



OFFICIAL STATEMENT

Dated March 22, 2010

Ratings:
Moody's: "A2"
S&P: "A"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

See "TAX MATTERS FOR BUILD AMERICA BONDS" for a discussion of the opinions of Special Tax Counsel and other possible tax consequences of an investment in the Bonds. Interest on any Bonds designated by the City as Build America Bonds is not excludable from gross income for federal income tax purposes.



\$22,995,000
CITY OF LANCASTER, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, TAXABLE SERIES 2010A
(BUILD AMERICAN BONDS - DIRECT PAYMENT)

Dated Date: March 15, 2010

Due: February 15, as shown on page 2 herein

PAYMENT TERMS . . . Principal of and interest on the \$22,995,000 City of Lancaster, Texas General Obligation Bonds, Taxable Series 2010A (Build America Bonds - Direct Payment) (the "Bonds") issued by the City of Lancaster, Texas (the "City") are payable initially by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as initial paying agent/registrant for the Bonds (the "Paying Agent/Registrar") (see "THE OBLIGATIONS - Paying Agent/Registrar"). The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE OBLIGATIONS - Book-Entry-Only System" herein. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue from their date of delivery, and is payable on February 15 and August 15 of each year, commencing February 15, 2011, until maturity or earlier redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar (see "THE OBLIGATIONS - Description of the Obligations").

AUTHORITY FOR ISSUANCE . . . The Bonds constitute direct obligations of the City and are payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against all taxable property within the City. The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Government Code, Chapter 1331, as amended, and an election held in the City on November 6, 2007, and the bond ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Bond Ordinance") (see "THE OBLIGATIONS - Authority for Issuance").

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the City to issue taxable obligations known as "Build America Bonds" to finance capital expenditures that could be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable obligations. The City will issue all of the Bonds as obligations that are not obligations described in section 103(a) of the Internal Revenue Code (the "Code") and the interest on which is not excludable from gross income for federal income tax purposes. The City will deposit the subsidy payments for the Bonds into a special subaccount within the interest and sinking fund for the Bonds to be used to reduce the amount of regularly scheduled debt service payments on the Bonds; provided, however, that such subsidy payments are not pledged as security to pay debt service on the Bonds. No holders of Bonds are entitled to such subsidy payment or to receive a tax credit with respect to the Bonds. See "THE OBLIGATIONS - Designation of Bonds and Certificates as Build America Bonds."

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

MATURITY SCHEDULE

See Schedule on page 2

SEPARATE ISSUES . . . The Bonds are being offered by the City concurrently with the "City of Lancaster, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds - Direct Payment)" (the "Certificates") under a common Official Statement and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Bonds, and the Certificates are separate and distinct securities offerings and each such offering is being issued and sold independently except for the Official Statement, and while each offering shares certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the security for its payment, and the rights of the holders.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of West & Associates, L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "FORM OF BOND COUNSEL'S OPINION - The Bonds"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters. Andrews Kurth, LLP, Special Tax Counsel, Houston, Texas is serving as Special Tax Counsel.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on April 27, 2010.

SIEBERT BRANDFORD SHANK & Co., LLC

MORGAN KEEGAN & COMPANY, INC.

RBC CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 514444

GENERAL OBLIGATION BONDS, TAXABLE SERIES 2010A
(BUILD AMERICA BONDS – DIRECT PAYMENT)

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 485,000	2012	1.819%	1.819%	WL8	\$ 570,000	2019	4.911%	4.911%	WE4
490,000	2013	2.428%	2.428%	WM6	590,000	2020	5.011%	5.011%	WF1
500,000	2014	3.210%	3.210%	WN4	610,000	2021	5.161%	5.161%	WQ7
510,000	2015	3.510%	3.510%	WP9	630,000	2022	5.311%	5.311%	WR5
525,000	2016	4.004%	4.004%	WJ3	655,000	2023	5.461%	5.461%	WS3
535,000	2017	4.304%	4.304%	WK0	675,000	2024	5.611%	5.611%	WT1
555,000	2018	4.811%	4.811%	WD6	700,000	2025	5.761%	5.761%	WU8

\$3,980,000 6.428% TERM BOND DUE FEBRUARY 15, 2030 PRICED TO YIELD 6.428% CUSIP #514444WG9
\$10,985,000 6.528% TERM BOND DUE FEBRUARY 15, 2040 PRICED TO YIELD 6.528% CUSIP #514444WH7

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. No assurance can be given that the CUSIP number for a particular maturity of the Bonds will remain the same after the date of delivery of the Bonds. Neither the City, Financial Advisor, nor the Underwriters shall be responsible for the selection, changes to, errors or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption"). The Bonds maturing on February 15, 2030 and February 15, 2040 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to maturity (see "THE OBLIGATIONS - Mandatory Redemption").

EXTRAORDINARY OPTIONAL REDEMPTION OF THE BONDS . . . The Bonds are also subject to extraordinary optional redemption as described herein under "THE OBLIGATIONS - Extraordinary Optional Redemption of the Bonds and Certificates".



OFFICIAL STATEMENT

Dated March 22, 2010

Ratings:
Moody's: "A2"
S&P: "A"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

See "TAX MATTERS FOR BUILD AMERICA BONDS" for a discussion of the opinions of Special Tax Counsel and other possible tax consequences of an investment in the Certificates. Interest on any Certificates designated by the City as Build America Bonds is not excludable from gross income for federal income tax purposes.



\$12,000,000
CITY OF LANCASTER, TEXAS
(Dallas County)
TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2010A
(BUILD AMERICA BONDS - DIRECT PAYMENT)

Dated Date: March 15, 2010

Due: February 15, as shown on page 4 herein

PAYMENT TERMS . . . Principal of and interest on the \$12,000,000 City of Lancaster, Texas Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds - Direct Payment) (the "Certificates") issued by the City of Lancaster, Texas (the "City") are payable initially by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as initial paying agent/registrant for the Certificates (the "Paying Agent/Registrar") (see "THE OBLIGATIONS - Paying Agent/Registrar"). The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE OBLIGATIONS - Book-Entry-Only System," herein. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue from their date of delivery, and is payable on February 15 and August 15 of each year, commencing February 15, 2011, until maturity or earlier redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar (see "THE OBLIGATIONS - Description of the Obligations").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited (in an amount not to exceed \$1,000), junior and subordinate pledge of the surplus net revenues of the City's combined Waterworks and Sewer System remaining after payment of operating and maintenance expenses of the System and payments for "Prior Lien Obligations" as defined and provided in the ordinance authorizing the issuance of the Certificates (the "Certificate Ordinance") (see "THE OBLIGATIONS - Authority for Issuance").

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the City to issue taxable obligations known as "Build America Bonds" to finance capital expenditures that could be financed with the issuance of tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable obligations. The City will issue all of the Certificates as obligations that are not obligations described in section 103(a) of the Internal Revenue Code (the "Code") and the interest on which is not excludable from gross income for federal income tax purposes. The City will deposit the subsidy payments for Certificates into a special subaccount within the interest and sinking fund for the Certificates to be used to reduce the amount of regularly scheduled debt service payments on the Certificates; provided, however, that such subsidy payments are not pledged as security to pay debt service on the Certificates. No holders of Certificates are entitled to such subsidy payments or to receive a tax credit with respect to the Certificates. See "THE OBLIGATIONS - Designation of Bonds and Certificates as Build America Bonds."

PURPOSE . . . Proceeds from the sale of the Certificates will be used for: (a) improvements to the Lancaster Municipal Airport; (b) acquisition of land at the south end of the runway for the expansion of the Lancaster Municipal Airport; (c) City-wide park design, renovations, improvements, and equipping of such parks; (d) City-wide hike and bike trail design and construction, and equipping of such trails; (e) City-wide sidewalk design and construction; (f) design, construction and the equipping thereof of a retaining wall in the Westwood neighborhood, including drainage improvements incidental thereto; (g) design of the Nokomis Road Bridge at Ten Mile Creek; (h) street and alley design, improvements and the equipping thereof, including drainage improvements incidental thereto; (i) acquisition of right-of-way for Longhorn Drive to extend it to the I-20 service road; (j) design, renovation and improvements to Historic Town Square and the Municipal Court, including the beautification, improvements, landscaping, the addition of side walks and parking lots, infrastructure improvements, and the equipping thereof; (k) purchase of police cars and fleet trucks; and (2) payment for professional services rendered in connection with the above listed projects.

MATURITY SCHEDULE

See Schedule on page 4

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the "City of Lancaster, Texas General Obligation Bonds, Taxable Series 2010A (Build America Bonds - Direct Payment)" (the "Bonds") under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations." The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of West & Associates, L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "FORM OF BOND COUNSEL'S OPINION - The Bonds"). Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Dallas, Texas, Counsel for the Underwriters. Andrews Kurth, LLP, Special Tax Counsel, Houston, Texas is serving as Special Tax Counsel.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on April 27, 2010.

SIEBERT BRANDFORD SHANK & Co., LLC

MORGAN KEEGAN & COMPANY, INC.

