Texas at Dallas, the University of Dallas, Cedar Valley Community College (and seven other Dallas County Community Colleges), Tarrant County Community College, and Paul Quinn College.

**TRANSPORTATION . . .** The City is bounded on the west by Interstate Highway 35E, to the east by Interstate Highway 45, and on the north by Interstate Highway 20, and is traversed by State Highway 342. The City is served by the Lancaster Regional Airport, BNSF 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. Lancaster Regional Airport (“LNC”) includes a 6,500 foot runway, a full length parallel taxiway, self-service fueling facilities, 180,000 square feet of new ramp space, helicopter parking circles, and a new terminal building to be completed in early 2020. LNC is a regional reliever airport.

**RECREATION . . .** Recreational facilities in the City are provided by sixteen City parks covering 579 acres of land. Facilities include a recreation center with indoor aquatic center, senior life center, library, visitor’s center and state auxiliary museum, and country view golf course. Amenities include a 200+ acre nature park, a nature preserve, three football fields, nine soccer fields, eight lighted ball diamonds, two tennis courts, one dog park, 2.4 miles of hike and bike trails, over 4 miles of soft surface hiking trails, and 2.25 miles of equestrian trails.

**GROWTH INDICES**

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits <sup>(1)</sup></u>	
		<u>Number</u>	<u>Value</u>
2015	37,360	587	\$ 19,661,403
2016	37,550	359	10,737,484
2017	37,730	1,412	160,918,206
2018	37,880	1,494	199,812,570
2019	38,400	1,721	80,727,030

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

**ECONOMY . . .** The City’s established residential neighborhoods, extensive parks, growing rental communities, and expanding commercial corridors create an environment conducive to business and providing quality of life for residents.

The City is strategically located to provide excellent logistics, transportation, distribution and manufacturing development opportunities within its 33.134 square miles. The Dallas Business Journal, D Magazine and other business publications focused on development have noted several major corporations developing and or locating in Lancaster. These include the Silicon Valley artificial intelligence company, Kodiak Robotics, and the international medical device company, ICU Medical Inc.

The City’s close proximity to downtown Dallas, excellent school system, recreational opportunities, and available land makes it an excellent city to raise a family. D Magazine ranked the City the 3<sup>rd</sup> “hottest” single family housing market in North Texas. The median home value for the City has increased nearly 100% in the last 10 years. Additionally, the City received national recognition by the National Civic League as a 2019 All-America City – one of 10 cities to receive this honor.

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**APPENDIX B**

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

For the Year Ended September 30, 2018

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Comprehensive Annual Financial Report (the "Report") for the Year Ended September 30, 2018, 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

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lancaster, Texas (the City) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2018 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

The 2017 financial statements were restated for the matter discussed in *Note 1* to the financial statements. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and other post-employment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund statements and the introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Mayor and  
Members of the City Council  
Page 3

The combining and individual fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*BKD, LLP*

Dallas, Texas  
March 29, 2019

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# City of Lancaster, Texas

## Management's Discussion and Analysis (Unaudited)

### September 30, 2018

#### **Introduction**

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City of Lancaster, Texas (the City) for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2018, resulting in \$123,400,281 of net position. Net position associated with governmental activities is approximately \$51 million, or 41% of the total net position of the City. Net position associated with business-type activities is approximately \$73 million, or 59% of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is approximately \$78 million.
- Unrestricted net position, which may be used to meet the City's future obligations, consists of approximately \$40 million, or 33% of the City's total net position. Unrestricted net position for governmental activities is approximately \$8 million, or 15% of total net position for governmental activities. Unrestricted net position for business-type activities is approximately \$33 million or 45% of total net position for business-type activities.
- As of the close of fiscal year 2018, the City's Governmental Funds reported a combined ending fund balance of \$26,262,182, an increase of \$3,255,217 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$12,295,102. This represents approximately 44% of General Fund expenditures.
- In 2018 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Prior year comparative information contained herein has not been restated for the adoption of GASB 75.

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

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

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

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

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

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

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

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

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

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

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

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

Information is presented separately in the accompanying Governmental Funds balance sheet and in the accompanying Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund, 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 accompanying Statement of Net Position and the Statement of Activities. In fact, the City's Enterprise Funds (a component of Proprietary Funds) are identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for Proprietary Funds.

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

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

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

***Government-Wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2018, City assets and deferred outflows of resources exceeded its liabilities and deferred inflows resulting in \$123,400,281 of net position.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

**Statement of Net Position for Governmental and Business-type Activities**

	Governmental Activities 2018	Business-type Activities 2018	Total 2018	Governmental Activities 2017	Business-type Activities 2017	Total 2017
Current and other assets	\$ 38,956,430	\$ 36,847,973	\$ 75,804,403	\$ 35,725,652	\$ 34,346,643	\$ 70,072,295
Capital assets	<u>100,899,820</u>	<u>47,023,800</u>	<u>147,923,620</u>	<u>101,178,876</u>	<u>48,357,144</u>	<u>149,536,020</u>
Total assets	<u>139,856,250</u>	<u>83,871,773</u>	<u>223,728,023</u>	<u>136,904,528</u>	<u>82,703,787</u>	<u>219,608,315</u>
Deferred outflows of resources	3,165,023	382,760	3,547,783	5,563,986	623,656	6,187,642
Long-term liabilities	82,254,273	7,870,179	90,124,452	87,684,734	8,550,217	96,234,951
Other liabilities	<u>8,107,979</u>	<u>3,464,448</u>	<u>11,572,427</u>	<u>7,485,788</u>	<u>3,929,838</u>	<u>11,415,626</u>
Total liabilities	<u>90,362,251</u>	<u>11,334,627</u>	<u>101,696,878</u>	<u>95,170,522</u>	<u>12,480,055</u>	<u>107,650,577</u>
Deferred inflows of resources	1,984,830	193,817	2,178,647	766,706	76,317	843,023
Net position:						
Net investment in capital assets	37,985,322	40,005,241	77,990,563	47,966,710	43,805,254	91,771,964
Restricted	4,909,630	-	4,909,630	4,442,579	-	4,442,579
Unrestricted	<u>7,779,240</u>	<u>32,720,848</u>	<u>40,500,088</u>	<u>(5,878,003)</u>	<u>26,965,817</u>	<u>21,087,814</u>
Total net position	<u>\$ 50,674,192</u>	<u>\$ 72,726,089</u>	<u>\$ 123,400,281</u>	<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>

By far, the largest portion of the City's net position (63%) reflects its investment in capital assets (*e.g.*, land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$40,500,088 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

**Analysis of City's Operations** – The following table provides a summary of the City's operations for the year ended September 30, 2018. Overall, the City had an increase in net position of \$6,097,924, which includes a restatement of (\$1,312,237) due to the implementation of GASB Statement No. 75 and correction of prior period error of \$1,402,359.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

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

	Governmental Activities 2018	Business-type Activities 2018	Total 2018	Governmental Activities 2017	Business-type Activities 2017	Total 2017
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 4,802,605	\$ 19,931,415	\$ 24,734,020	\$ 4,495,333	\$ 19,562,344	\$ 24,057,677
Operating grant and contribution	2,184,968	-	2,184,968	748,338	-	748,338
Capital grant and contribution	-	-	-	-	-	-
General Revenues:						
Taxes and fees	30,713,903	-	30,713,903	28,241,385	-	28,241,385
Other	1,289,978	1,662,177	2,952,155	851,508	1,712,827	2,564,335
Total revenues	<u>38,991,454</u>	<u>21,593,592</u>	<u>60,585,046</u>	<u>34,336,564</u>	<u>21,275,171</u>	<u>55,611,735</u>
<b>Expenses</b>						
General government	6,540,944	-	6,540,944	7,327,188	-	7,327,188
Public safety	20,671,196	-	20,671,196	18,869,618	-	18,869,618
Public works	3,441,079	-	3,441,079	3,869,238	-	3,869,238
Community development and recreation	2,214,694	-	2,214,694	1,829,003	-	1,829,003
Interest and fiscal charges	4,304,629	-	4,304,629	2,935,851	-	2,935,851
Water and sewer	-	14,113,248	14,113,248	-	12,635,280	12,635,280
Refuse	-	1,505,851	1,505,851	-	1,531,088	1,531,088
Airport	-	747,317	747,317	-	842,480	842,480
Golf course	-	1,038,286	1,038,286	-	116,867	116,867
Total expenses	<u>37,172,542</u>	<u>17,404,702</u>	<u>54,577,244</u>	<u>34,830,898</u>	<u>15,125,715</u>	<u>49,956,613</u>
<b>Increase (Decrease) in Net Position</b>						
<b>Before Transfers</b>	1,818,912	4,188,890	6,007,802	(494,334)	6,149,456	5,655,122
Transfers	<u>2,099,973</u>	<u>(2,099,973)</u>	<u>-</u>	<u>1,722,208</u>	<u>(1,722,208)</u>	<u>-</u>
<b>Change in Net Position</b>	3,918,885	2,088,917	6,007,802	1,227,874	4,427,248	5,655,122
<b>Net Position, Beginning of Year, As Previously Reported</b>	46,531,286	70,771,071	117,302,357	45,303,412	66,343,823	111,647,235
<b>Change in Accounting Principle</b>	(1,178,338)	(133,899)	(1,312,237)	-	-	-
<b>Correction of Error</b>	<u>1,402,359</u>	<u>-</u>	<u>1,402,359</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position, Beginning of Year, As Restated</b>	<u>46,755,307</u>	<u>70,637,172</u>	<u>117,392,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net position, End of Year</b>	<u>\$ 50,674,192</u>	<u>\$ 72,726,089</u>	<u>\$ 123,400,281</u>	<u>\$ 46,531,286</u>	<u>\$ 70,771,071</u>	<u>\$ 117,302,357</u>

**Governmental Activities.** Governmental activities increased the City's net position by \$3,918,885 before the net restatements increasing net positions by \$224,021. Total revenue for the governmental activities (excluding transfers) increased from the previous year by \$4,654,890. General revenue had a net increase of \$3,474,387. Property tax collections increased as a result of real property reappraisals and new business and property additions which continues to grow the local economy. Program Revenues increased as a result of an increase in new housing and commercial permits and Dallas County reimbursements for Daniieldale project.

**Business-type Activities.** Net position from business-type activities increased by \$2,088,917 before the restatement decreasing net position by \$133,899. Total revenue for the business-type activities increased from the previous year by \$318,421 primarily due to an increase in charges for services revenue.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

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

***Governmental Funds***

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

As of the end of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$26,262,182, an increase of \$3,255,217 from the prior year. This amount includes fund balance restricted for Public Improvement Districts of \$839,635, restricted for Capital Projects of \$6,127,269, restricted for Public Works of \$3,085,202, restricted for Court of \$155,021, Police Grants, Law Enforcement Purposes and Tourism of \$1,965,515. The net unassigned fund balance was \$12,029,708, an increase of \$3,214,148 from prior year. Components of the net increase of the total fund balance are:

- The General Fund recorded a net increase in fund balance of \$3,227,162, primarily related to increases related to taxes and fees and licenses and permits.
- Capital Projects Fund recorded a net decrease in fund balance of \$1,007,494, primarily due to increase in spending for the following construction projects, Beltline Road, Bluegrove, Centre Ave, Daniieldale Road and Pleasant Run Improvements.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$33,050,226 and the Airport Fund reported an unrestricted net position of \$(1,672,678).

