

City of Lancaster, Texas

Annual Financial Report and Independent Accountants' Report

September 30, 2012

City of Lancaster, Texas
September 30, 2012

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

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 individual and combining schedules as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

March 29, 2013

City of Lancaster, Texas

Management's Discussion and Analysis

September 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the end of the fiscal year 2012, resulting in \$108,837,995 of net assets. Net assets associated with governmental activities are approximately \$58 million, or 53% of the total net assets of the City. Net assets associated with business-type activities are approximately \$51 million, or 47% of the total net assets of the City. The largest portion of net assets consists of invested in capital assets, net of related debt, which is approximately \$93 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$15.5 million, or 14% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$2.4 million, or 4% of total net assets for governmental activities; unrestricted net assets for business-type activities are approximately \$13 million or 26% of total net assets for business-type activities.
- As of the close of fiscal year 2012, the City's Governmental Funds reported a combined ending fund balance of \$19,435,337, a decrease of \$3,276,968 from the prior year.
- At the end of the current fiscal year, total fund balance for the General Fund was \$6,714,287. This represents approximately 34% of General Fund expenditures, which is more than the 15% required by the City's adopted fund balance policy.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 9 – 10 of this report.

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

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

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

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

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

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

The Proprietary Fund financial statements can be found on pages 15 – 17 of this report.

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

The notes to the financial statements can be found on pages 18 – 40 of this report.

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2012, City assets exceeded its liabilities by \$108,837,995.

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

An additional portion of the City's net assets, less than 1%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$15,529,906 or 14%, may be used to meet the City's ongoing obligations to citizens and creditors.

Statement of Net Assets for Governmental and Business-type Activities

	Governmental Activities 2012	Business-type Activities 2012	Total 2012	Governmental Activities 2011	Business-type Activities 2011	Total 2011
Current and other assets	\$ 33,662,719	\$ 22,235,618	\$ 55,898,337	\$ 37,686,985	\$ 13,662,330	\$ 51,349,315
Capital assets	108,608,088	45,857,089	154,465,177	99,945,007	46,348,347	146,293,354
Total assets	<u>142,270,807</u>	<u>68,092,707</u>	<u>210,363,514</u>	<u>137,631,992</u>	<u>60,010,677</u>	<u>197,642,669</u>
Long-term liabilities	78,922,598	14,308,866	93,231,464	75,982,972	8,084,056	84,067,028
Other liabilities	5,587,223	2,706,832	8,294,055	4,858,232	2,521,457	7,379,689
Total liabilities	<u>84,509,821</u>	<u>17,015,698</u>	<u>101,525,519</u>	<u>80,841,204</u>	<u>10,605,513</u>	<u>91,446,717</u>
Net assets						
Invested in capital assets, net of related debt	55,109,346	37,955,920	93,065,266	50,606,700	38,270,127	88,876,827
Restricted	242,823	-	242,823	718,522	-	718,522
Unrestricted	2,408,817	13,121,089	15,529,906	5,465,566	11,135,037	16,600,603
Total net assets	<u>\$ 57,760,986</u>	<u>\$ 51,077,009</u>	<u>\$ 108,837,995</u>	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>

Analysis of City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2012. Overall, the City had an increase in net assets of \$2,642,043.

Revenues and Expenses for Governmental and Business-type Activities

	Governmental Activities 2012	Business-type Activities 2012	Total 2012	Governmental Activities 2011	Business-type Activities 2011	Total 2011
Revenues						
Program revenues						
Charges for services	\$ 2,211,273	\$ 17,188,251	\$ 19,399,524	\$ 2,656,324	\$ 14,416,910	\$ 17,073,234
Operating grant and contribution	8,171,297	-	8,171,297	8,765,448	50,089	8,815,537
Capital grants and contributions	1,146,735	300,000	1,446,735	1,740,834	-	1,740,834
General Revenue						
Taxes and fees	22,510,414	-	22,510,414	20,919,755	-	20,919,755
Other	528,951	(666,731)	(137,780)	1,221,524	93,171	1,314,695
Total revenues	<u>34,568,670</u>	<u>16,821,520</u>	<u>51,390,190</u>	<u>35,303,885</u>	<u>14,560,170</u>	<u>49,864,055</u>
Program Expenses						
General government	3,642,761	-	3,642,761	4,254,835	-	4,254,835
Public safety	14,232,681	-	14,232,681	14,333,669	-	14,333,669
Public works	5,119,834	-	5,119,834	4,832,457	-	4,832,457
Community development and recreation	1,173,498	-	1,173,498	1,048,563	-	1,048,563
Social and welfare	8,493,007	-	8,493,007	8,640,215	-	8,640,215
Interest and fiscal charges	2,367,927	-	2,367,927	2,837,440	-	2,837,440
Water and sewer	-	10,085,993	10,085,993	-	9,178,117	9,178,117
Refuse	-	2,509,957	2,509,957	-	2,196,791	2,196,791
Airport	-	982,868	982,868	-	905,354	905,354
Golf course	-	139,621	139,621	-	83,002	83,002
Total expenses	<u>35,029,708</u>	<u>13,718,439</u>	<u>48,748,147</u>	<u>35,947,179</u>	<u>12,363,264</u>	<u>48,310,443</u>
Increase (Decrease in Net Assets Before Transfers)	(461,038)	3,103,081	2,642,043	(643,294)	2,196,906	1,553,612
Transfers	1,431,236	(1,431,236)	-	(669,107)	669,107	-
Change in net assets	<u>970,198</u>	<u>1,671,845</u>	<u>2,642,043</u>	<u>(1,312,401)</u>	<u>2,866,013</u>	<u>1,553,612</u>
Net Assets, Beginning of the Year	<u>56,790,788</u>	<u>49,405,164</u>	<u>106,195,952</u>	<u>58,103,189</u>	<u>46,539,151</u>	<u>104,642,340</u>
Net Assets, Ending of Year	<u>\$ 57,760,986</u>	<u>\$ 51,077,009</u>	<u>\$ 108,837,995</u>	<u>\$ 56,790,788</u>	<u>\$ 49,405,164</u>	<u>\$ 106,195,952</u>

Financial Analysis of the Government's Funds

Governmental Funds

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

As of the end of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$19,435,337, a decrease of \$3,276,968 from the prior year. This amount includes fund balance reserved for Debt Service of \$242,823, reserved for Public Improvement Districts of \$189,076, reserved for Capital Projects of \$9,723,620, reserved for Public Works of \$832,928, Grants, Law Enforcement Purposes and Tourism of \$702,114. The net unassigned fund balance was \$6,714,287, an increase of \$2,159,874 from prior year.

In the General Fund, the original budget projected a \$100,270 increase in fund balance this fiscal year; however, the actual increase was \$2,159,874. Revenues generated from Taxes and Fees were \$1,625,055 over budget due to the improving economy and total expenditures were over budget by \$154,120, due to various implemented cost saving measures.

The HUD Fund has a total fund balance of \$1,030,489, an decrease of \$67,163 from the prior year. The budget includes a planned reduction in administrative fees due to a shortfall of appropriation from the U.S. Department of Housing and Urban Development.

Proprietary Funds

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

Unrestricted net assets of the Proprietary Funds at the end of the year were \$13,121,089. The total increase in net assets was \$1.7 million from the prior year.

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amount to \$154,465,177 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
Land	\$ 13,214,268	\$ 13,214,268	\$ 4,879,781	\$ 4,879,781	\$ 18,094,049	\$ 18,094,049
Buildings	24,487,196	24,487,196	4,950,436	4,950,436	29,437,632	29,437,632
Equipment	15,612,515	15,397,845	2,803,307	2,803,307	18,415,822	18,201,152
Construction in progress	5,922,209	18,031,737	4,759,158	5,332,057	10,681,367	23,363,794
Other structures	-	-	951,622	951,622	951,622	951,622
Improvements	3,071,457	3,071,457	55,664,932	56,337,091	58,736,389	59,408,548
Streets and bridges	83,637,070	84,139,196	-	-	83,637,070	84,139,196
Drainage	7,319,619	7,332,619	-	-	7,319,619	7,332,619
Runways and taxiways	-	-	3,422,564	3,422,564	3,422,564	3,422,564
Accumulated depreciation	<u>(53,319,327)</u>	<u>(57,066,230)</u>	<u>(31,083,453)</u>	<u>(32,819,769)</u>	<u>(84,402,780)</u>	<u>(89,885,999)</u>
Total	<u>\$ 99,945,007</u>	<u>\$ 108,608,088</u>	<u>\$ 46,348,347</u>	<u>\$ 45,857,089</u>	<u>\$ 146,293,354</u>	<u>\$ 154,465,177</u>

Long-term Debt – At the end of the current fiscal year, the City had total bonds outstanding of \$87,550,000, all being tax supported. The City also has approximately \$514,000 of additional debt through notes payable and capital leases.