RBC CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 514444

TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2010A
(BUILD AMERICA BONDS – DIRECT PAYMENT)

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 250,000	2012	1.819%	1.819%	XC7	\$ 280,000	2017	4.304%	4.304%	XB9
255,000	2013	2.428%	2.428%	XD5	285,000	2018	4.811%	4.811%	WV6
260,000	2014	3.210%	3.210%	XE3	295,000	2019	4.911%	4.911%	WW4
265,000	2015	3.510%	3.510%	XF0	305,000	2020	5.011%	5.011%	WX2
270,000	2016	4.004%	4.004%	XA1					

\$1,705,000 5.761% TERM CERTIFICATE DUE FEBRUARY 15, 2025 PRICED TO YIELD 5.761% CUSIP #514444XG8

\$2,080,000 6.428% TERM CERTIFICATE DUE FEBRUARY 15, 2030 PRICED TO YIELD 6.428% CUSIP #514444WY0

\$5,750,000 6.528% TERM CERTIFICATE DUE FEBRUARY 15, 2040 PRICED TO YIELD 6.528% CUSIP #514444WZ7

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OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption"). The Certificates maturing on February 15, 2025, February 15, 2030 and February 15, 2040 (the "Term Certificates") are also subject to mandatory sinking fund redemption prior to maturity (see "THE OBLIGATIONS - Mandatory Redemption").

EXTRAORDINARY OPTIONAL REDEMPTION OF THE CERTIFICATES . . . The Certificates are also subject to extraordinary optional redemption as described herein under "THE OBLIGATIONS - Extraordinary Optional Redemption of the Bonds and Certificates".

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City, its Financial Advisor nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by DTC for use in this Official Statement as such information has been provided by DTC.

The cover pages contain certain information for general reference only and are not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices hereto, to obtain information essential to making an informed investment decision.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The agreements of the City and others related to the Obligations are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Obligations is to be construed as constituting an agreement with the purchaser of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The Obligations are exempt from registration with the United States Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Obligations in accordance with applicable securities law provisions of the jurisdiction in which the Obligations have been registered, qualified or exempted should not be regarded as a recommendation thereof.

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Lancaster (the "City") is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City was incorporated in 1886, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 29 square miles (see "INTRODUCTION - Description of the City").
- THE BONDS** The Bonds are issued as \$22,995,000 General Obligation Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment) (the "Bonds"). The Bonds are dated March 15, 2010, and are issued in part as serial bond maturing on February 15 in each of the years 2012 through 2025, and in part as term bonds maturing on February 15, 2030 and February 15, 2040 (see "THE OBLIGATIONS - Description of the Obligations").
- THE CERTIFICATES** The Certificates are issued as \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds – Direct Payment) (the "Certificates"). The Certificates are dated March 15, 2010, and are issued in part as serial certificates maturing on February 15 in each of the years 2012 through 2020, and in part as term certificates maturing on February 15, 2025, February 15, 2030 and February 15, 2040 (see "THE OBLIGATIONS - Description of the Obligations").
- PAYMENT OF INTEREST** Interest on the Obligations accrues from the delivery date and is payable on February 15 and August 15 of each year commencing February 15, 2011 until maturity or prior redemption (see "THE OBLIGATIONS - Description of the Obligations" and "THE OBLIGATIONS - Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, an election held in the City on November 6, 2007, and an ordinance adopted by the City Council (the "Bond Ordinance") (see "THE OBLIGATIONS - Authority for Issuance").
- The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, and an ordinance adopted by the City Council (the "Certificate Ordinance" and, together with the Bond Ordinance, the "Ordinances") (see "THE OBLIGATIONS - Authority for Issuance").
- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the City, payable from a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property located with the City (see "THE OBLIGATIONS – Security and Source of Payment").
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the City, payable from (i) a direct and continuing ad valorem tax, levied within the limits prescribed by law, on all taxable property located with the City and (ii) a limited (in an amount not to exceed \$1,000), junior and subordinate pledge of the surplus Net Revenues (as defined in the Certificate Ordinance) of the City's combined Waterworks and Sewer System (see "THE OBLIGATIONS – Security and Source of Payment").
- REDEMPTION** The City reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2021, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption, (see "THE OBLIGATIONS - Optional Redemption"). The Term Bonds and the Term Certificates are also subject to mandatory redemption prior to maturity as described herein (see "THE OBLIGATIONS - Mandatory Redemption").

EXTRAORDINARY REDEMPTION .. The Obligations are subject to extraordinary optional redemption on any date up to and including February 15, 2020 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (see "THE OBLIGATIONS – Extraordinary Optional Redemption of the Obligations")

TAX MATTERS See "TAX MATTERS FOR BUILD AMERICA BONDS" for a discussion of the opinions of Special Tax Counsel and other possible tax consequences of an investment in the Obligations. Regarding any Obligations designated by the City as "Build America Bonds", interest on such Obligations is not excludable from gross income for federal income tax purposes.

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

Proceeds from the sale of the Certificates will be used for: (a) improvements to the Lancaster Municipal Airport; (b) acquisition of land at the south end of the runway for the expansion of the Lancaster Municipal Airport; (c) City-wide park design, renovations, improvements, and equipping of such parks; (d) City-wide hike and bike trail design and construction, and equipping of such trails; (e) City-wide sidewalk design and construction; (f) design, construction and the equipping thereof of a retaining wall in the Westwood neighborhood, including drainage improvements incidental thereto; (g) design of the Nokomis Road Bridge at Ten Mile Creek; (h) street and alley design, improvements and the equipping thereof, including drainage improvements incidental thereto; (i) acquisition of right-of-way for Longhorn Drive to extend it to the I-20 service road; (j) design, renovation and improvements to Historic Town Square and the Municipal Court, including the beautification, improvements, landscaping, the addition of side walks and parking lots, infrastructure improvements, and the equipping thereof; (k) purchase of police cars and fleet trucks; and (2) payment for professional services rendered in connection with the above listed projects.

RATINGS The Obligations and the presently outstanding general obligation debt of the City are rated "A2" by Moody's Investors Service, Inc. ("Moody's") and "A" by Standard & Poor's Ratings Services, Standard & Poor's Financial Services LLC business, ("S&P"), without regard to credit enhancement (see "OTHER INFORMATION – Ratings")

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

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2006	33,450	\$ 1,380,239,526	\$ 41,263	\$ 26,915,000	\$ 805	1.95%	100.81%
2007	35,050	1,551,066,943	44,253	56,635,000	1,616	3.65%	103.35%
2008	35,800	1,709,096,790	47,740	55,125,000	1,540	3.23%	99.68%
2009	36,000	1,725,352,328	47,926	53,250,000	1,479	3.09%	98.96%
2010	36,200	1,563,581,389	43,193	86,225,000 ⁽²⁾	2,382	5.51%	76.25% ⁽³⁾

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

(2) Projected; includes the Obligations. Includes self-supporting debt. See Tables 1 and 10 herein and the footnotes related thereto for detailed information regarding the City's general obligation self-supporting debt.

(3) Collections for part year only, through February 1, 2010.

For additional information regarding the City, please contact:

Rickey Childers
 Carl Wessels
 City of Lancaster
 211 North Henry Street
 Lancaster, Texas 75146
 (972) 218-1110

or

David K. Medanich
 Nick Bulaich
 First Southwest Company
 777 Main Street, Suite 1200
 Fort Worth, Texas 76102-3123
 (817) 332-9710

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Marcus E. Knight Mayor	1 Year	May, 2012	Business Executive
Carol Strain-Burk Councilmember, District 1	11 Years	May, 2010	Consultant
Todd Love Councilmember, District 2	1 Year	May, 2011	Business Owner
Susan Anderson Councilmember, District 3	11 Years	May, 2010	Pharmaceuticals
James Daniels Councilmember, District 4	6 Years	May, 2011	Retired
Sue Wyrick Councilmember, District 5	1 Year	May, 2010	Retired
Nina Morris Councilmember, District 6	1 Year	May, 2011	Community Volunteer

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Length of Service to Municipal Governments</u>
Rickey Childers	City Manager	3 Years	34 Years
Opal Mauldin-Robertson	Assistant City Manager	7 Years	17 Years
Carl Wessels, CPA	Director of Finance	2 Years	28 Years
Dolle Shane	City Secretary	6 Years	18 Years
Bob Hager	City Attorney	32 Years	32 Years

CONSULTANTS AND ADVISORS

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

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OFFICIAL STATEMENT

RELATING TO

CITY OF LANCASTER, TEXAS (Dallas County)

\$22,995,000
GENERAL OBLIGATION BONDS, TAXABLE SERIES 2010A
(BUILD AMERICA BONDS - DIRECT PAYMENT)

\$12,000,000
TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS
REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2010A
(BUILD AMERICA BONDS - DIRECT PAYMENT)

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Lancaster, Texas (the "City") of its \$22,995,000 General Obligation Bonds, Taxable Series 2010A (Build America Bonds – Direct Payment) (the "Bonds") and its \$12,000,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Taxable Series 2010A (Build America Bonds – Direct Payment) (the "Certificates"). The Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable Ordinances authorizing the issuance of the Obligations, except as otherwise indicated herein.

The Bonds and the Certificates are separate and distinct securities offerings and each such offering is being issued and sold separate and apart from the other offering and should be reviewed and analyzed independently, including, among other matters, the kind and type of obligations being offered, their terms for payment, the security for their payment and the rights of the holders.