***Capital Assets***

The City's capital assets for its governmental and business-type activities as of September 30, 2018, amount to \$147,923,622 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

Additional information on capital asset activity can be found in *Note 6* of this report.

**City of Lancaster, Texas**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2018**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 13,214,268	\$ 13,214,268	\$ 4,971,266	\$ 4,971,266	\$ 18,185,534	\$ 18,185,534
Buildings	29,518,802	29,473,819	2,808,948	2,808,948	32,327,750	32,282,767
Equipment	4,703,390	18,823,943	3,450,998	3,437,257	8,154,388	22,261,200
Construction in progress	8,048,049	4,378,090	1,643,349	2,355,110	9,691,398	6,733,200
Improvements	2,369,320	1,880,885	77,713,416	76,707,381	80,082,736	78,588,266
Streets and bridges	107,663,456	107,654,999	-	-	107,663,456	107,654,999
Drainage	7,433,204	7,433,204	-	-	7,433,204	7,433,204
Accumulated depreciation	(72,050,669)	(81,680,333)	(43,564,177)	(41,922,812)	(115,614,846)	(123,603,145)
Total	\$ 100,899,820	\$ 101,178,875	\$ 47,023,800	\$ 48,357,150	\$ 147,923,620	\$ 149,536,025

**Long-term Debt**

At the end of the current fiscal year, the City had total bonds outstanding of \$73,510,000, all being tax supported. The City also has approximately \$4,182,899 of additional debt through notes payable and capital leases.

Additional information on long-term debt activity can be found in *Note 7* of this report.

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 52,470,017	\$ 55,160,017	\$ 1,569,983	\$ 2,509,983	\$ 54,040,000	\$ 57,670,000
Certificates of obligation	13,975,000	14,340,000	5,495,000	5,815,000	19,470,000	20,155,000
Notes payable	3,138,945	3,716,561	-	-	3,138,945	3,716,561
Capital leases	1,043,954	771,598	-	-	1,043,954	771,598
Total	\$ 70,627,916	\$ 73,988,176	\$ 7,064,983	\$ 8,324,983	\$ 77,692,899	\$ 82,313,159

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

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

In the fiscal year 2019 budget, General Fund revenues are budgeted to increase by 9% from the 2018 budget year. This increase is mostly attributed to an increase in property tax revenue due to an expanding business and residential sector as well as from charges of services.

Property taxes make up about 52% of budgeted revenues and sales tax make up about 22% of budgeted revenues.

**Request for Information**

For additional information please contact Director of Finance, Baron Sauls, at 972-218-1333 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email bsauls@lancaster-tx.com.

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## **Basic Financial Statements**

**City of Lancaster, Texas**  
**Statement of Net Position**  
**September 30, 2018**

	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	\$ 24,681,898	\$ 35,194,202	\$ 59,876,100	\$ 5,688,467	\$ 1,972,301
Receivables (net of allowance)					
Notes	7,165,000	-	7,165,000	-	-
Delinquent taxes	676,468	-	676,468	-	-
Accounts	1,775,994	2,240,780	4,016,774	-	9,957
Sales tax	1,305,522	-	1,305,522	261,104	510,750
Fines	764,211	-	764,211	-	-
Intergovernmental	785,419	-	785,419	-	-
Due from other governments	20,650	-	20,650	728,488	-
Due from component unit	528,753	-	528,753	-	-
Prepaid items	50,950	526,952	577,902	-	15,707
Inventory	59,423	28,181	87,604	-	-
Internal balances	1,142,142	(1,142,142)	-	-	-
Capital assets					
Land and construction in progress	21,262,317	6,614,615	27,876,932	100,378	989,118
Other capital assets, net of accumulated depreciation	79,637,503	40,409,185	120,046,688	-	8,656,005
Total assets	<u>139,856,250</u>	<u>83,871,773</u>	<u>223,728,023</u>	<u>6,778,437</u>	<u>12,153,838</u>
<b>Deferred Outflows of Resources</b>					
Deferred charges on refunding	1,298,905	192,946	1,491,851	-	-
Deferred outflows on pensions - contributions	1,422,767	146,847	1,569,614	14,657	70,402
Deferred outflows on pensions - assumption changes	112,138	10,985	123,123	1,185	5,863
Deferred outflows on pensions - experience	216,493	21,311	237,804	2,256	11,236
Deferred outflows on OPEB - contributions	28,453	2,646	31,099	330	1,655
Deferred outflows on OPEB - assumption changes	86,267	8,025	94,292	1,003	5,015
Total deferred outflows of resources	<u>3,165,023</u>	<u>382,760</u>	<u>3,547,783</u>	<u>19,431</u>	<u>94,171</u>
<b>Liabilities</b>					
Accounts payable and contracts payable	1,804,490	832,068	2,636,558	7,459	63,444
Accrued liabilities	1,111,429	172,959	1,284,388	1,527	263,952
Accrued interest	451,277	59,293	510,570	8,419	25,519
Due to primary government	-	-	-	-	528,753
Due to component unit	-	728,488	728,488	-	-
Deposits	379,875	1,139,817	1,519,692	-	-
General obligation bonds	2,780,000	150,000	2,930,000	-	-
Certificates of obligation	375,000	330,000	705,000	-	-
Notes payable	618,049	-	618,049	160,000	720,000
Compensated absences	329,338	51,823	381,161	-	-
Capital leases	258,521	-	258,521	-	-
Noncurrent liabilities					
General obligation bonds	51,904,104	1,566,505	53,470,609	-	-
Certificates of obligation	13,600,000	5,165,000	18,765,000	-	-
Notes payable	2,520,896	-	2,520,896	1,405,000	4,880,000
Compensated absences	2,964,038	66,888	3,030,926	-	-
Total OPEB liability	1,642,762	152,817	1,795,579	19,102	95,509
Capital leases	785,433	-	785,433	-	-
Net pension liability	8,837,040	918,969	9,756,009	97,894	456,114
Total liabilities	<u>90,362,251</u>	<u>11,334,627</u>	<u>101,696,878</u>	<u>1,699,401</u>	<u>7,033,291</u>
<b>Deferred Inflows of Resources</b>					
Deferred inflows on pensions - experience	434,258	43,747	478,005	4,480	21,698
Deferred inflows on pensions - difference in earnings	1,549,317	149,954	1,699,271	16,201	82,732
Deferred inflows on OPEB - experience	1,255	116	1,371	14	73
Total deferred inflows of resources	<u>1,984,830</u>	<u>193,817</u>	<u>2,178,647</u>	<u>20,695</u>	<u>104,503</u>
<b>Net Position</b>					
Net investment in capital assets	37,985,322	40,005,241	77,990,563	100,378	4,045,123
Restricted for					
Court Security	45,457	-	45,457	-	-
Court Technology	109,564	-	109,564	-	-
Debt service	1,949,459	-	1,949,459	-	-
Public improvement districts	839,635	-	839,635	-	-
Tourism, convention centers, arts	826,544	-	826,544	-	-
Law enforcement purposes	1,138,971	-	1,138,971	-	-
Unrestricted	7,779,240	32,720,848	40,500,088	4,977,394	1,065,092
Total net position	<u>\$ 50,674,192</u>	<u>\$ 72,726,089</u>	<u>\$ 123,400,281</u>	<u>\$ 5,077,772</u>	<u>\$ 5,110,215</u>

**City of Lancaster, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

Functions/program	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Primary government									
Governmental activities:									
General government	\$ 6,540,944	\$ -	\$ -	\$ -	\$ (6,540,944)	\$ -	\$ (6,540,944)	\$ -	\$ -
Public safety	20,671,196	1,910,595	12,391	-	(18,748,210)	-	(18,748,210)	-	-
Public works	3,441,079	2,892,010	-	-	(549,069)	-	(549,069)	-	-
Community development and recreation	2,214,694	-	2,172,577	-	(42,117)	-	(42,117)	-	-
Interest and fiscal charges	4,304,629	-	-	-	(4,304,629)	-	(4,304,629)	-	-
Total governmental activities	<u>37,172,542</u>	<u>4,802,605</u>	<u>2,184,968</u>	<u>-</u>	<u>(30,184,969)</u>	<u>-</u>	<u>(30,184,969)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water and sewer	14,113,248	16,544,138	-	-	-	2,430,890	2,430,890	-	-
Refuse	1,505,851	2,549,198	-	-	-	1,043,347	1,043,347	-	-
Airport	747,317	685,256	-	-	-	(62,061)	(62,061)	-	-
Golf course	1,038,286	152,823	-	-	-	(885,463)	(885,463)	-	-
Total business-type activities	<u>17,404,702</u>	<u>19,931,415</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,526,713</u>	<u>2,526,713</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 54,577,244</u>	<u>\$ 24,734,020</u>	<u>\$ 2,184,968</u>	<u>\$ -</u>	<u>\$ (30,184,969)</u>	<u>\$ 2,526,713</u>	<u>\$ (27,658,256)</u>	<u>\$ -</u>	<u>\$ -</u>
Component units:									
Lancaster Economic Development Corporation	\$ 869,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (869,146)	\$ -
Lancaster Recreational Development Corporation	2,852,634	580,895	9,650	-	-	-	-	-	(2,262,089)
Total component units	<u>\$ 3,721,780</u>	<u>\$ 580,895</u>	<u>\$ 9,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (869,146)</u>	<u>\$ (2,262,089)</u>
General revenues									
Taxes									
Property taxes					\$ 20,117,067	\$ -	\$ 20,117,067	\$ -	\$ -
Sales taxes					7,160,171	-	7,160,171	1,432,034	2,864,069
Franchise taxes					2,272,208	-	2,272,208	-	-
Other local taxes					1,164,457	-	1,164,457	-	-
Interest on investments					501,786	489,104	990,890	73,751	23,542
Miscellaneous					788,192	1,173,073	1,961,265	1,128,838	30,622
Transfers					2,099,973	(2,099,973)	-	-	-
Total general revenues and transfers					<u>34,103,854</u>	<u>(437,796)</u>	<u>33,666,058</u>	<u>2,634,623</u>	<u>2,918,233</u>
Change in net position					3,918,885	2,088,917	6,007,802	1,765,477	656,144
Net Position, Beginning of Year, As Previously Reported					46,531,286	70,771,071	117,302,357	3,329,033	4,537,756
Change in Accounting Principle					(1,178,338)	(133,899)	(1,312,237)	(16,738)	(83,685)
Correction of Error					1,402,359	-	1,402,359	-	-
Net Position, Beginning of Year, As Restated					<u>46,755,307</u>	<u>70,637,172</u>	<u>117,392,479</u>	<u>3,312,295</u>	<u>4,454,071</u>
Net position, End of Year					<u>\$ 50,674,192</u>	<u>\$ 72,726,089</u>	<u>\$ 123,400,281</u>	<u>\$ 5,077,772</u>	<u>\$ 5,110,215</u>