	Governmental Activities		Business-type Activities		Totals	
	2011	2012	2011	2012	2011	2012
General Obligation Bonds	\$ 51,616,531	\$ 51,110,000	\$ 5,113,471	\$ 4,700,000	\$ 56,730,002	\$ 55,810,000
Certificates of Obligation	24,965,000	22,315,000	2,360,000	9,425,000	27,325,000	31,740,000
Notes Payable	-	5,690,060	72,552	56,631	72,552	5,746,691
Revenues Bonds	-	-	370,000	-	370,000	-
Capital Leases	268,975	457,291	-	-	268,975	457,291
Total	<u>\$ 76,850,506</u>	<u>\$ 79,572,351</u>	<u>\$ 7,916,023</u>	<u>\$ 14,181,631</u>	<u>\$ 84,766,529</u>	<u>\$ 93,753,982</u>

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

Economic Factor and Next Year’s Budgets and Rates

In the fiscal year 2013 budget, General Fund revenues are budgeted to decrease by 3.0% from the 2012 budget year. This decrease is mostly attributed to a decrease in fines and forfeitures, and licenses and permits due to current economic conditions.

Property taxes make up about 45% of budgeted revenues and sales tax make up about 25% of budgeted revenues.

Request for Information

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

Basic Financial Statements

City of Lancaster, Texas
Statement of Net Assets
September 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Assets					
Cash and cash equivalents	\$ 17,394,527	\$ 12,301,748	\$ 29,696,275	\$ 3,035,295	\$ 1,395,705
Receivables (net of allowance)					
Notes	11,125,000	-	11,125,000	-	-
Delinquent taxes	1,086,158	-	1,086,158	-	-
Accounts	1,776,829	2,331,022	4,107,851	-	-
Sales tax	965,152	-	965,152	184,268	379,957
Fines	61,908	-	61,908	-	-
Due from component unit	528,753	-	528,753	-	-
Prepaid expenses	8,707	-	8,707	-	-
Inventory	23,345	46,017	69,362	-	-
Debt issuance costs	692,340	328,250	1,020,590	-	-
Restricted assets					
Cash and cash equivalents	-	7,228,581	7,228,581	-	-
Capital assets					
Land and construction in progress	31,246,005	10,211,838	41,457,843	100,378	989,118
Other capital assets, net of accumulated depreciation	77,362,083	35,645,251	113,007,334	-	11,139,141
Total assets	<u>142,270,807</u>	<u>68,092,707</u>	<u>210,363,514</u>	<u>3,319,941</u>	<u>13,903,921</u>
Liabilities					
Accounts payable and contracts payable	991,272	1,671,485	2,662,757	455	56,422
Accrued liabilities	549,360	137,516	686,876	994	45,990
Accrued interest	472,578	53,634	526,212	13,506	47,017
Due to primary government	-	-	-	-	528,753
Deposits	125,212	844,197	969,409	-	-
Noncurrent liabilities					
Due within one-year	3,448,801	1,198,633	4,647,434	125,000	560,000
Due in more than one-year	78,922,598	13,110,233	92,032,831	2,410,000	8,030,000
Total liabilities	<u>84,509,821</u>	<u>17,015,698</u>	<u>101,525,519</u>	<u>2,549,955</u>	<u>9,268,182</u>
Net Assets					
Invested in capital assets (net of related debt)	55,109,346	37,955,920	93,065,266	100,378	3,538,259
Restricted for					
Debt service	242,823	-	242,823	-	-
Unrestricted	2,408,817	13,121,089	15,529,906	669,608	1,097,480
Total net assets	<u>\$ 57,760,986</u>	<u>\$ 51,077,009</u>	<u>\$ 108,837,995</u>	<u>\$ 769,986</u>	<u>\$ 4,635,739</u>

City of Lancaster, Texas
Statement of Activities
Year Ended September 30, 2012

Functions/program	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities				
General government	\$ 3,642,761	\$ -	\$ -	\$ -
Public safety	14,232,681	1,529,136	-	202,691
Public works	5,119,834	682,137	-	944,044
Community development and recreation	1,173,498	-	-	-
Social and welfare	8,493,007	-	8,171,297	-
Interest and fiscal charges	2,367,927	-	-	-
Total governmental activities	<u>35,029,708</u>	<u>2,211,273</u>	<u>8,171,297</u>	<u>1,146,735</u>
Business-type activities				
Water and sewer	10,085,993	14,209,081	-	-
Refuse	2,509,957	2,077,599	-	-
Airport	982,868	806,724	-	300,000
Golf course	139,621	94,847	-	-
Total business-type activities	<u>13,718,439</u>	<u>17,188,251</u>	<u>-</u>	<u>300,000</u>
Total primary government	<u>\$ 48,748,147</u>	<u>\$ 19,399,524</u>	<u>\$ 8,171,297</u>	<u>\$ 1,446,735</u>
Component units				
Lancaster Economic Development Corporation	683,939	-	-	-
Lancaster Recreational Development Corporation	2,971,510	650,346	97,291	-
Total component units	<u>\$ 3,655,449</u>	<u>\$ 650,346</u>	<u>\$ 97,291</u>	<u>\$ -</u>
General revenues				
Taxes				
Property taxes				
Sales taxes				
Franchise taxes				
Other local taxes				
Interest on investments				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
\$ (3,642,761)	\$ -	\$ (3,642,761)	\$ -	\$ -
(12,500,854)	-	(12,500,854)	-	-
(3,493,653)	-	(3,493,653)	-	-
(1,173,498)	-	(1,173,498)	-	-
(321,710)	-	(321,710)	-	-
(2,367,927)	-	(2,367,927)	-	-
<u>(23,500,403)</u>	<u>-</u>	<u>(23,500,403)</u>	<u>-</u>	<u>-</u>
-	4,123,088	4,123,088	-	-
-	(432,358)	(432,358)	-	-
-	123,856	123,856	-	-
-	(44,774)	(44,774)	-	-
<u>-</u>	<u>3,769,812</u>	<u>3,769,812</u>	<u>-</u>	<u>-</u>
<u>\$ (23,500,403)</u>	<u>\$ 3,769,812</u>	<u>\$ (19,730,591)</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	(683,939)	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,223,873)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (683,939)</u>	<u>\$ (2,223,873)</u>
13,255,066	-	13,255,066	-	-
5,676,841	-	5,676,841	1,132,868	2,265,736
3,526,875	-	3,526,875	-	-
51,632	-	51,632	-	-
44,197	30,081	74,278	3,828	-
484,754	(696,812)	(212,058)	-	464,278
1,431,236	(1,431,236)	-	-	-
<u>24,470,601</u>	<u>(2,097,967)</u>	<u>22,372,634</u>	<u>1,136,696</u>	<u>2,730,014</u>
970,198	1,671,845	2,642,043	452,757	506,141
<u>56,790,788</u>	<u>49,405,164</u>	<u>106,195,952</u>	<u>317,229</u>	<u>4,129,598</u>
<u>\$ 57,760,986</u>	<u>\$ 51,077,009</u>	<u>\$ 108,837,995</u>	<u>\$ 769,986</u>	<u>\$ 4,635,739</u>

City of Lancaster, Texas
Balance Sheet – Governmental Funds
September 30, 2012

Assets

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 4,463,030	\$ 1,001,587	\$ 9,755,206	\$ 658,197	\$ 1,516,507	\$ 17,394,527
Receivables (net of allowance for uncollectibles)						
Notes	-	-	-	11,125,000	-	11,125,000
Delinquent taxes	835,014	-	-	206,130	45,014	1,086,158
Accounts	1,550,448	-	-	-	226,381	1,776,829
Sales tax	965,152	-	-	-	-	965,152
Fines	61,908	-	-	-	-	61,908
Due from						
Component unit	528,753	-	-	-	-	528,753
Inventory, at cost	23,345	-	-	-	-	23,345
Prepaid items	5,188	-	-	-	3,519	8,707
Total assets	\$ 8,432,838	\$ 1,001,587	\$ 9,755,206	\$ 11,989,327	\$ 1,791,421	\$ 32,970,379

Liabilities and Fund Balances

Liabilities						
Accounts and contracts payable	\$ 376,132	\$ 9,411	\$ 31,586	\$ 526,955	\$ 47,188	\$ 991,272
Accrued liabilities	494,722	41,356	-	-	13,282	549,360
Deposits	125,212	-	-	-	-	125,212
Deferred revenue	642,816	-	-	11,219,549	6,833	11,869,198
Total liabilities	1,638,882	50,767	31,586	11,746,504	67,303	13,535,042
Fund balances						
Restricted for						
Housing and Urban Development	-	950,820	-	-	-	950,820
Capital projects	-	-	9,723,620	-	-	9,723,620
Debt service	-	-	-	242,823	-	242,823
Public works	-	-	-	-	832,928	832,928
Public improvement districts	-	-	-	-	189,076	189,076
Police grants	-	-	-	-	7,539	7,539
Tourism, convention centers, arts	-	-	-	-	298,965	298,965
Law enforcement purposes	-	-	-	-	395,610	395,610
Unassigned	6,793,956	-	-	-	-	6,793,956
Total fund balances	6,793,956	950,820	9,723,620	242,823	1,724,118	19,435,337
Total liabilities and fund balances	\$ 8,432,838	\$ 1,001,587	\$ 9,755,206	\$ 11,989,327	\$ 1,791,421	\$ 32,970,379