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

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1886. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is three years with three councilmembers' terms expiring in even-numbered years and the remaining three councilmembers' terms expiring in odd numbered years. The Mayor's term expires in 2012 (as amended in the City Charter election of November 2006). The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, traffic and transportation, water distribution, sewer treatment, sanitation, health, recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 25,894, while the estimated 2010 population is 36,200. The City covers approximately 29 square miles.

PLAN OF FINANCING

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

Proceeds from the sale of the Certificates will be used for: (a) improvements to the Lancaster Municipal Airport; (b) acquisition of land at the south end of the runway for the expansion of the Lancaster Municipal Airport; (c) City-wide park design, renovations, improvements, and equipping of such parks; (d) City-wide hike and bike trail design and construction, and equipping of such trails; (e) City-wide sidewalk design and construction; (f) design, construction and the equipping thereof of a retaining wall in the Westwood neighborhood, including drainage improvements incidental thereto; (g) design of the Nokomis Road Bridge at Ten Mile Creek; (h) street and alley design, improvements and the equipping thereof, including drainage improvements incidental thereto; (i) acquisition of right-of-way for Longhorn Drive to extend it to the I-20 service road; (j) design, renovation and improvements to Historic Town Square and the Municipal Court, including the beautification, improvements, landscaping, the addition of side walks and parking lots, infrastructure improvements, and the equipping thereof; (k) purchase of police cars and fleet trucks; and (2) payment for professional services rendered in connection with the above listed projects.

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

	<u>The Bonds</u>	<u>The Certificates</u>
Sources of Funds		
Par Amount	\$ 22,995,000.00	\$ 12,000,000.00
Total Sources of Funds	<u>\$ 22,995,000.00</u>	<u>\$ 12,000,000.00</u>
Uses of Funds		
Deposit to Construction Fund	\$ 22,699,592.15	\$ 11,825,388.75
Underwriters' Discount	145,407.85	76,611.25
Costs of Issuance	150,000.00	98,000.00
Total Uses of Funds	<u>\$ 22,995,000.00</u>	<u>\$ 12,000,000.00</u>

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated March 15, 2010, and mature on February 15 in each of the years and in the amounts shown on pages 2 and 4 hereof. Interest will accrue from the delivery date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2011, until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "THE OBLIGATIONS - Book-Entry-Only System" herein.

BUILD AMERICA BONDS . . . In the Ordinances, the City designated all of each series of the Obligations as "Build America Bonds" ("BABs") under and pursuant to the federal American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), and in accordance with the guidance included in the Internal Revenue Service's Notice 2009-26, effective as of April 3, 2009, and has irrevocably elected to receive directly from the United States Department of the Treasury (the "U.S. Treasury") direct subsidy payments equal to 35% of the interest payable by the City on the Obligations designated as BABs contemporaneously with each interest payment date. Under the Stimulus Act, the City is entitled to receive the subsidy payments on application to the U.S. Treasury, if (1) the City uses 100% of the proceeds of the BABs (net of permitted costs of issuance) and investment earnings on such proceeds for capitalizable expenditures and (2) the City complies with the same conditions regarding use and investment of proceeds of the BABs as those applicable to obligations the interest on which is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"). See "TAX MATTERS FOR BUILD AMERICA BONDS - Certain Conditions to Qualification of the Obligations as "Build America Bonds". The City intends to apply and expects to qualify for each federal interest subsidy payment. The City will deposit the subsidy payments into a special subaccount within the interest and sinking fund for the BABs to be used to reduce the amount of regularly scheduled debt service payments; provided, however, that such subsidy payments will not be pledged as security to pay debt service on the BABs.

If the City fails to comply with the conditions of the U.S. Treasury for the continued receipt of the subsidy payments throughout the term of the BABs, it may no longer receive the subsidy payments and could be subject to a claim for return of previously received subsidy payments. The subsidy payments do not constitute a full faith and credit guarantee of the United States Government, but are required to be paid by the U.S. Treasury under the Recovery Act. No assurances are provided that the City will receive the subsidy payments. The amount of any subsidy payment is subject to legislative changes by Congress. In addition, subsidy payments may be subject to offset against certain amounts that may, for unrelated reasons, be owed by the City to an agency of the United States of America.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331, Texas Government Code, as amended, an election held and passed by a majority of the participating voters on November 6, 2007, and the Bond Ordinance. See "Table 11 – Authorized But Unissued General Obligation Bonds."

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

SECURITY AND SOURCE OF PAYMENT . . .

The Bonds . . . The Bonds constitute direct obligations of the City and the principal thereof and interest thereon are payable from a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, as provided in the Bond Ordinance.

The Certificates . . . The Certificates constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, and are additionally secured by and payable from a limited (in an amount not to exceed \$1,000), junior and subordinate pledge of the surplus net revenues of the City's combined Waterworks and Sewer System (the "System") remaining after payment of operating and maintenance expenses of the System and payments for "Prior Lien Obligations" as provided in the Certificate Ordinance.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax within the limits prescribed by law sufficient to provide for the payment of principal of and interest on all ad valorem tax debt. Article XI, Section 5 of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutional maximum tax rate of \$2.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Texas Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service as calculated at the time of issuance and based on a 90% collection rate. The issuance of the Obligations does not violate this constitutional provision, the City's Home Rule Charter, or the Texas Attorney General's administrative policy.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Obligations having stated maturities on and after February 15, 2021 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2020 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption or if less than all of the Obligations are to be redeemed, the City may select the maturities of Obligations to be redeemed. If less than all the Obligations of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY REDEMPTION . . . The Bonds maturing on February 15, 2030 and February 15, 2040 (the "Term Bonds") and the Certificates maturing on February 15, 2025, February 15, 2030 and February 15, 2040 (the "Term Certificates"), are subject to mandatory redemption in part prior to their schedule maturities, and will be redeemed by the City at a redemption price equal to the principal amounts thereof, plus accrued interest to the dates of redemption, on the dates and in the principal amounts as follows:

Term Bonds Maturing			
February 15, 2030		February 15, 2040	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2026	\$ 730,000	February 15, 2031	\$ 900,000
February 15, 2027	760,000	February 15, 2032	940,000
February 15, 2028	795,000	February 15, 2033	980,000
February 15, 2029	830,000	February 15, 2034	1,025,000
February 15, 2030*	865,000	February 15, 2035	1,065,000
		February 15, 2036	1,115,000
		February 15, 2037	1,160,000
		February 15, 2038	1,215,000
		February 15, 2039	1,265,000
		February 15, 2040*	1,320,000

Term Certificates Maturing					
February 15, 2025		February 15, 2030		February 15, 2040	
Redemption Date	Principal Amount	Redemption Date	Principal Amount	Redemption Date	Principal Amount
February 15, 2021	\$ 315,000	February 15, 2026	\$ 380,000	February 15, 2031	\$ 470,000
February 15, 2022	330,000	February 15, 2027	400,000	February 15, 2032	490,000
February 15, 2023	340,000	February 15, 2028	415,000	February 15, 2033	515,000
February 15, 2024	355,000	February 15, 2029	435,000	February 15, 2034	535,000
February 15, 2025*	365,000	February 15, 2030*	450,000	February 15, 2035	560,000
				February 15, 2036	585,000
				February 15, 2037	610,000
				February 15, 2038	635,000
				February 15, 2039	660,000
				February 15, 2040*	690,000

* Maturity.

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

EXTRAORDINARY OPTIONAL REDEMPTION OF THE OBLIGATIONS . . . Up to and including February 15, 2020, the Obligations are subject to redemption prior to maturity at the option of the City, in whole or in part, in principal amounts of \$5,000 or any integral thereof on any date on or after the occurrence of an Extraordinary Event (defined herein) at a redemption price equal to the greater of:

(a) the issue price of the principal amount of the Obligations to be redeemed, provided that such amount must be at least equal to the par amount of the Obligations to be redeemed; and

(b) the sum of the present value of the remaining scheduled payments of principal and interest to the earlier of the stated maturity or the optional redemption date (February 15, 2020) of the Obligations to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the redemption date, discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points, plus, in each case, accrued and unpaid interest to the redemption date on the Obligations to be redeemed.

"Extraordinary Event" means any change to Section 54AA or Section 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to Build America Bonds) pursuant to which the Interest Subsidy Payments in connection with the Obligations are reduced or eliminated.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two (2) Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Obligations to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one (1) year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one (1) year will be used.

At the request of the Paying Agent/Registrar, the redemption price of the Bonds and the Certificates to be redeemed at the option of the City will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense to calculate such redemption price. The Paying Agent/Registrar and the City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

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

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

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

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

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

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

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

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

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

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

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

statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Obligations purchased or tendered, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Obligations causing the Direct Participant to transfer the Participant's interest in the Obligations, on the DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Obligations in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Obligations are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Obligations to the Paying Agent/Registrar's DTC account.

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

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

So long as Cede & Co. is the registered owner of the Obligations, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or person for which they act as nominees.

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

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

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed securities certificates will be issued to the respective holders of the Obligations, as the case may be, and the respective Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "The Obligations - Transfer, Exchange, and Registration" below.