**City of Lancaster, Texas**  
**Balance Sheet – Governmental Funds**  
**September 30, 2018**

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 10,741,769	\$ 6,340,720	\$ 1,894,613	\$ 5,704,796	\$ 24,681,898
Receivables (net of allowance for uncollectibles):					
Notes	-	-	7,165,000	-	7,165,000
Delinquent taxes	461,592	-	204,461	10,415	676,468
Accounts	1,488,492	-	-	287,502	1,775,994
Sales tax	1,305,522	-	-	-	1,305,522
Fines	764,211	-	-	-	764,211
Intergovernmental	-	785,419	-	-	785,419
Due from:					
Component unit	528,753	-	-	-	528,753
Other governments	20,650	-	-	-	20,650
Other funds	1,142,142	-	-	-	1,142,142
Inventory, at cost	59,423	-	-	-	59,423
Prepaid items	50,950	-	-	-	50,950
	<u>16,563,504</u>	<u>7,126,139</u>	<u>9,264,074</u>	<u>6,002,713</u>	<u>38,956,430</u>
Total assets	<u>\$ 16,563,504</u>	<u>\$ 7,126,139</u>	<u>\$ 9,264,074</u>	<u>\$ 6,002,713</u>	<u>\$ 38,956,430</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities:					
Accounts and contracts payable	\$ 1,542,691	\$ 213,451	\$ -	\$ 48,348	\$ 1,804,490
Accrued liabilities	1,047,968	-	-	63,461	1,111,429
Deposits	379,875	-	-	-	379,875
	<u>2,970,534</u>	<u>213,451</u>	<u>-</u>	<u>111,809</u>	<u>3,295,794</u>
Total liabilities	<u>2,970,534</u>	<u>213,451</u>	<u>-</u>	<u>111,809</u>	<u>3,295,794</u>
Deferred inflows of resources	<u>1,297,868</u>	<u>785,419</u>	<u>7,314,615</u>	<u>552</u>	<u>9,398,454</u>
Fund balances					
Nonspendable for inventory and prepaid items	110,373	-	-	-	110,373
Restricted for					
Court security	45,457	-	-	-	45,457
Court technology	109,564	-	-	-	109,564
Capital projects	-	6,127,269	-	-	6,127,269
Debt service	-	-	1,949,459	-	1,949,459
Public works	-	-	-	3,085,202	3,085,202
Public improvement districts	-	-	-	839,635	839,635
Police grants	-	-	-	87,929	87,929
Tourism, convention centers, arts	-	-	-	826,544	826,544
Law enforcement purposes	-	-	-	1,051,042	1,051,042
Unassigned	12,029,708	-	-	-	12,029,708
	<u>12,295,102</u>	<u>6,127,269</u>	<u>1,949,459</u>	<u>5,890,352</u>	<u>26,262,182</u>
Total fund balances	<u>12,295,102</u>	<u>6,127,269</u>	<u>1,949,459</u>	<u>5,890,352</u>	<u>26,262,182</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 16,563,504</u>	<u>\$ 7,126,139</u>	<u>\$ 9,264,074</u>	<u>\$ 6,002,713</u>	<u>\$ 38,956,430</u>

**City of Lancaster, Texas**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Position**  
**September 30, 2018**

Total fund balances – governmental funds	\$	26,262,182
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		100,899,820
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.		(451,277)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.		2,233,454
Notes receivable are not measurable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements.		7,165,000
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Deferred charges on refunding	1,298,905	
Employer contributions (GASB 75)	28,453	
Assumption changes (GASB 75)	86,267	
Experience difference (GASB 75)	(1,255)	
Employer contributions (GASB 68)	1,422,767	
Investment return difference (GASB 68)	(1,549,317)	
Assumption changes (GASB 68)	112,138	
Experience difference (GASB 68)	<u>(217,765)</u>	1,180,193
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	(52,470,017)	
Certificates of obligation	(13,975,000)	
Note payable	(3,138,945)	
Premiums on bond debt	(2,214,087)	
Net pension liability	(8,837,040)	
Compensated absences	(3,293,375)	
Total OPEB liability	(1,642,762)	
Capital leases	<u>(1,043,954)</u>	<u>(86,615,180)</u>
Total net position of governmental activities	\$	<u><u>50,674,192</u></u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances – Governmental Funds**  
**For the Year Ended September 30, 2018**

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes and fees	\$ 23,275,808	\$ -	\$ 6,161,854	\$ 2,382,466	\$ 31,820,128
Licenses and permits	1,416,765	-	-	278,557	1,695,322
Intergovernmental	249,444	1,180,339	1,372,125	-	2,801,908
Charges for services	1,196,688	-	-	-	1,196,688
Fines and forfeits	1,201,137	653,215	-	56,243	1,910,595
Interest	211,996	166,717	42,696	80,377	501,786
Miscellaneous	354,253	-	-	2,439	356,692
	<u>27,906,091</u>	<u>2,000,271</u>	<u>7,576,675</u>	<u>2,800,082</u>	<u>40,283,119</u>
<b>Expenditures</b>					
Current:					
General government	5,045,895	-	-	-	5,045,895
Public safety	15,974,581	-	-	175,947	16,150,528
Public works	1,860,274	-	-	1,042,821	2,903,095
Community development and recreation	1,320,316	-	-	545,520	1,865,836
Capital outlay	2,240,414	3,007,765	-	43,584	5,291,763
Debt service:					
Principal retirement	577,616	-	3,137,314	76,830	3,791,760
Interest and fiscal charges	232,520	-	4,263,128	14,850	4,510,498
	<u>27,251,616</u>	<u>3,007,765</u>	<u>7,400,442</u>	<u>1,899,552</u>	<u>39,559,375</u>
Excess (deficiency) of revenues over expenditures	<u>654,475</u>	<u>(1,007,494)</u>	<u>176,233</u>	<u>900,530</u>	<u>723,744</u>
Other financing sources (uses):					
Transfers in	2,141,187	-	23,333	-	2,164,520
Transfers out	-	-	-	(64,547)	(64,547)
Issuance of capital lease	431,500	-	-	-	431,500
	<u>2,572,687</u>	<u>-</u>	<u>23,333</u>	<u>(64,547)</u>	<u>2,531,473</u>
<b>Net Change in Fund Balances</b>	3,227,162	(1,007,494)	199,566	835,983	3,255,217
<b>Fund Balance, Beginning of Year</b>	<u>9,067,940</u>	<u>7,134,763</u>	<u>1,749,893</u>	<u>5,054,369</u>	<u>23,006,965</u>
<b>Fund Balances, End of Year</b>	<u>\$ 12,295,102</u>	<u>\$ 6,127,269</u>	<u>\$ 1,949,459</u>	<u>\$ 5,890,352</u>	<u>\$ 26,262,182</u>

**City of Lancaster, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2018**

Net change in fund balances – total governmental funds		\$ 3,255,217
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		5,297,500
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(5,576,556)
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	3,055,000	
Notes payable	577,616	
Capital leases	159,144	
Issuance of capital lease	<u>(431,500)</u>	3,360,260
The issuance of long-term debt, such as bonds and capital leases, are shown as “Other Sources” and “Other Uses” in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:		
Amortization of deferred loss	(140,693)	
Amortization of bond premium/discount	<u>364,973</u>	224,280
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.		(134,316)
Current year change in long-term liability for compensated absences and OPEB liability do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(765,924)
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.		(18,411)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year.		<u>(1,723,165)</u>
Change in net position of governmental activities		<u>\$ 3,918,885</u>

**City of Lancaster, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

<b>Assets and Deferred Outflows of Resources</b>	<b>Water and Sewer</b>	<b>Airport Fund</b>	<b>Non-major Enterprise Funds</b>	<b>Total Proprietary Funds</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 33,425,197	\$ 32,065	\$ 1,736,940	\$ 35,194,202
Receivables (net of allowance for uncollectibles):				
Accounts	1,120,001	22,403	164,015	1,306,419
Unbilled	807,071	-	127,290	934,361
Prepaid expenses	526,952	-	-	526,952
Inventory	-	28,181	-	28,181
	<u>35,879,221</u>	<u>82,649</u>	<u>2,028,245</u>	<u>37,990,115</u>
Total current assets				
	<u>35,879,221</u>	<u>82,649</u>	<u>2,028,245</u>	<u>37,990,115</u>
<b>Capital Assets</b>				
Nondepreciable	233,925	6,031,136	349,554	6,614,615
Depreciable (net of accumulated depreciation)	33,045,912	5,333,860	2,029,413	40,409,185
	<u>33,279,837</u>	<u>11,364,996</u>	<u>2,378,967</u>	<u>47,023,800</u>
Total non-current assets				
	<u>33,279,837</u>	<u>11,364,996</u>	<u>2,378,967</u>	<u>47,023,800</u>
Total assets				
	<u>69,159,058</u>	<u>11,447,645</u>	<u>4,407,212</u>	<u>85,013,915</u>
<b>Deferred Outflows of Resources</b>				
Deferred charges on refunding	190,606	2,340	-	192,946
Deferred outflows on pensions - contributions	129,748	17,099	-	146,847
Deferred outflows on pensions - assumption changes	9,661	1,324	-	10,985
Deferred outflows on pensions - experience	18,765	2,546	-	21,311
Deferred outflows on OPEB - contributions	2,316	330	-	2,646
Deferred outflows on OPEB - assumption changes	7,022	1,003	-	8,025
Total deferred outflows of resources	<u>358,118</u>	<u>24,642</u>	<u>-</u>	<u>382,760</u>
<b>Liabilities, Deferred Inflows or Resources and Net Position</b>				
<b>Current Liabilities</b>				
Accounts and contracts payable	469,498	28,579	333,991	832,068
Accrued liabilities	106,262	5,347	61,350	172,959
Accrued interest	58,777	516	-	59,293
Deposits	1,139,817	-	-	1,139,817
Due to:				
Other funds	-	853,410	288,732	1,142,142
Component units	-	728,488	-	728,488
General obligation bonds	145,000	5,000	-	150,000
Certificates of obligation	330,000	-	-	330,000
Compensated absences	45,879	5,726	218	51,823
	<u>2,295,233</u>	<u>1,627,066</u>	<u>684,291</u>	<u>4,606,590</u>
Total current liabilities				
	<u>2,295,233</u>	<u>1,627,066</u>	<u>684,291</u>	<u>4,606,590</u>
<b>Non-current Liabilities</b>				
General obligation bonds	1,514,165	52,340	-	1,566,505
Certificates of obligation	5,165,000	-	-	5,165,000
Compensated absences	63,557	2,677	654	66,888
Net pension liability	808,355	110,614	-	918,969
Total OPEB liability	133,714	19,103	-	152,817
	<u>7,684,791</u>	<u>184,734</u>	<u>654</u>	<u>7,870,179</u>
Total non-current liabilities				
	<u>7,684,791</u>	<u>184,734</u>	<u>654</u>	<u>7,870,179</u>
Total liabilities				
	<u>9,980,024</u>	<u>1,811,800</u>	<u>684,945</u>	<u>12,476,769</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows on pensions - experience	38,554	5,193	-	43,747
Deferred inflows on pensions - difference in earnings	131,992	17,962	-	149,954
Deferred inflows on OPEB - experience	102	14	-	116
Total deferred outflows of resources	<u>170,648</u>	<u>23,169</u>	<u>-</u>	<u>193,817</u>
<b>Net Position</b>				
Net investment in capital assets	26,316,278	11,309,996	2,378,967	40,005,241
Unrestricted	33,050,226	(1,672,678)	1,343,300	32,720,848
Total net position	<u>\$ 59,366,504</u>	<u>\$ 9,637,318</u>	<u>\$ 3,722,267</u>	<u>\$ 72,726,089</u>