City of Lancaster, Texas
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
September 30, 2012

Total fund balances – governmental funds	\$ 19,435,337
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide statements.	692,340
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.	108,608,088
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.	(472,578)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.	744,198
Notes receivable are not measureable and available within 60 days of year-end, and therefore are entirely deferred in the fund financial statements.	11,125,000
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements.	
Long-term liabilities at year-end consist of:	
General obligation bonds	(51,110,000)
Certificates of obligation	(22,315,000)
Note payable	(5,690,060)
Premiums on bond debt	(1,539,450)
Deferred loss on refunding	1,201,582
Compensated absences	(2,366,734)
OPEB liability	(94,446)
Capital leases	(457,291)
Total net assets of governmental activities	<u>\$ 57,760,986</u>

City of Lancaster, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2012

	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes and fees	\$ 17,119,024	\$ -	\$ -	\$ 4,003,084	\$ 1,624,025	\$ 22,746,133
Licenses and permits	586,567	-	-	-	271,274	857,841
Intergovernmental	202,691	8,344,102	-	238,652	35,852	8,821,297
Charges for services	671,295	-	-	-	-	671,295
Fines and forfeits	839,766	-	45,062	-	-	884,828
Interest	6,045	1,182	33,702	2,010	1,258	44,197
Miscellaneous	404,762	62,891	-	-	17,101	484,754
	<u>19,830,150</u>	<u>8,408,175</u>	<u>78,764</u>	<u>4,243,746</u>	<u>1,949,510</u>	<u>34,510,345</u>
Expenditures						
Current						
General government	3,200,473	-	34,500	-	-	3,234,973
Public safety	13,070,881	-	416	-	120,025	13,191,322
Public works	2,095,799	-	-	-	777,279	2,873,078
Community development and recreation	741,190	-	-	-	287,459	1,028,649
Social and welfare	-	8,493,007	-	-	-	8,493,007
Capital outlay	383,845	-	11,296,765	-	-	11,680,610
Debt service						
Principal retirement	-	-	-	2,355,747	25,000	2,380,747
Interest and fiscal charges	-	-	-	2,363,698	28,870	2,392,568
Cost of issuance of bonds	-	-	-	94,871	-	94,871
	<u>19,492,188</u>	<u>8,493,007</u>	<u>11,331,681</u>	<u>4,814,316</u>	<u>1,238,633</u>	<u>45,369,825</u>
Excess (deficiency) of revenues over (under) expenditures	<u>337,962</u>	<u>(84,832)</u>	<u>(11,252,917)</u>	<u>(570,570)</u>	<u>710,877</u>	<u>(10,859,480)</u>
Other financing sources (uses)						
Operating transfers in	1,535,236	-	-	-	-	1,535,236
Operating transfers out	-	(62,000)	-	-	(42,000)	(104,000)
Capital leases issued	366,345	-	-	-	-	366,345
Proceeds from issuance of bonds	-	-	5,690,060	-	-	5,690,060
Proceeds from refunding bonds issued	-	-	-	11,650,000	-	11,650,000
Bond premium	-	-	-	1,417,588	-	1,417,588
Payment to refunded bond escrow agent	-	-	-	(12,972,717)	-	(12,972,717)
	<u>1,901,581</u>	<u>(62,000)</u>	<u>5,690,060</u>	<u>94,871</u>	<u>(42,000)</u>	<u>7,582,512</u>
Net Change in Fund Balances	2,239,543	(146,832)	(5,562,857)	(475,699)	668,877	(3,276,968)
Fund Balances, Beginning of Year	<u>4,554,413</u>	<u>1,097,652</u>	<u>15,286,477</u>	<u>718,522</u>	<u>1,055,241</u>	<u>22,712,305</u>
Fund Balances, End of Year	<u>\$ 6,793,956</u>	<u>\$ 950,820</u>	<u>\$ 9,723,620</u>	<u>\$ 242,823</u>	<u>\$ 1,724,118</u>	<u>19,435,337</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
Year Ended September 30, 2012

Net change in fund balances – total governmental funds		\$ (3,276,968)
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.		11,680,610
Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.		944,044
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(3,961,573)
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	14,806,531	
Capital leases	<u>178,029</u>	14,984,560
The issuance of long-term debt, such as bonds and capital leases, are shown as “Other Sources” and “Other Uses” in the governmental funds, but are shown on the statement of net assets with related costs amortized over the life of the bonds. Differences consist of the following:		
Issuance of general obligation bonds	(11,650,000)	
Note payable	(5,690,060)	
Capital lease	(366,345)	
Bond premium	(1,417,588)	
Bond issuance costs	97,464	
Deferred loss on refunding	590,522	
Amortization of bond issuance costs	(54,595)	
Amortization of refunding loss	(101,089)	
Amortization of bond premium/discount	<u>139,565</u>	(18,452,126)
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.		157,664
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.		57,631
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>(1,163,644)</u>
Change in net assets of governmental activities		<u>\$ 970,198</u>

City of Lancaster, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

Assets	Water and Sewer	Airport Fund	Nonmajor Enterprise Funds	Total Proprietary Funds
Current Assets				
Cash and cash equivalents	\$ 12,108,214	\$ 190	\$ 193,344	\$ 12,301,748
Receivables (net of allowance for uncollectibles)				
Accounts	1,206,677	10,104	140,400	1,357,181
Unbilled	840,348	-	133,493	973,841
Inventory	-	46,017	-	46,017
Deferred bond issuance costs	323,581	4,669	-	328,250
Total current assets	<u>14,478,820</u>	<u>60,980</u>	<u>467,237</u>	<u>15,007,037</u>
Noncurrent Assets				
Restricted Assets				
Cash and cash equivalents	7,228,581	-	-	7,228,581
Capital Assets				
Nondepreciable	5,417,618	4,444,666	349,554	10,211,838
Depreciable (net of accumulated depreciation)	32,175,281	1,438,472	2,031,498	35,645,251
Total assets	<u>59,300,300</u>	<u>5,944,118</u>	<u>2,848,289</u>	<u>68,092,707</u>
Liabilities				
Current Liabilities				
Accounts and contracts payable	211,934	824,761	634,790	1,671,485
Accrued liabilities	94,916	10,983	31,617	137,516
Accrued interest	51,385	2,249	-	53,634
Deposits	844,197	-	-	844,197
Total current liabilities	<u>1,202,432</u>	<u>837,993</u>	<u>666,407</u>	<u>2,706,832</u>
Noncurrent Liabilities				
Due within one-year	1,168,533	29,882	218	1,198,633
Due in more than one-year	12,948,640	160,939	654	13,110,233
Total noncurrent liabilities	<u>14,117,173</u>	<u>190,821</u>	<u>872</u>	<u>14,308,866</u>
Total liabilities	<u>15,319,605</u>	<u>1,028,814</u>	<u>667,279</u>	<u>17,015,698</u>
Net Assets				
Invested in capital assets, net of related debt	29,882,551	5,692,317	2,381,052	37,955,920
Unrestricted	14,098,144	(777,013)	(200,042)	13,121,089
Total net assets	<u>\$ 43,980,695</u>	<u>\$ 4,915,304</u>	<u>\$ 2,181,010</u>	<u>\$ 51,077,009</u>

City of Lancaster, Texas
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2012

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Funds	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 13,912,236	\$ 806,724	\$ 2,172,446	\$ 16,891,406
Intergovernmental	-	300,000	-	300,000
Miscellaneous	199,711	-	-	199,711
Total operating revenues	<u>14,111,947</u>	<u>1,106,724</u>	<u>2,172,446</u>	<u>17,391,117</u>
Operating Expenses				
Personnel services	1,038,556	168,195	-	1,206,751
Maintenance	239,104	138,527	245,562	623,193
Purchase of water	2,374,153	-	-	2,374,153
Materials and supplies	63,210	516,893	-	580,103
Heat, light and power	154,264	35,401	8,093	197,758
Depreciation	1,537,659	28,127	101,099	1,666,885
Benefit payments	367,711	42,913	-	410,624
Sewage treatment	3,887,939	-	-	3,887,939
Special services	417,875	30,556	2,287,697	2,736,128
Equipment rental	5,522	22,255	7,127	34,904
Total operating expenses	<u>10,085,993</u>	<u>982,867</u>	<u>2,649,578</u>	<u>13,718,438</u>
Operating Income (Loss)	<u>4,025,954</u>	<u>123,857</u>	<u>(477,132)</u>	<u>3,672,679</u>
Nonoperating Revenues (Expenses)				
Interest revenue	29,834	-	247	30,081
Interest and fiscal charges	(717,656)	(10,271)	-	(727,927)
Impact fee revenue	97,133	-	-	97,133
Other nonoperating revenue	-	31,115	-	31,115
Total nonoperating revenues (expenses)	<u>(590,689)</u>	<u>20,844</u>	<u>247</u>	<u>(569,598)</u>
Income (Loss) Before Transfers	<u>3,435,265</u>	<u>144,701</u>	<u>(476,885)</u>	<u>3,103,081</u>
Transfers				
Operating transfers in	-	-	-	-
Operating transfers out	(1,424,236)	-	(7,000)	(1,431,236)
Total transfers in/out	<u>(1,424,236)</u>	<u>-</u>	<u>(7,000)</u>	<u>(1,431,236)</u>
Change in Net Assets	2,011,029	144,701	(483,885)	1,671,845
Net Assets, Beginning of Year	<u>41,969,666</u>	<u>4,770,603</u>	<u>2,664,895</u>	<u>49,405,164</u>
Net Assets, End of Year	<u>\$ 43,980,695</u>	<u>\$ 4,915,304</u>	<u>\$ 2,181,010</u>	<u>51,077,009</u>