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

In the event the Book-Entry-Only System should be discontinued, interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity or earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "THE OBLIGATIONS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, Obligations will be printed and delivered to the registered owners thereof and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other

governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "The Obligations - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

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

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

REPLACEMENT OBLIGATIONS . . . If any Obligation is mutilated, destroyed, stolen or lost, a new Obligation in the same principal amount as the Obligation so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Obligation, such new Obligation will be delivered only upon surrender and cancellation of such mutilated Obligation. In the case of any Obligation issued in lieu of and substitution for an Obligation which has been destroyed, stolen or lost, such new Obligation will be delivered only (a) upon filing with the City and the Paying Agent/Registrar a certificate to the effect that such Obligation has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Obligation must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

REMEDIES . . . The Ordinances do not provide for the appointment of a trustee to represent the interests of the Obligation holders upon any failure of the City to perform in accordance with the terms of the Ordinances or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinances. Furthermore, the Ordinances do not establish specific events of default with respect to the Obligations and, under State law, there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. A registered owner of Obligations could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Obligations; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as they become due or perform other material terms and covenants contained in the Ordinances. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Obligations are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the

obligations are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

DEFEASANCE . . . The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized entity, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the paying agent for the Obligations being defeased. The respective Ordinances provide that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Obligations. Because the Ordinances do not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

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

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

TAX INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, Section 26.05 provides the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures for the next year, and (2) a rate to fund debt service in the next year.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City does not tax freeport property.

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

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

<u>Corporation Name</u>	<u>2009 Market Value</u>	<u>2009 Tax Value</u>	<u>Year on Roll</u>
White Rock	\$ 1,199,300	\$ 1,199,300	2009
Prologis	38,508,500	11,250,000	2008
Brenntag	17,401,103	16,096,720	2003

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

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

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2009/10 Market Valuation Established by Dallas Central Appraisal District		\$ 1,739,680,600
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 47,924,940	
Disabled Veterans Exemptions	5,749,560	
Freeport Exemption	24,424,619	
Capped Value Loss	1,547,713	
Pollution Control Exemption	529,354	
Agricultrural and Other Exemptions	<u>95,923,025</u>	<u>176,099,211</u>
2009/10 Taxable Assessed Valuation		\$ 1,563,581,389
City Funded Debt Payable from Ad Valorem Taxes (as of 2-1-10) ⁽¹⁾		
General Obligation Bonds	\$ 36,335,000	
Certificates of Obligation	16,480,000	
Trinity River Authority Contract Revenue Debt	435,000	
The Bonds	22,995,000	
The Certificates	<u>12,000,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 88,245,000
Less Self-Supporting Debt: ⁽²⁾		
Water and Sewer System General Obligation Debt	\$ 9,201,189	
Stormwater System General Obligation Debt	615,000	
Airport System General Obligation Debt	157,280	
Economic Development Corporation General Obligation Debt	2,880,000	
Recreational Development Corporation General Obligation Debt	10,130,000	
Trinity River Authority Contract Revenue Debt	<u>435,000</u>	<u>23,418,469</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 64,826,531
Interest and Sinking Fund as of 2-1-10		\$ 595,712
Ratio Total Funded Debt to Taxable Assessed Valuation		5.64%
Ratio Net Funded Debt to Taxable Assessed Valuation		4.15%

2010 Estimated Population - 36,200
Per Capita Taxable Assessed Valuation - \$43,193
Per Capita Total Funded Debt - \$2,438
Per Capita Net Funded Debt - \$1,791

- (1) The above statement of indebtedness does not include currently outstanding \$530,000 Waterworks and Sewer System Revenue Bonds, as these bonds are payable solely from the net revenues of the Waterworks and Sewer System (the "System"), as defined in the ordinances authorizing such bonds.
- (2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues. This policy is subject to change in the future. To the extent such policy is changed and such self-supporting debt is not paid from the respective system revenues, such debt will be paid from ad valorem taxes.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2010		2009		2008	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 943,972,980	54.26%	\$ 1,058,645,200	55.91%	\$ 1,041,208,720	56.06%
Real, Residential, Multi-Family	81,307,440	4.67%	93,503,550	4.94%	78,812,720	4.24%
Real, Vacant Lots/Tracts	52,158,020	3.00%	56,378,290	2.98%	59,137,290	3.18%
Real, Acreage (Land Only)	105,008,020	6.04%	93,379,190	4.93%	92,445,135	4.98%
Real, Farm and Ranch Improvements	16,633,110	0.96%	15,598,400	0.82%	8,151,825	0.44%
Real, Commercial	256,529,490	14.75%	262,452,680	13.86%	256,133,320	13.79%
Real, Industrial	19,343,890	1.11%	19,316,550	1.02%	18,961,110	1.02%
Real and Tangible Personal, Utilities	94,398,980	5.43%	122,247,900	6.46%	130,892,610	7.05%
Tangible Personal, Commercial	109,677,600	6.30%	108,659,690	5.74%	107,072,820	5.76%
Tangible Personal, Industrial	58,785,810	3.38%	61,761,690	3.26%	62,796,960	3.38%
Tangible Personal, Other	200,920	0.01%	140,920	0.01%	160,120	0.01%
Tangible Personal, Mobile Homes	846,280	0.05%	826,840	0.04%	874,380	0.05%
Special Inventory	818,060	0.05%	690,800	0.04%	822,080	0.04%
Total Appraised Value Before Exemptions	\$ 1,739,680,600	100.00%	\$ 1,893,601,700	100.00%	\$ 1,857,469,090	100.00%
Total Exemptions/Reductions	(176,099,211)		(168,249,372)		(148,372,300)	
Taxable Assessed Value	\$ 1,563,581,389		\$ 1,725,352,328		\$ 1,709,096,790	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2007		2006	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 955,596,970	57.44%	\$ 858,404,500	58.05%
Real, Residential, Multi-Family	71,836,850	4.32%	71,632,880	4.84%
Real, Vacant Lots/Tracts	62,744,480	3.77%	40,772,260	2.76%
Real, Acreage (Land Only)	60,090,789	3.61%	43,825,128	2.96%
Real, Farm and Ranch Improvements	8,174,461	0.49%	6,869,222	0.46%
Real, Commercial	224,332,650	13.48%	201,270,070	13.61%
Real, Industrial	16,842,450	1.01%	17,655,160	1.19%
Real and Tangible Personal, Utilities	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	103,585,990	6.23%	89,064,210	6.02%
Tangible Personal, Commercial	102,457,380	6.16%	97,211,300	6.57%
Tangible Personal, Industrial	54,394,700	3.27%	49,548,240	3.35%
Tangible Personal, Other	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	2,070,190	0.12%	931,210	0.06%
	1,607,780	0.10%	1,519,010	0.10%
Total Appraised Value Before Exemptions	\$ 1,663,734,690	100.00%	\$ 1,478,703,190	100.00%
Total Exemptions/Reductions	(112,667,747)		(98,463,664)	
Taxable Assessed Value	\$ 1,551,066,943		\$ 1,380,239,526	

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

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2006	33,450	\$ 1,380,239,526	\$ 41,263	\$ 26,915,000	1.95%	\$ 805
2007	35,050	1,551,066,943	44,253	56,635,000	3.65%	1,616
2008	35,800	1,709,096,790	47,740	55,125,000	3.23%	1,540
2009	36,000	1,725,352,328	47,926	53,250,000	3.09%	1,479
2010	36,200	1,563,581,389	43,193	86,225,000 ⁽²⁾	5.51%	2,382

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

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

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2006	\$ 0.6717	\$ 0.6055	\$ 0.0662	\$ 9,166,747	96.65%	100.81%
2007	0.6717	0.6091	0.0626	10,251,831	97.72%	103.35%
2008	0.7375	0.6091	0.1284	12,435,678	96.33%	99.68%
2009	0.7775	0.6441	0.1334	13,298,918	95.22%	98.96%
2010	0.7775	0.6141	0.1634	12,171,705	75.24% ⁽¹⁾	76.25% ⁽¹⁾

(1) Collections through February 1, 2010.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	Taxable Assessed Valuation	Taxable Assessed Valuation
ONCOR Electric	Utility Delivery	\$ 51,897,595	3.32%
AT&T Communications	Utility	48,521,229	3.10%
Walmart	Retail Store	22,264,440	1.42%
Pleasant Run Courtyard	Apartments	18,604,840	1.19%
Brasscraft Manufacturing	Plumbing Products	18,150,165	1.16%
Prologis	Warehouse/Distribution	11,250,000	0.72%
Blue Grove Plaza	Shopping Center	8,750,000	0.56%
WNA Cups Illustrated Inc.	Warehouse/Distribution	8,216,626	0.53%
Primrose Houston I	Apartments	7,980,000	0.51%
Tire Centers LLC	Warehouse/Distribution	7,781,660	0.50%
		<u>\$ 203,416,555</u>	<u>13.01%</u>

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

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2010 Principal and Interest Requirements	\$ 4,320,558
\$0.2792 Tax Rate at 99.00% Collection Produces	\$ 4,321,864
Average Annual Principal and Interest Requirements, 2010 - 2040	\$ 4,997,912
\$0.3229 Tax Rate at 99.00% Collection Produces	\$ 4,998,316
Maximum Principal and Interest Requirements, 2018	\$ 7,263,062
\$0.4693 Tax Rate at 99.00% Collection Produces	\$ 7,264,509