**City of Lancaster, Texas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	Water and Sewer	Airport Fund	Non-major Enterprise Funds	Total Proprietary Funds
<b>Operating Revenues</b>				
Charges for services	\$ 16,544,138	\$ 685,256	\$ 2,702,021	\$ 19,931,415
Intergovernmental	-	9,359	-	9,359
Miscellaneous	351,957	9,173	266,472	627,602
Impact fee revenue	769,669	-	-	769,669
	<u>17,665,764</u>	<u>703,788</u>	<u>2,968,493</u>	<u>21,338,045</u>
<b>Operating Expenses</b>				
Personnel services and benefits	1,932,919	232,281	-	2,165,200
Maintenance	738,291	21,544	106,044	865,879
Purchase of water	3,198,015	-	-	3,198,015
Materials and supplies	129,486	299,887	-	429,373
Heat, light and power	138,948	32,917	88,682	260,547
Sewage treatment	5,971,297	-	-	5,971,297
Special services	474,564	20,529	2,224,612	2,719,705
Miscellaneous	108,819	-	-	108,819
Equipment rental	6,912	19,200	18,390	44,502
Depreciation	1,413,997	120,959	106,409	1,641,365
	<u>14,113,248</u>	<u>747,317</u>	<u>2,544,137</u>	<u>17,404,702</u>
<b>Operating Income (Loss)</b>	<u>3,552,516</u>	<u>(43,529)</u>	<u>424,356</u>	<u>3,933,343</u>
<b>Non-operating Revenues (Expenses)</b>				
Interest revenue	468,551	-	20,553	489,104
Interest and fiscal charges	(231,690)	(1,867)	-	(233,557)
	<u>236,861</u>	<u>(1,867)</u>	<u>20,553</u>	<u>255,547</u>
<b>Income Before Transfers</b>	<u>3,789,377</u>	<u>(45,396)</u>	<u>444,909</u>	<u>4,188,890</u>
<b>Transfers</b>				
Transfers out	(1,895,977)	(23,663)	(180,333)	(2,099,973)
	<u>(1,895,977)</u>	<u>(23,663)</u>	<u>(180,333)</u>	<u>(2,099,973)</u>
<b>Change in Net Position</b>	1,893,400	(69,059)	264,576	2,088,917
<b>Net Position, Beginning of Year, As Previously Reported</b>	57,590,265	9,723,115	3,457,691	70,771,071
<b>Change in Accounting Principle</b>	(117,161)	(16,738)	-	(133,899)
<b>Net Position, Beginning of Year, As Restated</b>	<u>57,473,104</u>	<u>9,706,377</u>	<u>3,457,691</u>	<u>70,637,172</u>
<b>Net Position, End of Year</b>	<u>\$ 59,366,504</u>	<u>\$ 9,637,318</u>	<u>\$ 3,722,267</u>	<u>\$ 72,726,089</u>

**City of Lancaster, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	Water and Sewer Fund	Airport Fund	Non-major Enterprise Funds	Total
<b>Operating Activities</b>				
Receipts from customers and users	\$ 17,517,497	\$ 697,589	\$ 3,061,678	\$ 21,276,764
Utility deposits collected	14,436	-	-	14,436
Payments to employees	(1,880,196)	(224,226)	-	(2,104,422)
Payments to suppliers	<u>(11,240,032)</u>	<u>(386,427)</u>	<u>(2,300,950)</u>	<u>(13,927,409)</u>
Net cash provided by operating activities	<u>4,411,705</u>	<u>86,936</u>	<u>760,728</u>	<u>5,259,369</u>
<b>Noncapital and Related Financing Activities</b>				
Transfers out	(1,895,977)	(23,663)	(180,333)	(2,099,973)
Payment to Component Unit	-	(124,922)	-	(124,922)
Operating transfers in from other funds	<u>-</u>	<u>106,174</u>	<u>-</u>	<u>106,174</u>
Net cash used in noncapital financing activities	<u>(1,895,977)</u>	<u>(42,411)</u>	<u>(180,333)</u>	<u>(2,118,721)</u>
<b>Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(76,855)	-	(231,166)	(308,021)
Principal payments on debt	(1,256,166)	(10,783)	-	(1,266,949)
Interest payments on debt	<u>(231,690)</u>	<u>(1,867)</u>	<u>-</u>	<u>(233,557)</u>
Net cash used in capital and financing activities	<u>(1,564,711)</u>	<u>(12,650)</u>	<u>(231,166)</u>	<u>(1,808,527)</u>
<b>Investing Activities</b>				
Interest on investments	<u>468,551</u>	<u>-</u>	<u>20,553</u>	<u>489,104</u>
Net cash provided by investing activities	<u>468,551</u>	<u>-</u>	<u>20,553</u>	<u>364,182</u>
<b>Increase in Cash and Cash Equivalents</b>	1,419,568	31,875	658,514	2,109,957
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>32,005,629</u>	<u>190</u>	<u>1,078,426</u>	<u>33,084,245</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 33,425,197</u>	<u>\$ 32,065</u>	<u>\$ 1,736,940</u>	<u>\$ 35,194,202</u>
<b>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating income (loss)	\$ 3,552,516	\$ (43,529)	\$ 424,356	\$ 3,933,343
Item not requiring cash				
Depreciation	1,413,997	120,959	106,409	1,641,365
Changes in				
Accounts receivable	(148,267)	(6,199)	6,250	(148,216)
Inventories	-	(4,937)	-	(4,937)
Prepaid expenses	(526,952)	-	-	(526,952)
Deferred outflows of resources	(4,550)	(669)	-	(5,219)
Accounts payable	61,119	14,416	209,122	284,657
Accrued expenses	6,569	(1,829)	14,591	19,331
Net pension liability	(298,023)	(40,512)	-	(338,535)
Net OPEB Liability	14,590	2,085	-	16,675
Deferred inflows of resources	306,890	41,717	-	348,607
Compensated absences	<u>33,816</u>	<u>5,434</u>	<u>-</u>	<u>39,250</u>
Net cash provided by operating activities	<u>\$ 4,411,705</u>	<u>\$ 86,936</u>	<u>\$ 760,728</u>	<u>\$ 5,259,369</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Note 1: Summary of Significant Accounting Policies**

The accounting and reporting policies of the City of Lancaster conform to the generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

***Reporting Entity***

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

The City's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (1) the primary government must be able to impose its will or (2) the primary government may potentially benefit financially or be financially responsible for the component unit. The Lancaster Economic Development Corporation (Economic) and the Lancaster Recreational Development Corporation (Recreational) are nonprofit industrial development corporations formed in July and October 1995, respectively, under the Development Corporation Act of 1979. Both Economic and Recreational are organized exclusively for the purposes of benefiting and accomplishing public purposes and to act on behalf of the City. This includes the construction and renovation of municipal buildings, the acquisition, improvement and operation of parks, as well as, other economic development purposes. The affairs of these corporations are managed by two separate Boards of Directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. Economic and Recreational have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

***Basis of Presentation***

***Government-Wide Financial Statements***

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. However, interfund services provided and used are not eliminated in the consolidation process. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

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

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

**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.

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

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

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

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

***Fund balance flow assumptions***

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Classification of Fund Equity***

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

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***Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, fines and forfeits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services (except for sanitation services), and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

***Cash and Cash Equivalents***

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

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***Investments***

Investments in external investment pools are carried at either net asset value or amortized cost, as determined by each pool's individual investment valuation method and whether there is a readily determinable fair value of the pool as of the City's fiscal year end. In instances where pools transact at amortized cost, no readily determinable fair value is deemed available.

***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, 2018, were \$752,322 for uncollectible taxes, \$2,387,802 for water and sewer billings, \$254,737 for court fees and fines and \$727,683 for ambulance fees.

***Inventory***

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

***Prepaid Items***

Prepaid balances, which are recognized as expenditures as they are consumed, are for payments made by the City in the current year for services occurring in the subsequent year.

***Interfund Receivables and Payables***

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

***Interfund Transactions***

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

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for Proprietary Funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at acquisition 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.

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All items purchased with a price of \$5,000 or greater and a useful life exceeding one year is placed on the capital asset list. Each department is required to monitor their inventory and is accountable for the location of the asset. Asset tags are issued after payment has been processed. The Purchasing Agent conducts a yearly inventory to verify the inventory.

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

Plants and buildings	40 years
Improvements	5 – 50 years
Machinery and equipment	5 – 10 years

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred loss on refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and recognized over the shorter of the life of the refunded or refunding debt.
- Employer Contributions – Pensions and OPEB – These contributions are those made after the measurement date through the fiscal year end (January 1<sup>st</sup> – September 30<sup>th</sup>) resulting in a cash outlay not yet recognized in GASB 68 and 75. This amount is deferred and recognized in the following fiscal year.
- Experience difference – Pensions – These amounts represent the difference in expected and actual pension experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Assumption changes – Pensions and OPEB – These amounts represent the difference resulting from a change in assumptions used to measure the underlying net pension liability and total OPEB liability. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

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The City has the following items that qualify for reporting in this category.

- Unavailable revenue – This amount represents uncollected property taxes, municipal court fees, ambulance fees, and notes receivables. This amount is deferred and recognized once payments are made in the follow fiscal year. This item is only presented in the Balance Sheet – Governmental Funds.
- Experience difference – Pensions and OPEB –These amounts represent the difference in expected and actual pension and OPEB experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Investment difference – Pensions – These amounts represent the difference in projected and actual earnings on pension plan assets. These differences are deferred and amortized over a closed five-year period.

***Compensated Absences***

Sick leave is recorded on governmental activities for the Fire and Police Departments. All other employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one year to the next is limited to 260 hours.

The liability for unused vested vacation leave as of September 30, 2018, 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.

***Defined Benefit Pension Plans***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's total pension liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Fund allocation of related balances is determined by individual employee assignment. This assignment is uniform with regard to liquidation of the liability.