City of Lancaster, Texas
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2012

	Water and Sewer Fund	Airport Fund	Nonmajor Enterprise Fund	Total
Operating Activities				
Receipts from customers and users	\$ 13,668,682	\$ 831,330	\$ 2,173,949	\$ 16,673,961
Receipts from other funds	-	300,000	-	300,000
Payments to employees	(1,406,267)	(211,108)	8,967	(1,608,408)
Payments to suppliers	(6,898,960)	(916,281)	(2,124,762)	(9,940,003)
Net cash provided by (used in) operating activities	<u>5,363,455</u>	<u>3,941</u>	<u>58,154</u>	<u>5,425,550</u>
Capital and Related Financing Activities				
Acquisition and construction of capital assets	(1,245,069)	-	11	(1,245,058)
Principal payments on debt	(863,242)	(24,785)	-	(888,027)
Interest payments on debt	(387,163)	-	-	(387,163)
Cost of issuance of bonds	(85,000)	-	-	(85,000)
Proceeds from issuance of bonds	7,585,000	-	-	7,585,000
Impact fees collected	97,133	-	-	97,133
Utility deposits collected	40,824	-	-	40,824
Net cash provided by (used in) capital and financing activities	<u>5,142,483</u>	<u>(24,785)</u>	<u>11</u>	<u>5,117,709</u>
Noncapital and Related Financing Activities				
Operating transfers in from other funds	-	-	-	-
Operating transfers out to other funds	(1,424,236)	-	(7,000)	(1,431,236)
Proceeds from other nonoperating revenue	(687,822)	20,844	247	(666,731)
Net cash provided by (used in) noncapital financing activities	<u>(2,112,058)</u>	<u>20,844</u>	<u>(6,753)</u>	<u>(2,097,967)</u>
Increase in Cash and Cash Equivalents	8,393,880	-	51,412	8,445,292
Cash and Cash Equivalents, Beginning of Year	<u>10,942,915</u>	<u>190</u>	<u>141,932</u>	<u>11,085,037</u>
Cash and Cash Equivalents, End of Year	<u>\$ 19,336,795</u>	<u>\$ 190</u>	<u>\$ 193,344</u>	<u>\$ 19,530,329</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating income (loss)	\$ 4,025,954	\$ 123,857	\$ (477,132)	\$ 3,672,679
Item not requiring cash				
Depreciation and amortization	1,607,090	28,127	101,099	1,736,316
Changes in				
Accounts receivable	(443,265)	24,606	(355)	(419,014)
Inventories	-	18,289	-	18,289
Prepays	339,037	1,160	-	340,197
Other assets	(65,898)	(1,570)	-	(67,468)
Accounts payable	(148,709)	(194,280)	425,575	82,586
Accrued expenses	49,246	3,752	8,967	61,965
Net cash provided by (used in) operating activities	<u>\$ 5,363,455</u>	<u>\$ 3,941</u>	<u>\$ 58,154</u>	<u>\$ 5,425,550</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 1: Significant Accounting Policies

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

Reporting Entity

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

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

Basis of Presentation

Government-Wide Financial Statements

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

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

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

Fund Financial Statements

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

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

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

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

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

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

City of Lancaster, Texas
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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 and liabilities are included on the Statement of Net Assets. The City has presented the following major Proprietary Funds:

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

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

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

Classification of Fund Equity

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

Measurement Focus

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

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

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

City of Lancaster, Texas
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Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

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

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

Basis of Accounting

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

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

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

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

Cash Flows Statement

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

City of Lancaster, Texas
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Investments

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

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

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

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, 2012, were \$283,806 for uncollectible taxes, \$1,229,546 for water and sewer billings, \$41,272 for court fees and fines and \$2,102,991 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 are for payments made by the City in the current year to provide services occurring in the subsequent year.

Interfund Receivables and Payables

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

Transactions Between Funds

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

City of Lancaster, Texas
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Capital Assets

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

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

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

Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts

Sick leave is recorded when paid because employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one-year to the next is limited to 260 hours.

The liability for unused vested vacation leave as of September 30, 2012, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the Proprietary Funds. The amount to be paid from current available financial resources is not considered significant.

Note 2: Cash and Investments

At year-end, the carrying amount of the City’s bank deposits was \$3,884,265 (composed of \$3,863,332 related to the primary government and \$20,933 related to discretely presented component units) and the bank balances were \$5,244,090. The bank balances on September 30, 2012, were entirely covered by federal depository insurance or by collateral held by the City’s agent in the City’s name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and municipal pools. During the year ended September 30, 2012, the City did not own any types of securities other than those permitted by the statute.

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

During the year ended September 30, 2012, the City invested in TexPool and LOGIC funds. TexPool and LOGIC are investment funds authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool and LOGIC operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and LOGIC use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and LOGIC is the same as the market value of TexPool and LOGIC shares. TexPool and LOGIC are rated as an AAA money market fund by Standard and Poor's and Moody's.

Interest Rate Risk

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

Credit Risk

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

Investments at year-end are shown below:

	Carrying Amount	Fair Value	Weighted- Average Maturity (Years)
Primary Government			
Texpool	\$ 16,770,135	\$ 16,770,135	0.003
LOGIC	<u>16,291,389</u>	<u>16,291,389</u>	0.003
Total primary government	<u>33,061,524</u>	<u>33,061,524</u>	
Component Units			
Texpool	2,236,963	2,236,963	0.003
LOGIC	<u>2,173,104</u>	<u>2,173,104</u>	0.003
Total component units	<u>4,410,067</u>	<u>4,410,067</u>	
Total	<u>\$ 37,471,591</u>	<u>\$ 37,471,591</u>	

City of Lancaster, Texas
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Note 3: Property Taxes

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1, and are due and payable on or before January 31, of the following year. All unpaid taxes become delinquent February 1, of the following year. Tax collections for the year ended September 30, 2012, were 91.0% 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 revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the state of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, 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, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2012, the City had a tax rate of \$.8675 per \$100.00 assessed valuation, of which \$.6502 was allocated for general government and \$.2173 was allocated for the payment of principal and interest on general obligation debt.

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

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

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Note 4: Interfund Transactions

At September 30, 2012, interfund balances and transactions, excluding discretely presented component units were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,535,236	\$ -
HUD Fund	-	62,000
Nonmajor Governmental Funds	-	42,000
Water and Sewer Fund	-	1,424,236
Airport Fund	-	7,000
	<u>\$ 1,535,236</u>	<u>\$ 1,535,236</u>

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

Note 5: Fixed Assets

Governmental Funds

Capital assets of the Governmental Funds are as follows:

	<u>Balance September 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2012</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 13,214,268	\$ -	\$ -	\$ 13,214,268
Construction in progress	5,922,209	12,624,654	(515,126)	18,031,737
Total capital assets not being depreciated	<u>19,136,477</u>	<u>12,624,654</u>	<u>(515,126)</u>	<u>31,246,005</u>
Capital assets being depreciated				
Buildings	24,487,196	-	-	24,487,196
Improvements	94,028,146	515,126	-	94,543,272
Equipment and furniture	15,612,515	-	(214,670)	15,397,845
Total capital assets being depreciated	134,127,857	515,126	(214,670)	134,428,313
Less accumulated depreciation	<u>53,319,327</u>	<u>3,961,573</u>	<u>(214,670)</u>	<u>57,066,230</u>
Total capital assets being depreciated, net	<u>80,808,530</u>	<u>(3,446,447)</u>	<u>-</u>	<u>77,362,083</u>
Governmental activities capital assets, net	<u>\$ 99,945,007</u>	<u>\$ 9,178,207</u>	<u>\$ (515,126)</u>	<u>\$ 108,608,088</u>

City of Lancaster, Texas
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Depreciation expense was charged as a direct expense to programs of the primary government as follows:

General and administrative	\$ 575,276
Public safety	1,027,203
Public works	2,216,214
Community development and recreation	<u>142,880</u>
Total depreciation expense – governmental activities	<u><u>\$ 3,961,573</u></u>

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2011	Increases	Decreases	Balance September 30, 2012
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 4,879,781	\$ -	\$ -	\$ 4,879,781
Construction in progress	<u>4,759,158</u>	<u>1,245,058</u>	<u>(672,159)</u>	<u>5,332,057</u>
Total capital assets not being depreciated	<u>9,638,939</u>	<u>1,245,058</u>	<u>(672,159)</u>	<u>10,211,838</u>
Capital assets being depreciated				
Plants and buildings	4,950,436	-	-	4,950,436
Improvements	55,664,932	672,159	-	56,337,091
Runways and taxiways	3,422,564	-	-	3,422,564
Other structures	951,622	-	-	951,622
Machinery and equipment	<u>2,803,307</u>	<u>-</u>	<u>-</u>	<u>2,803,307</u>
Total capital assets being depreciated	67,792,861	672,159	-	68,465,020
Less accumulated depreciation	<u>31,083,453</u>	<u>1,736,316</u>	<u>-</u>	<u>32,819,769</u>
Total capital assets being depreciated, net	<u>36,709,408</u>	<u>(1,064,157)</u>	<u>-</u>	<u>35,645,251</u>
Business-type activities capital assets, net	<u><u>\$ 46,348,347</u></u>	<u><u>\$ 180,901</u></u>	<u><u>\$ (672,159)</u></u>	<u><u>\$ 45,857,089</u></u>

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

Water and sewer	\$ 1,607,090
Airport	28,127
Golf	<u>101,099</u>
Total depreciation expense – business-type activities	<u><u>\$ 1,736,316</u></u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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Discretely Presented Component Units

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

	Balance September 30, 2011	Increases	Decreases	Balance September 30, 2012
Lancaster Economic Development Corporation Capital assets not being depreciated				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Total capital assets not being depreciated	<u>\$ 100,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,378</u>

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

	Balance September 30, 2011	Increases	Decreases	Balance September 30, 2012
Lancaster Recreational Development Corporation Capital assets not being depreciated				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated				
Buildings	15,797,360	-	-	15,797,360
Park structures	3,965,809	-	-	3,965,809
Equipment and furniture	<u>443,048</u>	<u>6,076</u>	<u>-</u>	<u>449,124</u>
Total capital assets being depreciated	20,206,217	6,076	-	20,212,293
Less accumulated depreciation	<u>8,044,989</u>	<u>1,028,163</u>	<u>-</u>	<u>9,073,152</u>
Total capital assets being depreciated, net	<u>12,161,228</u>	<u>(1,022,087)</u>	<u>-</u>	<u>11,139,141</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 13,150,346</u>	<u>\$ (1,022,087)</u>	<u>\$ -</u>	<u>\$ 12,128,259</u>

City of Lancaster, Texas
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September 30, 2012

Note 6: Long-term Liabilities

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

	Balance September 30, 2011	Additions	Retirements	Balance September 30, 2012	Due Within One-Year
Governmental Activities					
General obligation bonds	\$ 51,616,531	\$ 11,650,000	\$ (12,156,531)	\$ 51,110,000	\$ 1,320,000
Certificates of obligation	24,965,000	-	(2,650,000)	22,315,000	735,000
Notes payable	-	5,690,060	-	5,690,060	411,832
Premiums on bond debt	261,427	1,417,588	(139,565)	1,539,450	-
Deferred loss on refunding	(712,149)	(590,522)	101,089	(1,201,582)	-
Compensated absences	2,571,753	-	(205,019)	2,366,734	860,896
OPEB liability	47,091	47,355	-	94,446	-
Capital leases	268,975	366,345	(178,029)	457,291	121,073
Total governmental activities	<u>\$ 79,018,628</u>	<u>\$ 18,580,826</u>	<u>\$ (15,228,055)</u>	<u>\$ 82,371,399</u>	<u>\$ 3,448,801</u>
Business-type Activities					
General obligation bonds	\$ 5,113,471	\$ 590,000	\$ (1,003,471)	\$ 4,700,000	\$ 670,000
Notes payable	72,552	-	(15,921)	56,631	18,633
Certificates of obligation	2,360,000	7,585,000	(520,000)	9,425,000	510,000
Premiums on bond debt	184,264	50,908	(30,095)	205,077	-
Deferred loss on refunding	(67,053)	(75,893)	14,676	(128,270)	-
Revenue bonds	370,000	-	(370,000)	-	-
Compensated absences	50,822	-	(394)	50,428	-
Total business-type activities	<u>\$ 8,084,056</u>	<u>\$ 8,150,015</u>	<u>\$ (1,925,205)</u>	<u>\$ 14,308,866</u>	<u>\$ 1,198,633</u>
Discretely Presented					
Component units					
Notes payable to primary government	<u>\$ 11,775,000</u>	<u>\$ -</u>	<u>\$ (650,000)</u>	<u>11,125,000</u>	<u>\$ 685,000</u>
Total discretely presented component units	<u>\$ 11,775,000</u>	<u>\$ -</u>	<u>\$ (650,000)</u>	<u>\$ 11,125,000</u>	<u>\$ 685,000</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.

City of Lancaster, Texas
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September 30, 2012

General obligation bonds, revenue bonds, certificates of obligation, notes payable and capital leases outstanding at September 30, 2012, consist of the following:

	Governmental Activities	Water and Sewer	Airport	Total Primary Government
<u>General Obligation Bonds</u>				
\$24,300,000, 2007 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% – 5.00%	\$ 16,950,000	\$ 4,060,000	\$ 50,000	\$ 21,060,000
\$22,995,000, 2010 General Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	22,510,000	-	-	22,510,000
\$12,240,000, 2012 General Obligation Refunding Bonds, due in annual installments through February 15, 2024, 2.00% – 5.00%	<u>11,650,000</u>	<u>520,000</u>	<u>70,000</u>	<u>12,240,000</u>
	<u>\$ 51,110,000</u>	<u>\$ 4,580,000</u>	<u>\$ 120,000</u>	<u>\$ 55,810,000</u>
<u>Certificates of Obligation</u>				
\$3,210,000, 2003 Certificate of Obligation Bonds, due in annual installments through February 15, 2023, 3.25% – 4.50%	\$ 155,000	\$ -	\$ -	\$ 155,000
\$14,565,000, 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% – 4.375%	10,410,000	2,140,000	-	12,550,000
\$12,000,000, 2010 Certificate of Obligation Build America Bonds, due in annual installments through February 15, 2032, 1.82% – 6.53%	11,750,000	-	-	11,750,000
\$7,585,000, 2011 Certificate of Obligation Bonds, due in annual installments through August 15, 2031, 2.00% – 3.50%	<u>-</u>	<u>7,285,000</u>	<u>-</u>	<u>7,285,000</u>
	<u>\$ 22,315,000</u>	<u>\$ 9,425,000</u>	<u>\$ -</u>	<u>\$ 31,740,000</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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<u>Note Payable</u>	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>	<u>Discretely Presented Component Units</u>
\$11,530,000 note payable, due in annual installments through February 15, 2024; 3.00% – 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 8,590,000
\$3,035,000 note payable, due in annual installments through February 15, 2027; 4.00% – 4.375%	-	-	-	-	2,535,000
\$116,441 note payable, due in monthly installments through July 1, 2015; 7.5%	-	-	56,631	56,631	-
\$5,690,000 note payable, due in annual installments through July 1, 2022; 7.00%	<u>5,690,060</u>	<u>-</u>	<u>-</u>	<u>5,690,060</u>	<u>-</u>
	<u>\$ 5,690,060</u>	<u>\$ -</u>	<u>\$ 56,631</u>	<u>\$ 5,746,691</u>	<u>\$ 11,125,000</u>
 <u>Capital Leases</u>					
\$500,000 Lease Purchase Agreement due in annual installments through January 1, 2012; 4.38%	\$ 19,231	\$ -	\$ -	\$ 19,231	\$ -
\$265,987 Lease Purchase Agreement due in annual installments through September 30, 2015; 5.00%	136,168	-	-	136,168	-
\$366,345 Lease Purchase Agreement due in monthly installments through November 4, 2016; 2.15%	<u>301,892</u>	<u>-</u>	<u>-</u>	<u>301,892</u>	<u>-</u>
	<u>\$ 457,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,291</u>	<u>\$ -</u>

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

As of September 30, 2012, property and equipment under capital leases is carried at \$1,386,705, with \$459,059 in accumulated depreciation.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