(1) Includes the Obligations, less self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2009/10 Taxable Assessed Value	2009/10 Tax Rate	Total G.O. Debt	Estimated % Applicable	City's Overlapping G.O. Debt As of 2-1-10	Authorized But Unissued Debt as of 2/1/2010
City of Lancaster	\$ 1,563,581,389	\$ 0.777500	\$ 64,826,531 ⁽¹⁾	100.00%	\$ 64,826,531	\$ 14,550,695 ⁽²⁾
Lancaster Independent School District	1,552,167,776	1.412700	105,156,659	86.08%	90,518,852	665,000
Dallas Independent School District	80,044,611,123	1.271343	1,783,730,000	0.03%	535,119	950,302,078
Dallas County	166,098,437,573	0.228100	138,531,552	1.01%	1,399,169	6,200,000
Dallas County Community College	173,374,606,886	0.094900	387,260,000	1.01%	3,911,326	50,000,000
Dallas County Hospital District	166,251,471,774	0.274000	705,000,000	1.01%	7,120,500	42,000,000
Total Direct and Overlapping G.O. Debt					\$ 168,311,497	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					10.76%	
Per Capita Overlapping G.O. Debt					\$ 4,649.49	

(1) Includes the Obligations, less self-supporting debt.

(2) Reflects remaining authorization after the issuance of the Bonds.

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		The Certificates ⁽³⁾		Total Outstanding Debt	Less:	Less:	Less:	Less:	Less:	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest		W&S Self-Supporting Requirements	Stormwater Self-Supporting Requirements	EDC Self-Supporting Requirements	LRDC Self-Supporting Requirements	Airport Self-Supporting Requirements		
2010	\$ 2,020,000	\$ 2,300,558	\$ -	\$ -	\$ -	\$ -	\$ 4,320,558	\$ 1,302,644	\$ 50,013	\$ 227,250	\$ 906,350	\$ 16,818	\$ 1,817,483	
2011	2,170,000	2,217,948	-	1,735,271	-	912,624	7,035,842	1,308,223	49,013	227,750	909,299	16,418	4,525,140	
2012	2,080,000	2,134,226	485,000	1,330,413	250,000	699,744	6,979,383	1,082,723	48,013	228,050	906,140	16,018	4,698,440	
2013	2,240,000	2,049,750	490,000	1,320,053	255,000	694,375	7,049,178	1,086,423	47,013	228,150	916,645	15,618	4,755,330	
2014	2,395,000	1,953,331	500,000	1,306,079	260,000	687,106	7,101,517	1,085,748	50,913	228,050	920,310	15,168	4,801,329	20.48%
2015	2,440,000	1,846,754	510,000	1,289,104	265,000	678,283	7,029,140	938,448	49,713	227,750	917,398	19,543	4,876,289	
2016	2,720,000	1,731,581	525,000	1,269,643	270,000	668,226	7,184,451	1,039,723	48,513	227,250	917,685	18,793	4,932,487	
2017	2,890,000	1,605,854	535,000	1,247,619	280,000	656,795	7,215,268	1,017,720	47,313	226,550	916,179	11,644	4,995,863	
2018	3,085,000	1,471,393	555,000	1,222,756	285,000	643,914	7,263,062	1,015,594	46,113	230,550	918,031	11,702	5,041,072	
2019	2,490,000	1,349,724	570,000	1,195,409	295,000	629,815	6,529,947	219,901	49,813	229,250	927,706	11,323	5,091,954	46.07%
2020	2,640,000	1,241,378	590,000	1,166,630	305,000	614,929	6,557,937	220,456	48,391	227,647	925,139	11,345	5,124,959	
2021	2,790,000	1,124,383	610,000	1,136,106	315,000	598,214	6,573,703	220,111	46,947	225,738	925,170	11,337	5,144,400	
2022	2,940,000	999,588	630,000	1,103,636	330,000	579,635	6,582,858	219,856	50,375	228,406	928,325	11,309	5,144,587	
2023	3,080,000	868,100	655,000	1,069,021	340,000	560,335	6,572,457	225,848	48,675	230,544	925,188	11,676	5,130,527	
2024	2,960,000	732,869	675,000	1,032,199	355,000	540,316	6,295,384	224,151	46,975	227,363	925,363	11,595	4,859,938	73.13%
2025	1,775,000	623,038	700,000	993,099	365,000	519,576	4,975,712	167,281	50,141	228,734	-	-	4,529,556	
2026	1,860,000	537,272	730,000	949,473	380,000	496,849	4,953,594	165,609	48,172	229,547	-	-	4,510,266	
2027	1,950,000	447,366	760,000	901,584	400,000	471,780	4,930,730	168,609	51,094	229,922	-	-	4,481,105	
2028	1,585,000	364,895	795,000	851,607	415,000	445,586	4,457,088	-	-	-	-	-	4,457,088	
2029	1,665,000	290,145	830,000	799,379	435,000	418,267	4,437,791	-	-	-	-	-	4,437,791	89.72%
2030	1,740,000	211,830	865,000	744,902	450,000	389,823	4,401,555	-	-	-	-	-	4,401,555	
2031	1,825,000	129,835	900,000	687,725	470,000	360,019	4,372,579	-	-	-	-	-	4,372,579	
2032	1,910,000	43,930	940,000	627,667	490,000	328,685	4,340,282	-	-	-	-	-	4,340,282	
2033	-	-	980,000	564,998	515,000	295,882	2,355,880	-	-	-	-	-	2,355,880	
2034	-	-	1,025,000	499,555	535,000	261,610	2,321,165	-	-	-	-	-	2,321,165	100.00%
2035	-	-	1,065,000	431,338	560,000	225,869	2,282,206	-	-	-	-	-	2,282,206	
2036	-	-	1,115,000	360,182	585,000	188,496	2,248,678	-	-	-	-	-	2,248,678	
2037	-	-	1,160,000	285,926	610,000	149,491	2,205,418	-	-	-	-	-	2,205,418	
2038	-	-	1,215,000	208,406	635,000	108,854	2,167,261	-	-	-	-	-	2,167,261	
2039	-	-	1,265,000	127,459	660,000	66,586	2,119,045	-	-	-	-	-	2,119,045	100.00%
2040	-	-	1,320,000	43,085	690,000	22,522	2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 53,250,000</u>	<u>\$ 26,275,744</u>	<u>\$ 22,995,000</u>	<u>\$ 26,500,325</u>	<u>\$ 12,000,000</u>	<u>\$ 13,914,206</u>	<u>\$ 154,935,275</u>	<u>\$ 11,709,069</u>	<u>\$ 877,194</u>	<u>\$ 4,108,500</u>	<u>\$ 13,784,926</u>	<u>\$ 210,306</u>	<u>\$ 124,245,279</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt.
(2) Average life of the issue - 18.414 years. Interest on the Bonds has been calculated at the rates illustrated on page 2 hereof.
(3) Average life of the issue - 18.445 years. Interest on the Certificates has been calculated at the rates illustrated on page 4 hereof.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-10		\$ 1,817,483
Budgeted Interest and Sinking Fund, 9-30-09	\$ 1,575,455	
Budgeted Interest and Sinking Fund Tax Levy	2,558,015	
Estimated Investment Earnings	<u>2,587</u>	<u>4,136,057</u>
Estimated Balance, 9-30-10		\$ 2,318,574

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-09	\$ 2,497,276	⁽²⁾
Less: Revenue Bonds Requirements, 2010 Fiscal Year	<u>109,015</u>	
Balance Available for Other Purposes	\$ 2,388,261	
System General Obligation Bond Requirements, 2010 Fiscal Year	<u>1,302,644</u>	
Balance	\$ 1,085,617	
Percentage of System General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-09	\$ 62,367	⁽²⁾
Stormwater General Obligation Bond Requirements, 2010 Fiscal Year	<u>50,013</u>	
Balance	\$ 12,355	
Percentage of Stormwater General Obligation Bonds, Self-Supporting		100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-09	\$ 2,325,525	⁽²⁾⁽³⁾
LEDC General Obligation Bond Requirements, 2010 Fiscal Year	<u>227,250</u>	
Balance	\$ 2,098,275	
Percentage of LEDC General Obligation Bonds, Self-Supporting		100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-09	\$ 560,260	⁽²⁾
LRDC General Obligation Bond Requirements, 2010 Fiscal Year	<u>906,350</u>	
Balance	\$ (346,090)	⁽⁴⁾
Percentage of LRDC General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-09	\$ (152,407)	⁽²⁾⁽⁵⁾
Airport General Obligation Bond Requirements, 2010 Fiscal Year	<u>16,818</u>	
Balance	\$ (169,225)	
Percentage of Airport General Obligation Bonds, Self-Supporting		100.00%

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

(2) Preliminary information provided by City staff.