**City of Lancaster, Texas**  
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***Defined Benefit Other Postemployment Benefit Plans***

The City has two single-employer defined benefit other postemployment benefit (OPEB) plans. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Allocation of OPEB related balances to reporting units is determined on the basis of employee payroll funding. The net OPEB obligation is generally liquidated in the General Fund.

***New Pronouncements***

The Governmental Accounting Standards Board (GASB) has issued the following new statements to be implemented in future years.

*GASB Statement No. 83: Certain Asset Retirement Obligations*

- This statement establishes uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs). An ARO is defined as a legally enforceable liability associated with the retirement of a tangible capital asset. Examples could be costs associated with decommissioning a nuclear power plant or disposal of x-ray machine. An ARO is recognized when the liability is incurred, which is manifested by the occurrence of both an external obligating event (such as a legally binding contract or a court judgment) and an internal obligating event (such as placing a tangible capital asset into service). A government also recognizes a deferred outflow of resources when it recognizes an ARO liability. The ARO is measured at the best estimate of the current value of outlays expected to be incurred. Additional note disclosures are required. This standard becomes effective for the City in fiscal year 2019.

*GASB Statement No. 84: Fiduciary Activities*

- This statement establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. This standard becomes effective for the City in fiscal year 2020.

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GASB Statement No. 87: Leases

- This statement provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset.
  
- An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2021.

The City has not yet determined the effect on the City's financial statements or disclosures upon implementation of these new accounting standards.

***New Financial Reporting Requirements and Prior Period Restatement***

The GASB has issued the following statements which became effective for fiscal year 2018 and are applicable to the City.

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – GASB 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2017. The City has implemented this Statement in fiscal year 2018 and, accordingly, has restated beginning net position within the government-wide financial statements as of October 1, 2017, of (\$1,178,338) related to Governmental Activities and (\$133,899) related to Business-Type Activities.

Fiscal year 2017 Government-Wide Financial Statements – Governmental Activities Net Position has been restated for an error relating to grant receivables. This restatement increased previously reported governmental activities net position by \$1,402,359.

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Adoption of GASB 75 and the prior period restatement due to correction of an error resulted in the following adjustments to beginning net position at October 1, 2017:

	<b>Government Wide - Governmental Activities</b>
<b>Net Position at 10/01/17, as Previously Reported</b>	\$ 46,531,286
<b>Adjustment applicable to prior years</b>	1,402,359
<b>Adjustment to beginning net position for GASB 75 implementation</b>	(1,178,338)
<b>Total Net Position, Beginning of Year, As Restated</b>	\$ 46,755,307

**Note 2: Deposits and Investments**

The deposit and investment policies of the City are governed by State Statutes and the adopted City Investment Policy. City policies governing bank deposits require depositories to be FDIC-insured institutions, and depositories must fully collateralize all deposits in excess of FDIC insurance limits.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agency securities, repurchase agreements and municipal pools.

The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

During the year ended September 30, 2018, the City invested in Texas CLASS, TexPool, and LOGIC, which are investment pools authorized by the Texas Legislature.

Texas CLASS Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants. Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

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Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques. Texas CLASS limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. Texas CLASS is rated AAAM by Standard & Poor’s.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor’s. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (the “Agreement”) between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities which have become parties to the Agreement (“Participants”). Participants’ assets in the Pool are represented by units of beneficial interest (“Units”), which are issued in discrete series (each a “Portfolio”), as authorized from time to time by the Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. FirstSouthwest, a Division of Hilltop Securities (FirstSouthwest) and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support, and marketing services. JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds. LOGIC is rated AAAM by Standard & Poor’s.

TexPool is carried at amortized cost. Texas CLASS and LOGIC are carried at net asset value. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

As of September 30, 2018, the City had cash and cash equivalents as classified below:

<b>Primary Government</b>	
Cash	\$ 2,380,308
Cash equivalents	<u>57,495,792</u>
	<u>59,876,100</u>
<b>Component Units</b>	
Cash	20,932
Cash equivalents	<u>7,639,836</u>
	<u>7,660,768</u>
	<u><u>\$ 67,536,868</u></u>

**City of Lancaster, Texas**  
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As of September 30, 2018, the City held the following investments:

	<b>Carring Value</b>	<b>Weighted- Average Maturity (Days)</b>
<b>Primary Government</b>		
TexPool	\$ 32,922,321	30
LOGIC	20,465,660	34
Texas Class	4,107,811	22
Total primary government	57,495,792	
<b>Component Units</b>		
TexPool	4,374,600	30
LOGIC	2,719,404	34
Texas Class	545,832	22
Total component units	7,639,836	
Total investments	\$ 65,135,628	

***Interest Rate Risk***

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

***Custodial Credit Risk***

Custodial credit risk is the risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases and contracts with a third-party safekeeping agent.

***Credit Risk***

It is the City's policy to follow statutes, which authorize the City to invest in obligations of the U. S. Treasury agencies and instrumentalities, obligations of the state of Texas and related agencies, obligations of states, agencies, counties, cities and other political subdivisions of any state rated "A" or above by Standard & Poor's Corporation or Moody's, repurchase agreements and designated investment pools. The City's assets in investment pools meet this requirement as noted above.

**City of Lancaster, Texas**  
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**Note 3: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>September 30, 2018</b>				
<b>Investments measured at net asset value</b>				
LOGIC	\$ 23,185,064			
TexCLASS	4,653,643			
	<u>27,838,707</u>			
<b>Investments measured at amortized cost</b>				
TexPool	<u>37,296,921</u>			
Total investments	<u>\$ 65,135,628</u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

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**Note 4: 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, 2018, were 98% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30, that are collected within 60 days is recognized as revenue and recorded as taxes receivable. Any uncollected property taxes at September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred inflow of resources in governmental funds. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the state of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, provision of Article XI, Section 5 of the *Texas Constitution* applicable to cities with populations greater than 5,000 limits the ad-valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city operating under a Home Rule Charter, the City has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2018, the City had a tax rate of \$.8675 per \$100.00 assessed valuation, of which \$.6012 was allocated for general government and \$.2663 was allocated for the payment of principal and interest on general obligation debt.

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

The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property.

However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the tax rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year. This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district.

**City of Lancaster, Texas**  
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**Note 5: Interfund receivables, payables, and transfers**

***Due To/Due From***

Due to and due from other funds are the short-term portion of the advances to and advances from other funds. For the year ended September 30, 2018, due to due from transactions, excluding discretely presented component units were as follows:

	<b>Due to Other Funds</b>	<b>Due from Other Funds</b>
General Fund	\$ -	\$ 1,142,142
Golf Fund	288,732	-
Airport Fund	853,410	-
	\$ 1,142,142	\$ 1,142,142

***Interfund Transfers***

For the year ended September 30, 2018, interfund transactions, excluding discretely presented component units were as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	\$ 2,141,187	\$ -
General Obligation Debt Service Fund	23,333	-
Nonmajor Governmental Funds	-	64,547
Water and Sewer Fund	-	1,895,977
Airport Fund	-	23,663
Nonmajor Enterprise Funds	-	180,333
	\$ 2,164,520	\$ 2,164,520

The interfund transfer to the General Fund from the Non-major Governmental Funds, Water and Sewer Funds, Refuse Fund and Golf Course Fund is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer to the General Obligation Debt Service Fund from the Golf Course Fund is for debt repayment.

**City of Lancaster, Texas**  
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**Note 6: Capital Assets**

**Governmental Activities**

Capital assets of the Governmental Activities are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>					
Capital assets not being depreciated					
Land	\$ 13,214,268	\$ -	\$ -	\$ -	\$ 13,214,268
Construction in progress	<u>4,378,090</u>	<u>3,669,959</u>	<u>-</u>	<u>-</u>	<u>8,048,049</u>
Total capital assets not being depreciated	<u>17,592,358</u>	<u>3,669,959</u>	<u>-</u>	<u>-</u>	<u>21,262,317</u>
Capital assets being depreciated					
Buildings	29,473,819	-	-	44,983	29,518,802
Infrastructure, improvements, equipment, and furniture	<u>135,793,031</u>	<u>1,627,542</u>	<u>-</u>	<u>(15,251,203)</u>	<u>122,169,370</u>
Total capital assets being depreciated	165,266,850	1,627,542	-	(15,206,220)	151,688,172
Less accumulated depreciation for:					
Buildings	8,054,538	780,680	-	-	8,835,218
Infrastructure, improvements, equipment and furniture	<u>73,625,795</u>	<u>4,795,876</u>	<u>-</u>	<u>(15,206,220)</u>	<u>63,215,451</u>
Total accumulated depreciation	<u>81,680,333</u>	<u>5,576,556</u>	<u>-</u>	<u>(15,206,220)</u>	<u>72,050,669</u>
Total capital assets being depreciated, net	<u>83,586,517</u>	<u>(3,949,014)</u>	<u>-</u>	<u>-</u>	<u>79,637,503</u>
Governmental activities capital assets, net	<u>\$ 101,178,875</u>	<u>\$ (279,055)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,899,820</u>

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

General and administrative	\$ 600,546
Public safety	4,089,168
Public works	537,984
Community development and recreation	<u>348,858</u>
Total depreciation expense – governmental activities	<u>\$ 5,576,556</u>

**City of Lancaster, Texas**  
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**Business-type Activities**

Capital assets of the Business-type Activities are as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Business-type Activities</b>					
Capital assets not being depreciated					
Land	\$ 4,971,266	\$ -	\$ -	\$ -	\$ 4,971,266
Construction in progress	2,355,110	11,640	-	(723,401)	1,643,349
Total capital assets not being depreciated	<u>7,326,376</u>	<u>11,640</u>	<u>-</u>	<u>(723,401)</u>	<u>6,614,615</u>
Capital assets being depreciated					
Plants and buildings	2,808,948	-	-	-	2,808,948
Other improvements	76,707,381	282,634	-	723,401	77,713,416
Machinery and equipment	3,437,257	13,741	-	-	3,450,998
Total capital assets being depreciated	82,953,586	296,375	-	723,401	83,973,362
Less accumulated depreciation for:					
Plants and buildings	2,357,951	35,690	-	-	2,393,641
Other improvements	36,731,667	1,511,117	-	-	38,242,784
Machinery and equipment	2,833,194	94,558	-	-	2,927,752
Total accumulated depreciation	<u>41,922,812</u>	<u>1,641,365</u>	<u>-</u>	<u>-</u>	<u>43,564,177</u>
Total capital assets being depreciated, net	<u>41,030,774</u>	<u>(1,344,990)</u>	<u>-</u>	<u>723,401</u>	<u>40,409,185</u>
Business-type activities capital assets, net	<u>\$ 48,357,150</u>	<u>\$ (1,333,350)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,023,800</u>

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

Water and Sewer	\$ 1,413,997
Airport	120,959
Golf	74,706
Refuse	31,703
Total depreciation expense – business-type activities	<u>\$ 1,641,365</u>