The annual requirements to amortize the long-term debt as of September 30, 2012, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,320,000	\$ 1,764,953	\$ 3,084,953	\$ 670,000	\$ 206,200	\$ 876,200
2014	1,475,000	1,741,279	3,216,279	695,000	177,675	872,675
2015	1,545,000	1,713,604	3,258,604	730,000	144,750	874,750
2016	1,665,000	1,682,043	3,347,043	775,000	108,475	883,475
2017	1,795,000	1,637,619	3,432,619	770,000	70,025	840,025
2018 – 2022	12,610,000	10,127,329	22,737,329	970,000	61,075	1,031,075
2023 – 2027	11,010,000	7,106,432	18,116,432	90,000	3,600	93,600
2028 – 2032	10,545,000	4,452,455	14,997,455	-	-	-
2033 – 2037	5,345,000	2,141,999	7,486,999	-	-	-
2038 – 2040	3,800,000	378,950	4,178,950	-	-	-
Total	<u>\$ 51,110,000</u>	<u>\$ 32,746,663</u>	<u>\$ 83,856,663</u>	<u>\$ 4,700,000</u>	<u>\$ 771,800</u>	<u>\$ 5,471,800</u>

Certificates of Obligation						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 735,000	\$ 1,219,485	\$ 1,954,485	\$ 510,000	\$ 283,763	\$ 793,763
2014	620,000	1,111,810	1,731,810	525,000	265,963	790,963
2015	695,000	1,087,187	1,782,187	395,000	253,463	648,463
2016	715,000	1,059,630	1,774,630	405,000	243,463	648,463
2017	740,000	1,030,099	1,770,099	420,000	233,163	653,163
2018 – 2022	4,155,000	4,629,361	8,784,361	2,315,000	998,941	3,313,941
2023 – 2027	5,095,000	3,533,326	8,628,326	2,835,000	612,125	3,447,125
2028 – 2032	4,770,000	2,241,840	7,011,840	2,020,000	174,606	2,194,606
2033 – 2037	2,805,000	1,121,348	3,926,348	-	-	-
2038 – 2040	1,985,000	197,962	2,182,962	-	-	-
Total	<u>\$ 22,315,000</u>	<u>\$ 17,232,048</u>	<u>\$ 39,547,048</u>	<u>\$ 9,425,000</u>	<u>\$ 3,065,487</u>	<u>\$ 12,490,487</u>

Note Payable						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 411,832	\$ 398,304	\$ 810,136	\$ 18,633	\$ 2,514	\$ 21,147
2014	440,661	369,476	810,137	20,951	1,297	22,248
2015	471,507	338,630	810,137	17,047	97	17,144
2016	504,512	305,624	810,136	-	-	-
2017	539,828	270,308	810,136	-	-	-
2018 – 2022	3,321,720	728,963	4,050,683	-	-	-
Total	<u>\$ 5,690,060</u>	<u>\$ 2,411,305</u>	<u>\$ 8,101,365</u>	<u>\$ 56,631</u>	<u>\$ 3,908</u>	<u>\$ 60,539</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Note Payable			
Fiscal Year	Component Unit		
	Principal	Interest	Total
2013	\$ 685,000	\$ 459,795	\$ 1,144,795
2014	715,000	433,360	1,148,360
2015	740,000	405,147	1,145,147
2016	770,000	374,935	1,144,935
2017	800,000	342,729	1,142,729
2018 – 2022	4,615,000	1,150,962	5,765,962
2023 – 2027	<u>2,800,000</u>	<u>196,659</u>	<u>2,996,659</u>
Total	<u>\$ 11,125,000</u>	<u>\$ 3,363,587</u>	<u>\$ 14,488,587</u>

Capital Leases			
Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2013	\$ 121,073	\$ 6,085	\$ 127,158
2014	121,255	4,344	125,599
2015	108,142	2,568	110,710
2016	<u>106,821</u>	<u>757</u>	<u>107,578</u>
Total	<u>\$ 457,291</u>	<u>\$ 13,754</u>	<u>\$ 471,045</u>

Note 7: Retirement Plan

Plan Description

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

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

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:

	December 31,	
	2012	2011
Deposit rate	7%	7%
Matching ratio (City to employee)	2 – 1	2 – 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	50% of CPI Repeating	70% of CPI Repeating

Contributions

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

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

Annual Pension Cost

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

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

	December 31,		
	2011	2010	2009
<u>Actuarial Information</u>			
Actuarial cost method	Project Unit Credit	Project Unit Credit	Project Unit Credit
Amortization method	Level %	Level %	Level %
Amortization period	26.0 years-closed period	27.2 years-closed period	28 years-closed period
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Assumption			
Investment return	7.0%	7.0%	7.5%
Projected salary increases	varies by age and services	varies by age and services	varies by age and services
Inflation	3.0%	3.0%	3.0%
Cost of living adjustment	1.5%	2.1%	2.1%
City specific assumptions			
Payroll growth assumption	3.00%	3.00%	3.00%
Withdrawal rates for male/female (low, mid/low, mid, mid/high or high)	Mid-High/High	Mid-High/High	Mid-High/High
<u>Schedule of Funding Information</u>			
	2011	2010	2009
Actuarial value of assets	\$ 46,173,703	\$ 43,023,260	\$ 29,362,600
Actuarial accrued liability	\$ 57,355,776	\$ 58,639,756	\$ 45,558,535
Unfunded (over funded) Actuarial Accrued Liability (UAAL)	\$ 11,182,073	\$ 15,616,496	\$ 16,195,935
Funded ratio	80.5%	73.4%	64.5%
Annual covered payroll	\$ 12,581,296	\$ 13,835,321	\$ 14,525,485
UAAL as a percentage of covered payroll	88.9%	112.9%	111.5%

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

The City's net pension obligation (NPO) for TMRS at December 31, 2011, 2010 and 2009, is calculated as follows:

Actuarial valuation date	December 31,		
	2011	2010	2009
NPO, beginning of year	\$ -	\$ -	\$ -
Annual pension cost	1,952,302	1,866,885	1,764,806
Annual required contribution (ARC)	(1,952,302)	(1,866,885)	(1,764,806)
Contributions made	<u>-</u>	<u>-</u>	<u>-</u>
NPO, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Supplemental Death Benefit Fund

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

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

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

The City's contributions to SDBF for the fiscal years ended September 30, 2012, 2011 and 2010, were, \$12,185, \$19,908 and \$25,157, respectively, which equaled the required contributions each year.

Note 8: Other Post Employment Benefits

Plan Description

The City provides post employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Benefits Provided

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

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

As of September 30, 2012, membership consisted of:

Retirees and beneficiaries receiving benefits	15
Active employees	207
Total	222

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 \$556 per month for retiree-only coverage, \$1,224 per month for retiree and spouse and \$1,895 per month for retiree and family. Members receiving PPO medical benefits contribute \$617 per month for retiree-only coverage, \$1,357 per month for retiree and spouse and \$2,100 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, 2012

Annual OPEB Costs

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2012:

Annual required contribution	\$ 115,634
Interest on prior year net OPEB obligation	3,785
Adjustment to annual required contribution	<u>(3,507)</u>
Annual OPEB cost	115,912
Contributions made	<u>(68,557)</u>
Increase in net OPEB obligation	47,355
Net obligation, beginning of year	<u>47,091</u>
Net obligation, end of year	<u>\$ 94,446</u>
Percentage of OPEB costs contributed	73%

Funded Status and Funding Progress

The funded status of the plan as of actuarial measurement date of December 31, 2011, was as follows:

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

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Actuarial Methods and Assumptions

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

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

Note 9: Commitments and Contingencies

Risk Management

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

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2012, was \$3,785,975, for the Ten Mile Creek Regional Wastewater System and \$101,764, 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, 2012.

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2012, may be impaired.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2012

Other Contingencies

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

Note 10: Excess of Expenditures Over Appropriations

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

<u>Fund</u>	<u>Excess of Expenditures Over Appropriations</u>
HUD Fund	\$ (282,269)

Note 11: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Required Supplementary Information

City of Lancaster, Texas
Required Supplementary Information
Schedule of Funding Progress for Participation in Texas
Municipal Retirement System
September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Aal (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	[1]	[2]	[3] [1]-[2]	[4] [2]-[1]	[5]	[6] [4]-[5]
12/31/2009	\$ 29,362,600	\$ 45,558,535	64.5%	\$ 16,195,935	\$ 13,887,238	116.6%
12/31/2010	\$ 43,023,260	\$ 58,639,756	73.4%	\$ 15,616,496	\$ 13,835,321	112.9%
12/31/2011	\$ 46,173,703	\$ 57,355,776	80.5%	\$ 11,182,073	\$ 12,581,296	88.9%

City of Lancaster, Texas
Required Supplementary Information
Employees' Other Post Employment Benefits Plan
Analysis of Funding Progress
(Unaudited)
September 30, 2012