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

(4) The deficit occurred because the debt service and operating expenses of the Lancaster Recreation Center, Library, and Senior Center - exceed the ½¢ sales tax revenue dedicated for Lancaster Recreational Development Corporation ("LRDC"). The General Fund budgets each year to cover the deficit in the LRDC. Preliminary information for fiscal year 2009 indicates that the ½¢ sales tax generated \$1,552,685; debt service was \$906,958, and the amount transferred from the General Fund was \$346,090. Any deficit in fiscal year 2010 will be eliminated through a similar transfer. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

(5) The Lancaster Airport Fund had a deficit fund balance as of 9/30/09. This deficit occurred due to the purchase of the FBO/terminal building that had been owned by a private individual. The City expects that this deficit will be eliminated through Airport revenues earned in fiscal year 2010. If revenues are insufficient, the City is obligated to pay the debt service from ad valorem tax revenue.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

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

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

TABLE 12 - OTHER OBLIGATIONS

The City has a lease purchase agreement in the original principal amount of \$1,885,000, now outstanding in the principal amount of \$435,000 and due in monthly installments through March 1, 2011, at interest rates ranging from 4.35% - 5.00%. The City entered into a lease purchase agreement with the Kansas State Bank on 10/31/2007, with an original principal amount of \$500,000. Principal outstanding at 09/30/2009 was \$279,235 and is due in annual installments through January 1, 2011, at interest rates of 4.83%. The City entered into a lease purchase agreement with AT&T for 911 equipment on 04/27/2009 in the amount of \$269,836. Annual principal payments are due through 12/15/2014 at an interest rate of approximately 5%.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the State-wide Texas Municipal Retirement System (the "TMRS"), one of over 833 administered by TMRS, an agent multiple-employer public employee retirement system. Benefits from the TMRS administered plan depend upon the sum of the employees' contributions to the plan, with interest, and the City-financed monetary credits, with interest. Members can retire at ages 60 and above with 5 or more years of service or with 20 or more years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

In 2007, TMRS adopted actuarial assumptions to be used in the actuarial valuation of benefit costs. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (the "TMRS CAFR"), which can be obtained from the TMRS website at www.tmr.org. As a result of such change in actuarial assumptions, the City's actuarial accrued liability has increased from \$33,586,441 as of December 31, 2006 to \$42,814,837 as of December 31, 2008. As of such date, the City had actuarial value of assets of \$26,431,828, giving the City a "funded ratio" of 61.7%. The City has elected to fund its liability over an eight year phase-in period and expects to fully fund its actuarial accrued liability over the next 29 years with an assumed payroll growth rate of 3%. The City's employee contribution rate is currently 7% of gross earnings. In calendar year 2009, the City provided a monthly contribution of 11.94% of covered payroll, with estimated total contributions of \$1,630,831 in such calendar year. Beginning on January 1, 2010, the City's monthly contribution rate increased to 13.23% of covered payroll, and the City estimates that its total contribution for calendar year 2010 will be approximately \$1,976,973. Calendar year 2010 is the second year of the eight year phase-in period. The City budgets for a 10% increase in its contribution rate each year, and therefore anticipates that its contribution rate for fiscal year 2010-11 will be approximately 14.5%.

For more information concerning the City's pension plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note 7.

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

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

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

The City has received a letter from TMRS informing the City that its contribution rate for the SDBF for the 2010 calendar year will be 0.18% of covered payroll (which amount is included in the 13.23% contribution rate provided above under "Pension Plan"). The TMRS CAFR includes financial and supplementary information for the SDBF.

Other than the SDBF, the City provides no other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

Post-Employment Health Care . . . The City offers its retired employees that meet the eligibility requirements for the TMRS plan described above post-employment health insurance under the City's retiree health plan (the "Plan"). The retiree pays 100% of the retired employees' premium, but the employees' spouses and dependents are not covered. Spouses and eligible dependents convert to COBRA coverage once the retired employee is no longer enrolled in municipal coverage. Coverage supplements Medicare once the retiree, spouse or dependent is eligible for Medicare. As of December 31, 2008, 7 retired employees participated in the Plan. Based on the latest actuarial valuation report, as of December 31, 2008, the City had an actuarial accrued liability of \$653,495, with actuarial value of assets of \$0. As of such date, the City's actuarially-determined required annual contribution, calculated by amortizing the City's unfunded actuarial accrued liability over a period of 30 years, was approximately \$68,395, based on a 3% payroll growth rate.

FINANCIAL INFORMATION

TABLE 13 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2009 ⁽¹⁾	2008	2007	2006	2005
Revenues:					
Program Revenues:					
Charges for Services	\$ 3,362,184	\$ 3,682,085	\$ 4,665,593	\$ 5,945,436	\$ 3,999,858
Operating Grants & Contributions	8,479,695	10,588,454	8,922,577	9,385,998	8,446,446
Capital Grants & Contributions	818,987	132,158	6,557,823	5,066,852	7,419,015
General Revenues:					
Taxes & Fees	19,070,890	18,280,947	16,164,303	14,610,183	13,181,344
Other	787,878	1,345,966	1,224,644	653,172	639,182
Total Revenues	\$ 32,519,634	\$ 34,029,610	\$ 37,534,940	\$ 35,661,641	\$ 33,685,845
Expenses:					
Program Expenses:					
General Government	\$ 7,109,608	\$ 5,395,286	\$ 4,274,611	\$ 4,538,632	\$ 3,217,556
Public Safety	20,866,620	14,116,941	13,169,737	13,718,040	11,165,686
Public Works	2,620,715	3,162,728	3,176,963	1,129,462	224,314
Community Development and Recreation	1,313,046	4,290,873	3,635,543	3,937,805	3,134,112
Community Services	-	-	29,037	775	11,023
Social and Welfare	8,558,497	9,015,301	8,071,230	7,659,020	8,162,741
Non Departmental	-	-	1,949,265	2,703,926	1,954,663
Interest and Fiscal Charges	3,143,903	2,367,768	1,514,305	879,335	349,191
Total Expenses	\$ 43,612,389	\$ 38,348,897	\$ 35,820,691	\$ 34,566,995	\$ 28,219,286
Increase (Decrease in Net Assets Before Transfers)	\$ (11,092,755)	\$ (4,319,287)	\$ 1,714,249	\$ 1,094,646	\$ 5,466,559
Transfers	1,701,990	1,327,654	794,510	(236,396)	460,012
Change in Net Assets	\$ (9,390,765)	\$ (2,991,633)	\$ 2,508,759	\$ 858,250	\$ 5,926,571
Net Assets - Beginning	61,219,747	62,459,903	58,857,192	59,398,617	53,472,046
Prior Period Adjustments	-	1,751,477	1,093,952	(1,399,675)	-
Net Assets - Ending	\$ 51,828,982	\$ 61,219,747	\$ 62,459,903	\$ 58,857,192	\$ 59,398,617

(1) Preliminary information provided by City staff.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

Revenues	Fiscal Year Ended September 30,				
	2009 ⁽¹⁾	2008	2007	2006	2005
Taxes and Fees	\$ 14,813,078	\$ 16,011,131	\$ 15,135,141	\$ 13,684,059	\$ 12,128,645
Licenses and Permits	651,514	771,028	749,750	1,327,956	1,034,360
Intergovernmental	87,620	85,190	134,641	695,216	105,565
Charges for Services	655,234	455,084	996,431	844,018	910,666
Fines and Forfeitures	2,630,701	1,338,090	1,634,682	1,500,360	1,582,851
Interest	15,629	59,808	100,245	169,919	143,569
Miscellaneous	490,047	1,634,789	372,095	1,486,376	551,304
Total Revenues	\$ 19,343,823	\$ 20,355,120	\$ 19,122,985	\$ 19,707,904	\$ 16,456,960
Expenditures					
General Government	\$ 4,614,554	\$ 4,185,437	\$ 2,791,941	\$ 1,934,675	\$ 1,819,146
Public Safety	12,752,795	13,944,602	12,502,555	11,546,216	10,146,958
Public Works	1,711,512	2,753,728	1,104,224	1,012,413	798,671
Cultural and Recreational	662,550	3,907,702	3,719,050	3,668,960	3,731,559
Community Service	-	-	19,073	775	11,023
Non Departmental	-	-	1,606,171	2,612,449	1,726,818
Debt Service	-	124,619	-	-	-
Total Expenditures	\$ 19,741,411	\$ 24,916,088	\$ 21,743,014	\$ 20,775,488	\$ 18,234,175
Excess (Deficiency) of Revenues Over Expenditures	\$ (397,588)	\$ (4,560,968)	\$ (2,620,029)	\$ (1,067,584)	\$ (1,777,215)
Transfers In	\$ 1,436,004	\$ 1,429,334	\$ 884,626	\$ 1,281,960	\$ 833,845
Transfers Out	-	(125,035)	(505,079)	(573,319)	-
Proceeds from Capital Lease	-	732,858	-	-	-
Transfer from Component Unit	25,500	-	-	-	-
Total Sources (Uses)	\$ 1,461,504	\$ 2,037,157	\$ 379,547	\$ 708,641	\$ 833,845
Net Increase (Decrease)	\$ 1,063,916	\$ (2,523,811)	\$ (2,240,482)	\$ (358,943)	\$ (943,370)
Beginning Fund Balance, as restated	2,677,652	5,201,463 ⁽²⁾	5,567,938	5,926,881	6,870,251
Prior Period Adjustments	-	-	122,530	-	-
Ending Fund Balance ⁽³⁾	\$ 3,741,568	\$ 2,677,652	\$ 3,449,986	\$ 5,567,938	\$ 5,926,881

(1) Preliminary information provided by City staff.