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

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Ending Balance</b>
Lancaster Economic Development Corporation Capital assets not being depreciated			
Land	\$ 100,378	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Ending Balance</b>
Lancaster Recreational Development Corporation Capital assets not being depreciated			
Land	\$ 989,118	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated			
Buildings	15,797,360	-	15,797,360
Other Improvements	3,965,809	-	3,965,809
Machinery and Equipment	<u>655,155</u>	<u>-</u>	<u>655,155</u>
Total capital assets being depreciated	20,418,324	-	20,418,324
Less accumulated depreciation for:			
Buildings	6,883,559	394,934	7,278,493
Other Improvements	3,965,809	-	3,965,809
Machinery and Equipment	<u>490,654</u>	<u>27,363</u>	<u>518,017</u>
Total accumulated depreciation	<u>11,340,022</u>	<u>422,297</u>	<u>11,762,319</u>
Total capital assets being depreciated, net	<u>9,078,302</u>	<u>(422,297)</u>	<u>8,656,005</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 10,067,420</u>	<u>\$ (422,297)</u>	<u>\$ 9,645,123</u>

**City of Lancaster, Texas**  
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**Note 7: Long-term Liabilities**

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

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 55,160,017	\$ -	\$ (2,690,000)	52,470,017	\$ 2,780,000
Certificates of obligation	14,340,000	-	(365,000)	13,975,000	375,000
Notes payable	3,716,561	-	(577,616)	3,138,945	618,049
Premiums on bond debt	2,579,060	-	(364,973)	2,214,087	-
Compensated absences	2,617,349	3,293,375	(2,617,349)	3,293,375	329,338
Capital leases	771,598	431,500	(159,144)	1,043,954	258,521
Total governmental activities	<u>\$ 79,184,585</u>	<u>\$ 3,724,875</u>	<u>\$ (6,774,082)</u>	<u>\$ 76,135,378</u>	<u>\$ 4,360,908</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 2,509,983	\$ -	\$ (940,000)	\$ 1,569,983	\$ 150,000
Certificates of obligation	5,815,000	-	(320,000)	5,495,000	330,000
Premiums on bond debt	170,722	-	(24,200)	146,522	-
Compensated absences	79,461	118,711	(79,461)	118,711	51,823
Total business-type activities	<u>\$ 8,575,166</u>	<u>\$ 118,711</u>	<u>\$ (1,363,661)</u>	<u>\$ 7,330,216</u>	<u>\$ 531,823</u>
<b>Discretely Presented Component Units</b>					
Notes payable to primary government	\$ 8,010,000	\$ -	\$ (845,000)	\$ 7,165,000	\$ 880,000
Total discretely presented component units	<u>\$ 8,010,000</u>	<u>\$ -</u>	<u>\$ (845,000)</u>	<u>\$ 7,165,000</u>	<u>\$ 880,000</u>

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

For the governmental activities, compensated absences and net pension liabilities are generally liquidated in the General Fund and Stormwater Fund. The total OPEB liability is generally liquidated in the General Fund.

**City of Lancaster, Texas**  
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General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2018, consist of the following:

	<b>Governmental Activities</b>	<b>Water and Sewer</b>	<b>Airport</b>	<b>Total Primary Government</b>
<b><u>General Obligation Bonds</u></b>				
\$22,995,000, 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	\$ 19,395,000	\$ -	\$ -	\$ 19,395,000
\$12,240,000, 2012 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 2.00% – 5.00%	7,570,000	190,000	55,000	7,815,000
\$22,530,000, 2015 General Obligation Refunding Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	21,315,017	1,014,983	-	22,330,000
\$6,575,000, 2016 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 2.00% – 4.00%	<u>4,190,000</u>	<u>310,000</u>	<u>-</u>	<u>4,500,000</u>
	<u>\$ 52,470,017</u>	<u>\$ 1,514,983</u>	<u>\$ 55,000</u>	<u>\$ 54,040,000</u>
<b><u>Certificates of Obligation</u></b>				
\$12,000,000, 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2040, 1.82% – 6.53%	\$ 10,135,000	\$ -	\$ -	\$ 10,135,000
\$7,585,000, 2011 Certificate of Obligation Bonds, due in annual installments through August 15, 2031, 2.00% – 3.50%	-	5,495,000	-	5,495,000
\$4,080,000, 2015 Certificate of Obligation Bonds, due in annual installments through February 15, 2035, 2.00% – 3.75%	<u>3,840,000</u>	<u>-</u>	<u>-</u>	<u>3,840,000</u>
	<u>\$ 13,975,000</u>	<u>\$ 5,495,000</u>	<u>\$ -</u>	<u>\$ 19,470,000</u>

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The city has pledged future water customer revenues, net of specified operating expenses, to repay \$7.6 million in water system revenue bonds issued in 2011. Proceeds from the bonds provided financing for the improvement to the Airport. The bonds are payable solely from water customer net revenues and are payable through 2032. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$6,800,613. Principal and interest paid for the current year and total customer net revenues were \$491,056 and \$3,025,564, respectively.

<u>Note Payable</u>	<u>Governmental Activities</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
\$11,650,000 note payable, due in annual installments through February 15, 2024; 3.00% – 4.50%	\$ -	\$ -	\$ 5,600,000
\$1,125,000 note payable, due in annual installments through February 15, 2027; 2.00% – 3.75%	-	-	1,565,000
\$5,690,000 note payable, due in annual installments beginning October 2013 through October 2022; 7.00%	<u>3,138,945</u>	<u>3,138,945</u>	<u>-</u>
	<u>\$ 3,138,945</u>	<u>\$ 3,138,945</u>	<u>\$ 7,165,000</u>
 <b><u>Capital Leases</u></b>			
\$1,250,000 Lease Purchase Agreement due in monthly installments through January 15, 2024; 2.08%	\$ 612,454	\$ 612,454	\$ -
\$431,500 Lease Purchase Agreement due in bi-annual installments through May 25, 2025; 3.55%	<u>431,500</u>	<u>431,500</u>	<u>-</u>
	<u>\$ 1,043,954</u>	<u>\$ 1,043,954</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.

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As of September 30, 2018, property and equipment under capital leases is carried at \$3,114,667, with \$1,408,340 in estimated accumulated depreciation, included in fixed assets. Amortization of these assets is included with depreciation expense.

The annual requirements to amortize the long-term debt as of September 30, 2018, are as follows:

<b>General Obligation Bonds</b>						
<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 2,780,000	\$ 2,599,509	\$ 5,379,509	\$ 150,000	\$ 58,850	\$ 208,850
2020	2,870,000	2,481,830	5,351,830	150,000	53,500	203,500
2021	3,005,000	2,337,831	5,342,831	150,000	46,450	196,450
2022	3,155,000	2,185,511	5,340,511	155,000	39,225	194,225
2023	3,295,000	2,031,821	5,326,821	170,000	31,775	201,775
2024-2028	13,730,017	8,006,812	21,736,829	794,983	55,350	850,333
2029-2033	13,510,000	4,643,772	18,153,772	-	-	-
2034-2038	7,540,000	1,864,608	9,404,608	-	-	-
2039-2040	2,585,000	170,544	2,755,544	-	-	-
<b>Total</b>	<b>\$ 52,470,017</b>	<b>\$ 26,322,238</b>	<b>\$ 78,792,255</b>	<b>\$ 1,569,983</b>	<b>\$ 285,150</b>	<b>\$ 1,855,133</b>

<b>Certificates of Obligation</b>						
<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 375,000	\$ 759,345	\$ 1,134,345	\$ 330,000	\$ 161,056	\$ 491,056
2020	385,000	742,459	1,127,459	340,000	154,456	494,456
2021	395,000	723,744	1,118,744	355,000	147,656	502,656
2022	410,000	702,965	1,112,965	370,000	140,556	510,556
2023	420,000	681,265	1,101,265	385,000	129,456	514,456
2024-2028	2,785,000	3,015,179	5,800,179	2,165,000	464,881	2,629,881
2029-2033	3,770,000	2,159,519	5,929,519	1,550,000	107,550	1,657,550
2034-2038	4,085,000	978,570	5,063,570	-	-	-
2039-2040	1,350,000	89,107	1,439,107	-	-	-
<b>Total</b>	<b>\$ 13,975,000</b>	<b>\$ 9,852,152</b>	<b>\$ 23,827,152</b>	<b>\$ 5,495,000</b>	<b>\$ 1,305,612</b>	<b>\$ 6,800,612</b>

<b>Note Payable</b>			
<b>Fiscal Year</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 618,049	\$ 192,087	\$ 810,137
2020	661,313	148,824	810,137
2021	707,605	102,532	810,137
2022	704,137	53,000	757,137
2023	447,841	53,000	500,841
<b>Total</b>	<b>\$ 3,138,945</b>	<b>\$ 549,443</b>	<b>\$ 3,688,388</b>

**City of Lancaster, Texas**  
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<b>Note Payable</b>			
<b>Fiscal Year</b>	<b>Discretely Presented Component Units</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 880,000	\$ 271,500	\$ 1,151,500
2020	900,000	233,350	1,133,350
2021	945,000	187,925	1,132,925
2022	1,000,000	140,000	1,140,000
2023	1,040,000	94,050	2,494,675
2024-2028	<u>2,400,000</u>	<u>94,675</u>	<u>-</u>
Total	<u>\$ 7,165,000</u>	<u>\$ 1,021,500</u>	<u>\$ 7,052,450</u>

<b>Capital Leases</b>			
<b>Fiscal Year</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 223,649	\$ 35,866	\$ 259,515
2020	154,632	29,048	183,680
2021	158,193	23,614	181,807
2022	161,883	18,052	179,935
2023	165,704	12,359	178,063
2024-2025	<u>179,893</u>	<u>9,015</u>	<u>188,908</u>
Total	<u>\$ 1,043,954</u>	<u>\$ 127,954</u>	<u>\$ 1,171,908</u>

**Note 8: Employee Retirement System**

***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. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.95% and 4.42%, respectively. There were no significant changes in the component unit's proportion to the plan during fiscal year 2018.

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

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

Deposit rate	7.00%
Matching ratio (City to employee)	2 – 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI Repeating

At the December 31, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	189
Inactive employees entitled to but not yet receiving benefits	228
Active employees	247
	<u>664</u>

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method beginning with the 2013 valuations. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member’s projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City’s contributions to TMRS for the year ended September 30, 2018, were \$2,285,017, and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2012, valuation is effective for the rates beginning January 1, 2014).