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

City of Lancaster, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and fees	\$ 15,496,430	\$ 15,493,969	\$ 17,119,024	\$ 1,625,055
Licenses and permits	477,814	477,814	586,567	108,753
Intergovernmental	275,000	290,000	202,691	(87,309)
Charges for services	514,532	512,832	671,295	158,463
Fines and forfeits	848,361	844,861	839,766	(5,095)
Interest	6,000	6,000	6,045	45
Miscellaneous	378,615	363,615	404,762	41,147
	<u>17,996,752</u>	<u>17,989,091</u>	<u>19,830,150</u>	<u>1,841,059</u>
Expenditures				
Current				
General government	3,462,041	3,465,041	3,200,473	264,568
Public safety	13,227,595	13,234,591	13,070,881	163,710
Public works	1,952,063	1,952,063	2,095,799	(143,736)
Community development and recreation	765,342	766,042	741,190	24,852
Capital outlay	-	-	383,845	(383,845)
	<u>19,407,041</u>	<u>19,417,737</u>	<u>19,492,188</u>	<u>(74,451)</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(1,410,289)</u>	<u>(1,428,646)</u>	<u>337,962</u>	<u>1,766,608</u>
Other financing sources				
Operating transfers in	1,535,256	1,528,916	1,535,236	6,320
Capital leases issued	-	-	366,345	366,345
	<u>1,535,256</u>	<u>1,528,916</u>	<u>1,901,581</u>	<u>372,665</u>
Net Change in Fund Balances	124,967	100,270	2,239,543	2,139,273
Fund Balance, Beginning of Year	<u>4,554,413</u>	<u>4,554,413</u>	<u>4,554,413</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 4,679,380</u>	<u>\$ 4,654,683</u>	<u>\$ 6,793,956</u>	<u>\$ 2,139,273</u>

City of Lancaster, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – HUD Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 8,338,458	\$ 8,338,458	\$ 8,344,102	\$ 5,644
Interest	5,656	5,757	1,182	(4,575)
Miscellaneous	48,055	48,055	62,891	14,836
Total revenues	8,392,169	8,392,270	8,408,175	15,905
Expenditures				
Social and welfare	8,210,738	8,210,738	8,493,007	(282,269)
Excess of revenues (deficiencies) over expenditures (under)	181,431	181,532	(84,832)	(266,364)
Other financing uses				
Operating transfers out	(62,000)	(62,000)	(62,000)	-
Total other financing uses	(62,000)	(62,000)	(62,000)	-
Net Change in Fund Balance	119,431	119,532	(146,832)	(266,364)
Fund Balance, Beginning of Year	1,097,652	1,097,652	1,097,652	-
Fund Balance, End of Year	<u>\$ 1,217,083</u>	<u>\$ 1,217,184</u>	<u>\$ 950,820</u>	<u>\$ (266,364)</u>

City of Lancaster, Texas
Notes to Required Supplementary Information
September 30, 2012

Budgets and Budgetary Accounting

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

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

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

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

1. A proposed operating budget including proposed expenditures and the means of financing them is submitted to the City Council by the City Manager.
2. Upon receipt of the budget estimates, the 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.

Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of appropriations for the fiscal year ended September 30, 2012:

Fund	Excess of Expenditures Over Appropriations
HUD Fund	\$ (282,269)

**Individual Fund and Nonmajor Combining
Statements and Schedules**

City of Lancaster, Texas
Nonmajor Governmental Funds
September 30, 2012

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Stormwater Drainage Fund – to account for revenues received from a fee charged for the development of the City’s storm sewer drainage system.

Public Improvement Districts Fund – to account for the activities of the public improvement districts of the City.

Police State Seized Fund – to account for the activities of related funds awarded to the City by the Courts.

Police Federal Seized Fund – to account for the activities of related funds awarded to the City by the Courts.

Hotel/Motel Fund – to account for the revenues received from a hotel and motel tax.

Emergency 911 Fund – to account for revenues received from a fee charged for emergency services.

City of Lancaster, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

Assets	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel/ Fund	Emergency 911 Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 647,056	\$ 203,875	\$ 4,294	\$ 3,764	\$ 264,511	\$ 393,007	\$ 1,516,507
Receivables (net of allowance for uncollectibles)							
Delinquent taxes	-	7,152	-	-	37,862	-	45,014
Accounts receivable	216,119	-	-	-	-	10,262	226,381
Prepaid items	3,519	-	-	-	-	-	3,519
Total assets	\$ 866,694	\$ 211,027	\$ 4,294	\$ 3,764	\$ 302,373	\$ 403,269	\$ 1,791,421
Liabilities and Fund Balances							
Liabilities							
Accounts and contracts payable	\$ 24,479	\$ 15,118	\$ 444	\$ 75	\$ 3,408	\$ 3,664	\$ 47,188
Accrued liabilities	9,287	-	-	-	-	3,995	13,282
Deferred revenue	-	6,833	-	-	-	-	6,833
Total liabilities	33,766	21,951	444	75	3,408	7,659	67,303
Fund balances							
Restricted for							
Public works	832,928	-	-	-	-	-	832,928
Public improvement districts	-	189,076	-	-	-	-	189,076
Police grants	-	-	3,850	3,689	-	-	7,539
Tourism, convention centers, arts	-	-	-	-	298,965	-	298,965
Law enforcement purposes	-	-	-	-	-	395,610	395,610
Total fund balances	832,928	189,076	3,850	3,689	298,965	395,610	1,724,118
Total liabilities and fund balances	\$ 866,694	\$ 211,027	\$ 4,294	\$ 3,764	\$ 302,373	\$ 403,269	\$ 1,791,421

City of Lancaster, Texas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2012

	Stormwater Drainage Fund	Public Improvement Districts Fund	Police State Seized Fund	Police Federal Seized Fund	Hotel/ Motel Fund	Emergency 911 Fund	Total Nonmajor Governmental Funds
Revenues							
Taxes and fees	\$ 1,201,745	\$ 328,160	\$ -	\$ -	\$ 94,120	\$ -	\$ 1,624,025
Licenses and permits	-	-	-	-	-	271,274	271,274
Intergovernmental	35,852	-	-	-	-	-	35,852
Miscellaneous	-	-	1,501	-	15,600	-	17,101
Interest	525	120	4	23	280	306	1,258
	<u>1,238,122</u>	<u>328,280</u>	<u>1,505</u>	<u>23</u>	<u>110,000</u>	<u>271,580</u>	<u>1,949,510</u>
Total revenues							
Expenditures							
Current							
Public safety	-	-	963	2,503	-	116,559	120,025
Public works	777,279	-	-	-	-	-	777,279
Community development and recreation	-	224,280	-	-	63,179	-	287,459
Debt service							
Principal retirement	25,000	-	-	-	-	-	25,000
Interest and fiscal charges	28,870	-	-	-	-	-	28,870
	<u>831,149</u>	<u>224,280</u>	<u>963</u>	<u>2,503</u>	<u>63,179</u>	<u>116,559</u>	<u>1,238,633</u>
Total expenditures							
Excess (Deficiency) of revenues over (under) expenditures	<u>406,973</u>	<u>104,000</u>	<u>542</u>	<u>(2,480)</u>	<u>46,821</u>	<u>155,021</u>	<u>710,877</u>
Other Financing Uses							
Operating transfers out	(42,000)	-	-	-	-	-	(42,000)
	<u>(42,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,000)</u>
Total other financing uses							
Net Change in Fund Balances	364,973	104,000	542	(2,480)	46,821	155,021	668,877
Fund Balances, Beginning of Year	<u>467,955</u>	<u>85,076</u>	<u>3,308</u>	<u>6,169</u>	<u>252,144</u>	<u>240,589</u>	<u>1,055,241</u>
Fund Balances, End of Year	<u>\$ 832,928</u>	<u>\$ 189,076</u>	<u>\$ 3,850</u>	<u>\$ 3,689</u>	<u>\$ 298,965</u>	<u>\$ 395,610</u>	<u>\$ 1,724,118</u>

City of Lancaster, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Stormwater Drainage Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and fees	\$ 1,260,000	\$ 1,260,000	\$ 1,201,745	\$ (58,255)
Intergovernmental	-	-	35,852	35,852
Interest	-	-	525	525
Total revenues	<u>1,260,000</u>	<u>1,260,000</u>	<u>1,238,122</u>	<u>(21,878)</u>
Expenditures				
Current				
Public works	865,514	865,514	777,279	88,235
Debt service				
Principal retirement	25,000	25,000	25,000	-
Interest and fiscal charges	<u>23,013</u>	<u>23,013</u>	<u>28,870</u>	<u>(5,857)</u>
Total expenditures	<u>913,527</u>	<u>913,527</u>	<u>831,149</u>	<u>82,378</u>
Excess of revenues over expenditures	<u>346,473</u>	<u>346,473</u>	<u>406,973</u>	<u>60,500</u>
Other financing uses				
Operating transfers out	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Total other financing sources	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Net Change in Fund Balances	304,473	304,473	364,973	60,500
Fund Balance, Beginning of Year	<u>467,955</u>	<u>467,955</u>	<u>467,955</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 772,428</u>	<u>\$ 772,428</u>	<u>\$ 832,928</u>	<u>\$ 60,500</u>

City of Lancaster, Texas
Nonmajor Proprietary Funds
September 30, 2012

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing the goods or services to the general public on a continuing basis will be financed or recovered through user charges. The City has two Nonmajor Enterprise Funds, which include the following:

Golf Course Fund – to account for the operation of the City’s golf course.