(2) Restatement due to prior year expenses for the Lancaster Recreational Development Corporation being included in the general fund.

(3) The City anticipates that its general fund balance at the end of fiscal year 2009-10 will be approximately \$3.5 million. The City anticipates that its fiscal year 2008-09 audit report will be presented to the City Council for approval on April 19, 2010.

TABLE 14 - MUNICIPAL SALES TAX HISTORY

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

DISTRIBUTION OF SALES AND USE TAXES

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

GENERAL FUND SALES AND USE TAX

Fiscal Year Ended	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
9/30				
2006	\$ 2,903,016	31.67%	\$ 0.2103	\$ 87
2007	2,934,047	28.62%	0.1892	84
2008	2,776,060	22.32%	0.1624	78
2009 ⁽¹⁾	3,105,369	23.35%	0.1800	86
2010 ⁽²⁾	1,075,620	08.84%	0.0688	30

(1) Preliminary information provided by City staff.

(2) Collections through February 1, 2010.

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

Fiscal Year Ended	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2006	\$ 725,754	\$ 1,451,508	\$ 725,754
2007	733,512	1,467,023	733,512
2008	694,015	1,388,030	694,015
2009 ⁽¹⁾	776,342	1,552,685	776,342
2010 ⁽²⁾	268,905	537,810	268,905

(1) Preliminary information provided by City staff.

(2) Collections through February 1, 2010.

FINANCIAL POLICIES

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

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

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

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

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

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

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) effective September 1, 2005, certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

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

The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

TABLE 15 - CURRENT INVESTMENTS

As of February 1, 2010, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	100.00%	\$ 13,252,319

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

TAX MATTERS FOR BUILD AMERICA BONDS

GENERAL . . . The City has designated all of the Obligations as "Build America Bonds" ("BABs"). The following is a general summary of United States federal income tax consequences of the purchase and ownership of the BABs. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the BABs in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, broker-dealers, and persons who have hedged the risk of owning the BABs). The summary is therefore limited to certain issues relating to initial investors who will hold the BABs as "capital assets" within the meaning of section 1221 of the Code, and acquire such BABs for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the BABs who are United States persons within the meaning of section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service ("IRS") with respect to any of the U.S. federal income tax consequences discussed below, and the discussion below is not binding on the IRS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BABS.

CERTAIN CONDITIONS TO QUALIFICATION OF THE OBLIGATIONS AS "BUILD AMERICA BONDS" . . . In rendering its opinions that the Obligations qualify as "build America bonds" under Section 54AA(d) of the Code and as "qualified bonds" under Section 54AA(g)(2) of the Code that entitles the City to receive credits under Section 6431 of the Code (provided the City files proper, complete and timely applications to receive such credits), Special Tax Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Obligations pertaining to the use, expenditure and investment of the proceeds of the Obligations and will assume continuing compliance by the City with the provisions of the Ordinances subsequent to the issuance of the Obligations. The Ordinances contain covenants by the City with respect to, among other matters, the use of the proceeds of the Obligations and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Obligations are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause the Obligations to no longer qualify as "build America bonds" under Section 54AA(d) of the Code and no longer be "qualified bonds" under Section 54AA(g)(2) of the Code, and the City may no longer receive the subsidy payments and could be subject to a claim for return of previously received subsidy payments.

INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE . . . You should be aware that:

- (i) the discussion with respect to United States federal tax matters in this Official Statement was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;
- (ii) such discussion was written to support the promotion or marketing (within the meaning of IRS Circular 230) of the transactions or matters addressed by such discussion; and
- (iii) each taxpayer should seek advice based on his or her particular circumstances from an independent tax advisor.

This notice is given solely for purposes of ensuring compliance with IRS Circular 230.

STATED INTEREST ON THE BABS . . . The stated interest on the BABs will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when paid or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

DISPOSITION OF BABS . . . A beneficial owner of BABs will generally recognize gain or loss on the redemption, sale or exchange of a BAB equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the BAB. Generally, the beneficial owner's adjusted tax basis in a BABs will be the beneficial owner's initial cost, increased by any original issue discount previously included in the beneficial owner's income to the date of disposition and reduced by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the BAB.

Typically, a defeasance of the BABs will not relieve the City of its obligation to pay the principal of and interest on the BABs, and consequently, a constructive disposition of the defeased BABs should not result. However, under certain circumstances, a defeasance of a BAB may result in a reissuance thereof for U.S. federal income tax purposes, and if such reissuance should

result, a beneficial owner of a BAB may recognize taxable gain or loss as described above, even if such owner does not receive any cash with respect to such defeasance.

BACKUP WITHHOLDING . . . Under section 3406 of the Code, a beneficial owner of the BABs who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" with respect to current or accrued interest on the BABs or with respect to proceeds received from a disposition of BABs. This withholding applies if such beneficial owner of BABs: (i) fails to furnish to the payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the BABs. Beneficial owners of the BABs should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

CONTINUING DISCLOSURE OF INFORMATION

In each of the respective Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2010.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Obligations (the Obligations are not issued as tax-exempt obligations); (7) modifications to rights of holders of the Obligations; (8) Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. (Neither the Obligations nor the Ordinances make any provision for debt service reserves, credit enhancement or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein

in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2005, 2006, 2007 and 2008 audited financial statements release dates were January 29, 2007, January 9, 2008, February 25, 2009, and February 16, 2010, respectively. The City anticipates that its fiscal year 2008-09 audited financial statement will be presented to the City Council for approval on April 19, 2010. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

OTHER INFORMATION

RATINGS

The Obligations and the presently outstanding tax supported debt of the City are rated "A2" by Moody's and "A" by S&P. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

The Obligations. Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Obligations may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish to the Underwriters complete transcripts of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and the Initial Certificate and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect, and forms of such opinions are attached hereto as Appendices C and D. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "Plan of Financing" (exclusive of the information under the subcaption "Sources and Uses of Proceeds"), "The Obligations" (exclusive of the information under the subcaptions "Book-Entry-Only System" and "Remedies"), and "Continuing Disclosure of Information" (exclusive of the information under the subsection "Compliance with Prior Undertakings") and the subcaptions "Legal Opinions" (except for the last two sentences of the first paragraph thereof), "Registration and Qualification of Obligations for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "Other Information" in the Official Statement and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the respective Ordinances. Based upon the examination of certain documents and information regarding the issuance of the Obligations, special Tax Counsel will issue its opinion that the Obligations qualify as "Build America Bonds" under Section 54AA of the Code and as "Qualified Bonds" under Section 54AA of the Code that entitles the City to receive credits under Section 6431 of the Code. Special Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Special Tax Counsel, such firm has reviewed the information under the caption "TAX MATTERS FOR BUILD AMERICA BONDS" in the Official Statement, and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the respective Ordinances. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. The legal fees to be paid to Special Tax Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski L.L.P., Counsel to the Underwriters. The legal fee of such firm is contingent on the sale and delivery of the Obligations.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$145,407.85. The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of \$76,611.25. The Underwriters will be obligated to purchase all of the respective Obligations if any respective Obligations are purchased. The Obligations to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices of such Obligations and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

The respective Ordinances authorizing the issuance of the Obligations approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Obligations by the Underwriters.

MARCUS E. KNIGHT
Mayor
City of Lancaster, Texas

ATTEST:

DOLLE SHANE
City Secretary

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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

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

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	1998	23,300
1980 Census	14,807	1999	24,300
1990 Census	22,117	2000 Census	25,894
1991	22,189	2001	26,350
1992	22,877	2002	26,400
1993	22,877	2003	26,796
1986	20,750	2004	28,700
1987	20,850	2005	31,700
1988	23,000	2006	33,450
1989	23,000	2007	35,050
1994	22,300	2008	35,800
1995	22,300	2009	36,000
1996	23,000	2010	36,200
1997	23,400		

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

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

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

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

GROWTH INDICES

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits ⁽¹⁾</u>		<u>Water Customers</u>
		<u>Number</u>	<u>Value</u>	
2005	31,700	507	\$ 74,120,638	8,923
2006	33,450	830	119,006,275	10,655
2007	35,050	360	58,349,498	10,489
2008	35,800	119	64,790,861	10,718
2009	36,000	111	21,641,764	10,800

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

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

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

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APPENDIX B

EXCERPTS FROM THE
CITY OF LANCASTER, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2008

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Annual Financial Report for the Year Ended September 30, 2008, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

The Lancaster Housing Agency (a blended component unit of the City) had material noncompliance with federal program requirements and an investigation regarding potential fraudulent disbursements has been performed and provided to the Office of the Inspector General for the Federal Department of Housing and Urban Development. They are continuing their investigation. The resolution of this matter and resulting financial impact to the Lancaster Housing Agency has not been determined.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about noncompliance with federal guidelines over disbursements in the Federal Housing program, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lancaster, Texas at September 30, 2008, 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 December 30, 2009, 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.

City of Lancaster
December 30, 2009

Page 2

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.