**City of Lancaster, Texas**  
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***Net Pension Liability***

*Actuarial Assumptions:*

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per yer
Investment rate of return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a *Mortality Experience Investigation Study* covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

*Discount Rate:*

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7.00% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in the Net Pension Liability:*

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability(a) - (b)
Balances as of 10/1/17	\$ 76,964,679	\$ 62,643,584	\$ 14,321,095
Changes for the year:			
Service cost	2,469,383	-	2,469,383
Interest on total pension liability	5,149,906	-	5,149,906
Effect of difference in expected and actual experience	312,809	-	312,809
Benefit payments	(3,808,922)	(3,808,922)	-
Administrative expenses	-	(44,995)	44,995
Member contributions	-	1,110,905	(1,110,905)
Net investment income	-	8,679,960	(8,679,960)
Employer contributions	-	2,199,587	(2,199,587)
Other	-	(2,281)	2,281
Net changes	4,123,176	8,134,254	(4,011,078)
Balances as of 9/30/18	\$ 81,087,855	\$ 70,777,838	\$ 10,310,017

**City of Lancaster, Texas**  
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Proportionate share and net pension liability reported in:			
Primary Government	94.63%	\$	9,756,009
Lancaster Economic Development Corporation	0.95%		97,894
Lancaster Recreational Development Corporation	4.42%		456,114
	100.00%	\$	10,310,017

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:*

The following presents the net pension liability of the City, by primary government and discretely presented component units, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary government	\$ 21,744,397	\$ 9,756,009	\$ 96,028
Lancaster Economic Development Corporation	218,188	97,894	964
Lancaster Recreational Development Corporation	1,016,596	456,114	4,490
Plan's net pension liability	\$ 22,979,182	\$ 10,310,017	\$ 101,481

*Pension Plan Fiduciary Net Position:*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the year ended September 30, 2018, the primary government recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$2,293,923.

At September 30, 2018, the primary government reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 237,804	\$ 478,005
Change of assumptions	123,123	-
Net difference between projected and actual investment earnings plan investments	-	1,699,271
Contributions subsequent to the measurement date	1,569,614	-
	\$ 1,930,541	\$ 2,177,276

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

For the year ended September 30, 2018, the primary government reported \$1,569,614 as deferred outflows of resources related to pensions resulting from primary government contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

For the year ended September 30, 2018, Lancaster Economic Development Corporation recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$23,018.

At September 30, 2018, Lancaster Economic Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,256	\$ 4,480
Change of assumptions	1,185	-
Net difference between projected and actual investment earnings		
plan investments	-	16,201
Contributions subsequent to the measurement date	14,657	-
	<u>\$ 18,098</u>	<u>\$ 20,681</u>

For the year ended September 30, 2018, Lancaster Economic Development Corporation reported \$14,657 as deferred outflows of resources related to pensions resulting from Lancaster Economic Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

For the year ended September 30, 2018, Lancaster Recreational Development Corporation recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$107,246.

At September 30, 2018, Lancaster Recreational Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 11,236	\$ 21,698
Change of assumptions	5,863	-
Net difference between projected and actual investment earnings		
plan investments	-	82,732
Contributions subsequent to the measurement date	70,402	-
	<u>\$ 87,501</u>	<u>\$ 104,430</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

For the year ended September 30, 2018, Lancaster Recreational Development Corporation reported \$70,402 as deferred outflows of resources related to pensions resulting from Lancaster Recreational Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the primary government will be recognized in pension expense as follows:

<b>Year Ending September 30</b>	
2019	\$ 6,359
2020	(186,300)
2021	(794,572)
2022	(841,836)
	\$ (1,816,349)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Lancaster Economic Development Corporation will be recognized in pension expense as follows:

<b>Year Ending September 30</b>	
2019	\$ 60
2020	(1,768)
2021	(7,542)
2022	(7,990)
	\$ (17,240)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to Lancaster Recreational Development Corporation will be recognized in pension expense as follows:

<b>Year Ending September 30</b>	
2019	\$ 306
2020	(8,957)
2021	(38,203)
2022	(40,476)
	\$ (87,331)

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Note 9: Other Postemployment Benefits**

***Retiree Health Care Plan***

***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 no assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB 75, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

***Benefits Provided***

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

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

***Funding Policy***

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$518 per month for retiree-only coverage, \$1,140 per month for retiree and spouse, and \$1,765 per month for retiree and family. Members receiving PPO medical benefits contribute \$574 per month for retiree-only coverage, \$1,264 per month for retiree and spouse, and \$1,956 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Employees Covered By Benefit Terms**

Membership in the Plan by membership class at December 31, 2017, (measurement date), is as follows:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	-
Active employees	244
Total employees	253

**Total OPEB Liability for Retiree Health Care Plan**

The City and its component units total OPEB liability of \$1,189,452 was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017.

**Actuarial Assumptions**

The total OPEB liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	December 31, 2016
Actuarial Cost Method	Individual Entry-Age
Discount Rate	3.31% as of December 31, 2017 (3.81% as of December 31, 2016)
Inflation	2.50%
Salary Increase	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014, as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years
Participation Rates	25% for eligible employees who retire at the age of 50 or later; 0% for eligible employees who retire before age 50

For plans that do not have a formal trust that meets GASB's requirements, the discount rate equals the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. The discount rate was based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index".

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

***Changes in Total OPEB Liability for Retiree Health Care Plan***

The total OPEB liability and related information are as follows for the City and its component units at September 30, 2018:

	<b>Total OPEB Liability</b>
<b>Balances as of October 1, 2017</b>	\$ 1,080,598
Changes for the year:	
Service cost	51,667
Interest on total OPEB liability	41,389
Difference between expected and actual experience	(1,641)
Effect of assumption changes (discount rate change)	57,658
Benefit payments, age adjusted premiums, net of retiree contributions	(40,219)
 <b>Balances as of September 30, 2018</b>	 \$ 1,189,452
<b>City</b>	\$ 1,118,084
<b>Lancaster Economic Development Corporation</b>	\$ 11,895
<b>Lancaster Recreational Development Corporation</b>	\$ 59,473

***Sensitivity of Total OPEB Liability to Changes in the Discount Rate***

The total OPEB liability of the City and its component units has been calculated using a discount rate of 3.31%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease 2.31%	Current Discount Rate Assumption 3.31%	1% Increase 4.31%
Total OPEB Liability	\$ 1,314,825	\$ 1,189,452	\$ 1,077,629

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

***Sensitivity of Total OPEB Liability to Changes in the Health Care Trend Rates***

The total OPEB liability of the City and its component units has been calculated using a health care trend rate of 7.5%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rate Assumption</b>	<b>1% Increase</b>
Total OPEB Liability	\$ 1,039,220	\$ 1,189,452	\$ 1,370,860

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources***

For the year ended September 30, 2018, the City and its component units recognized OPEB expense of \$99,306. At September 30, 2018, the City and its component units reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -	\$ 1,458
Changes of assumptions	51,225	-
Benefit payments subsequent to the measurement date	33,084	-
	<u>\$ 84,309</u>	<u>\$ 1,458</u>

Benefit payments subsequent to the measurement date and before fiscal year-end will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>September 30</b>	<b>Amortization of Deferred Outflows of Resources</b>
2019	\$ 6,250
2020	6,250
2021	6,250
2022	6,250
2023	6,250
Thereafter	18,517
	<u>\$ 49,767</u>

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Supplemental Death Benefit Fund**

**Plan Description**

The City also participates in the single-employer defined benefit OPEB plan providing group term life insurance which is operated by TMRS and is 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.

**Benefits Provided**

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. This rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree life insurance during employees’ entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

**Employees Covered By Benefit Terms**

The following employees were covered by the benefit terms at December 31, 2017, (measurement date), is as follows:

Inactive employees or beneficiaries currently receiving benefits	121
Inactive employees entitled to but not yet receiving benefits	37
Active employees	247
Total employees	405

**Total OPEB Liability for Supplemental Death Benefits**

The City and its component units total OPEB liability of \$720,738 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

***Actuarial Assumptions***

The total OPEB liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	<b>Total OPEB Liability</b>
<b>Balances as of October 1, 2017</b>	\$ 621,168
Changes for the year:	
Service cost	22,218
Interest on total OPEB liability	23,780
Effect of assumption changes (discount rate change)	59,920
Benefit payments and age adjusted premiums, net of retiree contributions	(6,348)
 <b>Balances as of September 30, 2018</b>	 \$ 720,738
<b>City</b>	\$ 677,494
<b>Lancaster Economic Development Corporation</b>	\$ 7,207
<b>Lancaster Recreational Development Corporation</b>	\$ 36,037

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not accumulated in a trust that meets the criteria of paragraph 4 of GASB 75. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20-Year Municipal GO AA Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASBS No. 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20-Year Bond GO Index.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

***Changes in Total OPEB Liability for Supplemental Death Benefits***

The total OPEB liability and related information are as follows for the City and its component units at September 30, 2018:

	<b>Total OPEB Liability</b>
<b>Balances as of October 1, 2017</b>	\$ 621,168
Changes for the year:	
Service cost	22,218
Interest on total OPEB liability	23,780
Effect of assumption changes (discount rate change)	59,920
Benefit payments and age adjusted premiums, net of retiree contributions	(6,348)
 <b>Balances as of September 30, 2018</b>	 \$ 720,738
<b>City</b>	\$ 677,494
<b>Lancaster Economic Development Corporation</b>	\$ 7,207
<b>Lancaster Recreational Development Corporation</b>	\$ 36,037

***Sensitivity of Total OPEB Liability to Changes in the Discount Rate***

The total OPEB liability of the City and its component units has been calculated using a discount rate of 3.31%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	<b>1% Decrease 2.31%</b>	<b>Current Discount Rate Assumption 3.31%</b>	<b>1% Increase 4.31%</b>
Total OPEB Liability	\$ 876,361	\$ 720,738	\$ 601,687

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

***OPEB Expense and Deferred Outflows of Resources***

For the year ended September 30, 2018, the City and its component units recognized OPEB expense of \$56,833. At September 30, 2018, the City and its component units reported deferred outflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>
Changes of assumptions	49,085
	\$ 49,085

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>September 30</b>	<b>Amortization of Deferred Outflows of Resources</b>
2019	\$ 10,835
2020	10,835
2021	10,835
2022	10,835
2023	5,745
	\$ 49,085

**Note 10: Litigation**

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's legal counsel and management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe the amount is probable.

The City is involved in a litigation case with White Rock Commercial, LLC (White Rock). The case involves the City repaying the cost of infrastructure improvements placed by White Rock. To date, an amount to repay is indeterminable due to the imposition of impact fees and other considerations. This case has an initial verdict for the City to repay, but appeals are pending.

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Note 11: Commitments and Contingencies**

***Risk Management***

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

***Trinity River Authority of Texas***

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2018, was \$5,810,117, for the Ten Mile Creek Regional Wastewater System and \$97,118, for the Red Oak Creek Regional Wastewater System. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2018.

***Federal and State Programs***

The City participates in several federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2018, may be impaired.

***Other Contingencies***

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

**City of Lancaster, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2018**

**Note 12: Tax Incentive Rebates**

The City of Lancaster has four (4) active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting business that generates incremental tax revenues. In addition to GASB 77, the agreements are subject Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. City Council approves the agreements via resolution. As part of the agreement, the City agrees to rebate the tax valorem tax increment and the local sales tax after confirmation of payment. If the businesses do not meet the obligations as set forth in the agreement, a clawback provision for default on agreement is included in the agreement and the business agrees return a percentage of the rebate back to the City. Total rebate of taxes for the year ended September 30, 2018 is \$1,712,577.