Refuse Fund – to account for the operation of the City’s refuse services.

City of Lancaster, Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2012

Assets

	Golf Course Fund	Refuse Fund	Total Nonmajor Enterprise Funds
Current Assets			
Cash and cash equivalents	\$ 193,344	\$ -	\$ 193,344
Receivables (net of allowance for uncollectibles)			
Accounts	-	140,400	140,400
Unbilled	-	133,493	133,493
Capital assets			
Nondepreciable	349,554	-	349,554
Depreciable (net of accumulated depreciation)	2,031,498	-	2,031,498
	<hr/>	<hr/>	<hr/>
Total assets	2,574,396	273,893	2,848,289
	<hr/>	<hr/>	<hr/>

Liabilities

Current Liabilities			
Accounts and contracts payable	6,692	628,098	634,790
Accrued liabilities	330	31,287	31,617
Noncurrent liabilities			
Due in one-year	-	218	218
Due in more than one-year	-	654	654
	<hr/>	<hr/>	<hr/>
Total liabilities	7,022	660,257	667,279
	<hr/>	<hr/>	<hr/>

Net Assets (Deficit)

Invested in capital assets, net of related debt	2,381,052	-	2,381,052
Unrestricted	186,322	(386,364)	(200,042)
	<hr/>	<hr/>	<hr/>
	\$ 2,567,374	\$ (386,364)	\$ 2,181,010
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Lancaster, Texas
Combining Statement of Revenues, Expenses and Changes in Net Assets
Nonmajor Enterprise Funds
Year Ended September 30, 2012

	Golf Course Fund	Refuse Fund	Total Nonmajor Enterprise Funds
Operating Revenues			
Charges for services	\$ 94,847	\$ 2,077,599	\$ 2,172,446
Total operating revenues	<u>94,847</u>	<u>2,077,599</u>	<u>2,172,446</u>
Operating Expenses			
Maintenance	29,392	216,170	245,562
Heat, light and power	8,093	-	8,093
Depreciation and amortization	101,099	-	101,099
Special services	1,037	2,286,660	2,287,697
Equipment rental	-	7,127	7,127
Total operating expenses	<u>139,621</u>	<u>2,509,957</u>	<u>2,649,578</u>
Operating Loss	<u>(44,774)</u>	<u>(432,358)</u>	<u>(477,132)</u>
Nonoperating Revenues (Expenses)			
Interest revenue	218	29	247
Interest and fiscal charges	-	-	-
Other nonoperating revenue	-	-	-
Total nonoperating revenues (expenses)	<u>218</u>	<u>29</u>	<u>247</u>
Loss Before Transfers	(44,556)	(432,329)	(476,885)
Transfers out	<u>(7,000)</u>	<u>-</u>	<u>(7,000)</u>
Change in Net Assets (Deficit)	(51,556)	(432,329)	(483,885)
Net Assets, Beginning of Year	<u>2,618,930</u>	<u>45,965</u>	<u>2,664,895</u>
Net Assets (Deficit), End of Year	<u>\$ 2,567,374</u>	<u>\$ (386,364)</u>	<u>\$ 2,181,010</u>

City of Lancaster, Texas
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year Ended September 30, 2012

	Golf Course Fund	Refuse Fund	Total Nonmajor Enterprise Fund
Operating Activities			
Receipts from customers and users	\$ 96,705	\$ 2,077,244	\$ 2,173,949
Receipts from other funds	-	-	-
Payments to employees	-	8,967	8,967
Payments to suppliers	(38,522)	(2,086,240)	(2,124,762)
Net cash provided by (used in) operating activities	58,183	(29)	58,154
Capital and Related Financing Activities			
Acquisition and construction of fixed assets	11	-	11
Net cash used in capital and financing activities	11	-	11
Noncapital and Related Financing Activities			
Operating transfers out to other funds	(7,000)	-	(7,000)
Proceeds from other nonoperating revenue	218	29	247
Net cash provided by (used in) noncapital financing activities	(6,782)	29	(6,753)
Increase (Decrease) in Cash and Cash Equivalents	51,412	-	51,412
Cash and Cash Equivalents, Beginning of Year	141,932	-	141,932
Cash and Cash Equivalents, End of year	\$ 193,344	\$ -	\$ 193,344
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	(44,774)	(432,358)	(477,132)
Items not requiring (providing) cash			
Depreciation and amortization	101,099	-	101,099
Changes in			
Accounts receivable	-	(355)	(355)
Accounts payable	1,858	423,717	425,575
Accrued expenses	-	8,967	8,967
Net Cash Provided By (Used In) Operating Activities	\$ 58,183	\$ (29)	\$ 58,154

City of Lancaster, Texas
Discretely Presented Component Units
September 30, 2012

Lancaster Economic Development Corporation – to account for revenues from an industrial development sales tax to spur increased economic development activity within the City.

Lancaster Recreational Development Corporation – to account for revenues from a sales and use tax for the development of parks and recreational facilities.

City of Lancaster, Texas
Balance Sheet
Economic Development Corporation
September 30, 2012

Assets

Cash and cash equivalents	\$ 3,035,295
Sales tax receivable	<u>184,268</u>
Total assets	<u>3,219,563</u>

Liabilities

Accounts payable	455
Accrued liabilities	<u>994</u>
Total liabilities	<u>1,449</u>

Fund Balance

Unassigned	<u>3,218,114</u>
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Total Fund Balance

3,218,114

Total Liabilities and Fund Balance

\$ 3,219,563

City of Lancaster, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Economic Development Corporation
September 30, 2012

Total fund balance – governmental funds	\$ 3,218,114
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>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.</p>	(13,506)
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.</p>	100,378
<p>Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.</p>	<u>(2,535,000)</u>
Total net assets – governmental activities	<u><u>\$ 769,986</u></u>

City of Lancaster, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Economic Development Corporation
Year Ended September 30, 2012

Revenues	
Taxes and fees	\$ 1,132,868
Interest	3,240
	<u>1,136,108</u>
Total revenues	<u>1,136,108</u>
Expenditures	
Cultural and recreation	574,613
Debt service	
Principal retirement	120,000
Interest and fiscal charges	109,326
	<u>803,939</u>
Total expenditures	<u>803,939</u>
Net Change in Fund Balance	332,169
Fund Balance, Beginning of Year	<u>2,885,945</u>
Fund Balance, End of Year	<u><u>\$ 3,218,114</u></u>

City of Lancaster, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the
Statement of Activities
Economic Development Corporation
Year Ended September 30, 2012

Net change in fund balance	\$ 332,169
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	120,000
<p>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.</p>	<u>588</u>
Change in net assets of governmental activities	<u><u>\$ 452,757</u></u>

City of Lancaster, Texas
Balance Sheet
Recreational Development Corporation
September 30, 2012

Assets

Cash and cash equivalents	\$ 1,395,705
Sales tax receivable	<u>379,957</u>
Total assets	1,775,662

Liabilities

Accounts payable	56,422
Accrued liabilities	45,990
Due to primary government	<u>528,753</u>
Total liabilities	<u>631,165</u>

Fund Balance	
Unassigned	<u>1,144,497</u>

Total Liabilities and Fund Balance	<u><u>\$ 1,775,662</u></u>
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City of Lancaster, Texas
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
Recreational Development Corporation
September 30, 2012

Total fund balance – governmental funds	\$ 1,144,497
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.</p>	12,128,259
<p>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.</p>	(47,017)
<p>Long-term liabilities, including notes 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 a note payable.</p>	<u>(8,590,000)</u>
Total net assets – governmental activities	<u><u>\$ 4,635,739</u></u>

City of Lancaster, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Recreational Development Corporation
Year Ended September 30, 2012

Revenues	
Taxes and fees	\$ 2,265,736
Charges for services	650,346
Intergovernmental	97,291
Miscellaneous	463,167
Interest	<u>932</u>
Total revenues	<u>3,477,472</u>
Expenditures	
Cultural and recreation	1,751,366
Capital outlay	7,440
Debt service	
Principal retirement	530,000
Interest and fiscal charges	<u>192,708</u>
Total expenditures	<u>2,481,514</u>
Net Change in Fund Balance	995,958
Fund Balance, Beginning of Year	<u>148,539</u>
Fund Balance, End of Year	<u><u>\$ 1,144,497</u></u>

City of Lancaster, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the
Statement of Activities
Recreational Development Corporation
Year Ended September 30, 2012

Net change in fund balance	\$ 995,958
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the amount of capital outlay recorded as capital assets in the current period.</p>	7,440
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>	(1,028,163)
<p>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.</p>	530,000
<p>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.</p>	<u>906</u>
Change in net assets of governmental activities	<u><u>\$ 506,141</u></u>