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## **Required Supplementary Information**

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Texas Municipal Retirement System (Unaudited)**

	<u>Measurement Year 2014</u>	<u>Measurement Year 2015</u>	<u>Measurement Year 2016</u>	<u>Measurement Year 2017</u>
<b>Total Pension Liability:</b>				
Service cost	\$ 1,754,296	\$ 2,193,202	\$ 2,335,235	\$ 2,469,383
Interest (on the Total Pension Liability)	4,600,938	4,801,518	4,963,011	5,149,906
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(470,634)	190,955	(1,104,406)	312,809
Changes in assumptions	-	961,057	-	-
Benefit payments, including refunds of employee contributions	<u>(3,082,997)</u>	<u>(3,394,263)</u>	<u>(3,175,270)</u>	<u>(3,808,922)</u>
Net change in total pension liability	2,801,603	4,752,469	3,018,570	4,123,176
Total pension liability – Beginning	<u>66,392,037</u>	<u>69,193,640</u>	<u>73,946,109</u>	<u>76,964,679</u>
Total pension liability – Ending (a)	<u>\$ 69,193,640</u>	<u>\$ 73,946,109</u>	<u>\$ 76,964,679</u>	<u>\$ 81,087,855</u>
<b>Plan Fiduciary Net Position:</b>				
Contributions – employer	\$ 1,950,250	\$ 2,038,833	\$ 1,994,083	\$ 2,199,587
Contributions – employee	943,452	1,019,417	1,049,207	1,110,905
Net investment income	3,212,784	87,279	3,975,648	8,679,960
Benefit payments, including refunds of employee contributions	(3,082,997)	(3,394,263)	(3,175,270)	(3,808,922)
Administrative expense	(33,545)	(53,164)	(44,915)	(44,995)
Other	<u>(2,758)</u>	<u>(2,625)</u>	<u>(2,420)</u>	<u>(2,281)</u>
Net change in plan fiduciary net position	2,987,186	(304,523)	3,796,333	8,134,254
Plan fiduciary net position – Beginning	<u>56,164,588</u>	<u>59,151,774</u>	<u>58,847,251</u>	<u>62,643,584</u>
Plan fiduciary net position – Ending (b)	<u>\$ 59,151,774</u>	<u>\$ 58,847,251</u>	<u>\$ 62,643,584</u>	<u>\$ 70,777,838</u>
City’s net pension liability – Ending (a) – (b)	<u>\$ 10,041,866</u>	<u>\$ 15,098,858</u>	<u>\$ 14,321,095</u>	<u>\$ 10,310,017</u>
Plan fiduciary net position as a percentage of the total pension liability	85.49%	79.58%	81.39%	87.29%
Covered payroll	\$ 13,477,886	\$ 14,563,096	\$ 14,988,669	\$ 15,870,071
City’s net pension liability as a percentage of covered payroll	74.51%	103.68%	95.55%	64.97%

Changes in assumptions: In the 2015 valuation the investment rate decreased from 7.0% to 6.75%; the inflation rate was lowered from 3.0% to 2.5%; the experience study for retirement age was updated

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City’s measurement date (December 31).

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Texas Municipal Retirement System (Unaudited)**

	<u>Fiscal Year 2015</u>	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2018</u>
Actuarially determined contribution	\$ 2,012,259	\$ 2,002,110	\$ 2,134,819	\$ 2,285,017
Contributions in relation to the actuarially determined contribution	<u>2,012,259</u>	<u>2,002,110</u>	<u>2,134,819</u>	<u>2,285,017</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 14,156,179	\$ 14,839,963	\$ 15,572,564	\$ 16,678,121
Contributions as a percentage of covered payroll	14.21%	13.49%	13.71%	13.70%

**Notes to Schedule Contributions**

**Valuation Date:**

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes

There were no benefit changes during the year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's most recent fiscal year-end (September 30).

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of Net Pension Liability and Contributions**  
**Texas Municipal Retirement System (Unaudited)**

	Primary Government				Lancaster Economic Development Corporation				Lancaster Recreational Development Corporation			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
Proportionate share of net pension liability	94.63%	94.61%	94.62%	94.63%	0.95%	0.93%	0.93%	0.95%	4.42%	4.45%	4.45%	4.42%
Net pension liability	\$ 9,502,407	\$ 14,285,030	\$ 13,550,087	\$ 9,756,009	\$ 95,378	\$ 140,419	\$ 133,994	\$ 97,894	\$ 444,082	\$ 671,899	\$ 637,014	\$ 456,114
Actuarially determined contribution	\$ 1,904,158	\$ 1,894,295	\$ 1,894,396	\$ 2,162,232	\$ 19,113	\$ 18,696	\$ 18,620	\$ 21,696	\$ 88,988	\$ 89,119	\$ 89,094	\$ 101,089
Covered payroll	\$ 13,395,694	\$ 14,040,821	\$ 14,041,573	\$ 15,781,923	\$ 134,456	\$ 138,576	\$ 138,012	\$ 158,359	\$ 626,029	\$ 660,566	\$ 660,378	\$ 737,838
Proportionate share of net pension liability as a percentage of covered payroll	70.94%	101.74%	96.50%	61.82%	70.94%	101.33%	97.09%	61.82%	70.94%	101.72%	96.46%	61.82%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the the City's most recent fiscal year-end (September 30).

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**Retiree Health Care Plan**  
**Schedule of Changes in the City's Total OPEB Liability and Related Ratios**  
**(Unaudited)**  
**September 30, 2018**

	<b>Measurement year</b>
	<b>2017</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 51,667
Interest Cost	41,389
Difference Between Expected and Actual Experience of the Total OPEB Liability	(1,641)
Changes of Assumptions	57,658
Benefit Payments	(40,219)
Net Change in Total OPEB Liability	108,854
 Total OPEB Liability (Beginning)	 1,080,598
 Total OPEB Liability (Ending)	 \$ 1,189,452
 Covered-Employee Payroll	 13,120,313
Net OPEB Liability as a Percentage of Covered-Employee Payroll	9.07%

Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

**City of Lancaster, Texas**  
**Required Supplementary Information**  
**TMRS Supplemental Death Benefits Fund**  
**Schedule of Changes in the City's Total OPEB Liability and Related Ratios**  
**(Unaudited)**  
**September 30, 2018**

	<b>Measurement year</b>
	<b>2017</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 22,218
Interest Cost	23,780
Changes of Assumptions	59,920
Benefit Payments	(6,348)
Net Change in Total OPEB Liability	99,570
Total OPEB Liability (Beginning)	621,168
Total OPEB Liability (Ending)	\$ 720,738
Covered-Employee Payroll	15,870,071
Net OPEB Liability as a Percentage of Covered-Employee Payroll	4.54%

Changes of assumptions reflect a change in the discount rate from 3.78% as of December 31, 2016 to 3.31% as of December 31, 2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

**City of Lancaster, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund (Unaudited)**  
**For the Year Ended September 30, 2018**

	<u>Budgeted Amounts</u>		<b>Actual GAAP Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes and fees	\$ 21,488,548	\$ 21,488,548	\$ 23,275,808	\$ 1,787,260
Licenses and permits	1,037,900	1,037,900	1,416,765	378,865
Intergovernmental	-	-	249,444	249,444
Charges for services	911,625	911,625	1,196,688	285,063
Fines and forfeits	811,500	811,500	1,201,137	389,637
Interest	50,000	50,000	211,996	161,996
Miscellaneous	94,513	94,513	354,253	259,740
	<u>24,394,086</u>	<u>24,394,086</u>	<u>27,906,091</u>	<u>3,512,005</u>
<b>Expenditures</b>				
Current				
General government	4,845,318	4,845,318	5,045,895	(200,577)
Public safety	15,598,937	15,598,937	15,974,581	(375,644)
Public works	544,307	544,307	1,860,274	(1,315,967)
Community development and recreation	2,587,654	2,587,654	1,320,316	1,267,338
Capital outlay	3,060,817	3,060,817	2,240,414	820,403
Debt service				
Principal retirement	-	-	577,616	(577,616)
Interest and fiscal charges	-	-	232,520	(232,520)
	<u>26,637,033</u>	<u>26,637,033</u>	<u>27,251,616</u>	<u>(614,583)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,242,947)</u>	<u>(2,242,947)</u>	<u>654,475</u>	<u>2,897,422</u>
Other financing sources (uses)				
Transfers in	1,859,377	1,859,377	2,141,187	281,810
Capital leases issued	-	-	431,500	431,500
	<u>1,859,377</u>	<u>1,859,377</u>	<u>2,572,687</u>	<u>713,310</u>
<b>Net Change in Fund Balances</b>	<b>(383,570)</b>	<b>(383,570)</b>	<b>3,227,162</b>	<b>3,610,732</b>
<b>Fund Balance, Beginning of Year</b>	<b>9,067,940</b>	<b>9,067,940</b>	<b>9,067,940</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b><u>\$ 8,684,370</u></b>	<b><u>\$ 8,684,370</u></b>	<b><u>\$ 12,295,102</u></b>	<b><u>\$ 3,610,732</u></b>

**City of Lancaster, Texas**  
**Notes to Required Supplementary Information (Unaudited)**  
**September 30, 2018**

***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 is legally adopted each fiscal year.

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

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

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

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

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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## FORM OF BOND COUNSEL'S OPINION

\_\_\_\_\_, 2020

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

CITY OF LANCASTER, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020, dated January 15, 2020, in the aggregate principal amount of \$24,530,000 maturing on February 15 in the years 2021 through and including year 2040. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "*Ordinance*") adopted by the City Council of the City (the "*City Council*") authorizing their issuance.

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

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

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

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

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

(3) The escrow agreement between the City and the Escrow Agent (the "*Escrow Agreement*") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; the Refunded Obligations, having been discharged and paid are no longer outstanding, and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Obligations only out of the funds provided therefor now held for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefor the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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

Respectfully submitted,

**APPENDIX D**

FORM OF SPECIAL TAX COUNSEL'S OPINION

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orrick.com

\_\_\_\_\_, 2020

City of Lancaster, Texas  
211 North Henry Street  
Lancaster, Texas 75146

We have served as special tax counsel to City of Lancaster, Texas (the “Issuer”) in connection with its issuance of the General Obligation Refunding Bonds, Series 2020 (the “Bonds”), in the principal amount of \$24,530,000. The Bonds mature, bear interest and may be transferred and exchanged as set out in the ordinance adopted by the Issuer authorizing the Bonds (the “Bond Ordinance”).

We have served as special tax counsel for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Bonds 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 Bonds. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

Based on our examination as described above and in reliance on the legal opinion of West & Associates, L.L.P., as Bond Counsel, dated the date hereof, that the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Texas and are valid and legally binding obligations of the Issuer, we are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The opinion set forth in the first sentence of the immediately preceding paragraph is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted in the Bond Ordinance and the Federal Tax Certificate executed by the Issuer on the date hereof, to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal



income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinion is based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

Our opinion is based on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment as of the date hereof based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

Orrick, Herrington & Sutcliffe LLP

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