The accompanying management's discussion and analysis, schedule of funding progress, and budgetary comparison schedules on pages 3 through 10 and 44, 45,46, and 47, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
December 30, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008. 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 2008, resulting in \$108,213,483 of net assets. Net assets associated with governmental activities are approximately \$61 million, or 57% of the total net assets of the City. Net assets associated with business-type activities are approximately \$47 million, or 43% 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 \$80 million.
- Unrestricted net assets, which may be used to meet the City's future obligations, consist of \$21 million, or 19% of the City's total net assets. Unrestricted net assets for governmental activities are approximately \$10 million, or 17% of total net assets for governmental activities; unrestricted net assets for business activities are approximately \$10 million, or 21% of total net assets for business-type activities.
- As of the close of fiscal year 2008, the City of Lancaster's governmental funds reported a combined ending fund balance of \$5,754,395, a decrease of \$12,460,465 from the prior year which includes a prior year adjustment of \$1.75 million which increased beginning fund balance.
- At the end of the current fiscal year, total fund balance for the general fund was \$2,677,652. This represents approximately 11% of general fund expenditures which is less than the 15% required by the City's adopted fund balance policy. Of this amount, 99.99% is available for spending at the government's discretion (unreserved fund balance).
- The City's total capital assets net of accumulated depreciation increased by approximately \$4 million which is primarily attributed to additions to the construction of City buildings.
- The City entered into leases totaling \$806,396 and made its regularly scheduled annual principal payments for a net decrease in long-term liabilities of \$1,859,528 as displayed on page 9.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

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

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

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

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

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

The government-wide financial statements can be found on pages 11 through 13 of this report.

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008

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

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

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

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

The proprietary fund financial statements can be found on pages 18 through 20 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 21 through 43 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 statement. Combining statements for non-major governmental funds and component unit fund financial statements follow the section of required supplementary information.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

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, 2008, the City of Lancaster assets exceeded its liabilities by \$108,213,483.

The largest portion of the City's net assets, 74%, 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.

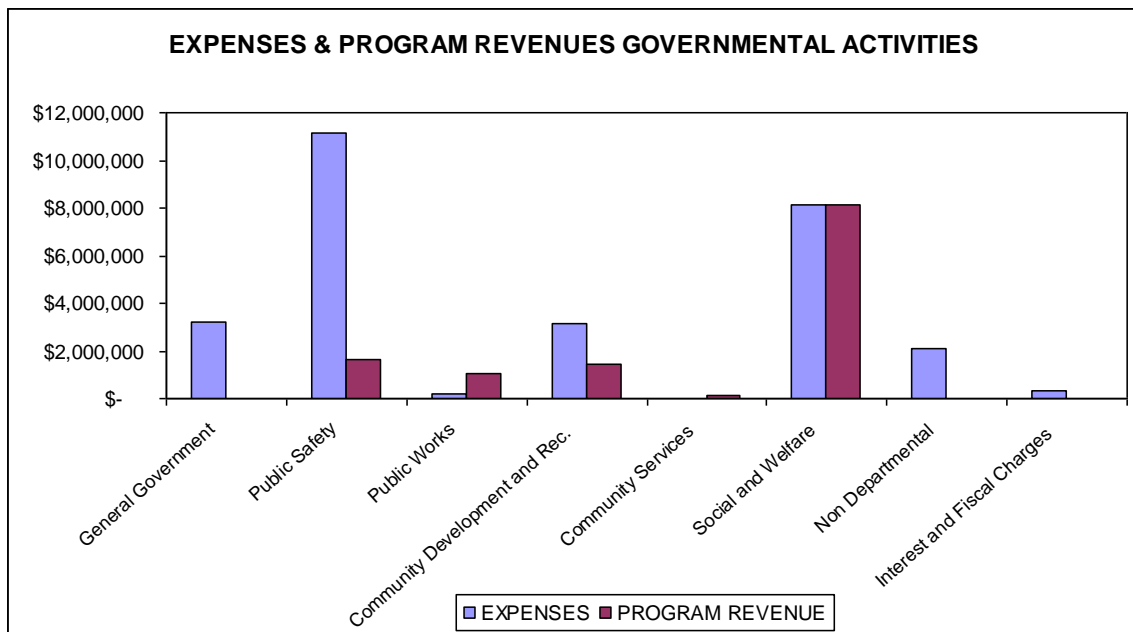
An additional portion of the City's net assets, 7%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$20,557,238 or 19%, may be used to meet the City's ongoing obligations to citizens and creditors.

	Governmental Activities 2008	Business-type Activities 2008	Total 2008	Governmental Activities 2007	Business-type Activities 2007	Total 2007
Current and Other Assets	\$ 25,409,225	\$ 18,483,634	\$ 43,892,859	\$ 37,586,288	\$ 20,335,187	\$ 57,921,475
Capital Assets	86,453,835	41,879,952	128,333,787	75,600,285	42,841,369	118,441,654
Total Assets	<u>\$ 111,863,060</u>	<u>\$ 60,363,586</u>	<u>\$ 172,226,646</u>	<u>\$ 113,186,573</u>	<u>\$ 63,176,556</u>	<u>\$ 176,363,129</u>
Long-Term Liabilities	\$ 46,231,016	12,044,180	\$ 58,275,196	\$ 44,880,525	\$ 12,802,762	\$ 57,683,287
Other Liabilities	4,412,297	1,325,670	5,737,967	5,958,675	1,499,254	7,457,929
Total Liabilities	<u>\$ 50,643,313</u>	<u>\$ 13,369,850</u>	<u>\$ 64,013,163</u>	<u>\$ 50,839,200</u>	<u>\$ 14,302,016</u>	<u>\$ 65,141,216</u>
Net Assets:						
Invested in Capital assets, net of Related Debt	\$ 50,425,678	\$ -	\$ 50,425,678	\$ 54,560,297	\$ 29,528,199	\$ 84,088,496
Restricted	297,651	36,932,916	37,230,567	602,144	4,862,321	5,464,465
Unrestricted	10,496,418	10,060,820	20,557,238	7,184,932	14,484,020	21,668,952
Total Net Assets	<u>\$ 61,219,747</u>	<u>\$ 46,993,736</u>	<u>\$ 108,213,483</u>	<u>\$ 62,347,373</u>	<u>\$ 48,874,540</u>	<u>\$ 111,221,913</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

Analysis of City's Operations The following table provides a summary of the City's operations for the year ended September 30, 2008. Overall, the City had a decrease in net assets of \$3,120,735 which includes a prior year adjustment of \$1.75 million which increased beginning net assets.

	Governmental Activities 2008	Business-type Activities 2008	Total 2008	Governmental Activities 2007	Business-type Activities 2007	Total 2007
REVENUES:						
Program Revenues:						
Charges for Services	\$ 3,682,085	\$ 12,803,014	\$ 16,485,099	\$ 4,665,593	\$ 12,263,563	\$ 16,929,156
Operating Grant & Contribution	10,588,454	19,281	10,607,735	8,463,863	59,177	8,523,040
Capital Grants & Contributions	132,158	-	132,158	6,557,823	1,475,994	8,033,817
General Revenue						
Taxes & Fees	18,280,947	-	18,280,947	16,164,303	-	16,164,303
Others	1,345,966	152,299	1,498,265	1,683,133	529,432	2,212,565
Total Revenues	34,029,610	12,974,594	47,004,204	37,534,715	14,328,166	51,862,881
Program Expenses						
General Government	5,395,286	-	5,395,286	4,489,095	-	4,489,095
Public Safety	14,116,941	-	14,116,941	13,166,813	-	13,166,813
Public Works	3,162,728	-	3,162,728	4,294,999	-	4,294,999
Community Development and Recreation	4,290,873	-	4,290,873	4,284,249	-	4,284,249
Community Services	-	-	-	-	-	-
Social and Welfare	9,015,301	-	9,015,301	8,071,230	-	8,071,230
Interest and Fiscal Charges	2,367,768	-	2,367,768	1,514,305	-	1,514,305
Water & Sewer	-	10,479,809	10,479,809	-	9,806,091	9,806,091
Refuse	-	2,026,237	2,026,237	-	1,794,083	1,794,083
Airport	-	914,387	914,387	-	1,154,670	1,154,670
Golf Course	-	107,311	107,311	-	125,495	125,495
Total Expenses	38,348,897	13,527,744	51,876,641	35,820,691	12,880,339	48,701,030
Increase (decrease in net assets before transfers)	(4,319,287)	(553,150)	(4,872,437)	1,714,024	1,447,827	3,161,851
Transfers	1,327,654	(1,327,654)	-	794,510	(794,510)	-
Change in Net Assets	(2,991,633)	(1,880,804)	(4,872,437)	2,508,534	653,317	3,161,851
Net Assets - Beginning, as restated	64,211,380	48,874,540	113,085,920	59,951,144	48,221,223	108,172,367
Net Assets - Ending	\$ 61,219,747	\$ 46,993,736	\$ 108,213,483	\$ 62,459,678	\$ 48,874,540	\$ 111,334,218



**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

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 combined ending fund balances of \$5,754,395, a decrease of \$12,460,465 from the prior year including the restatement. This amount includes fund balance reserved for debt service of \$295,932 and reserved in inventory of \$3,929. The net unreserved fund balance was \$5,454,534, a decrease of \$11,442,957 from prior year. The majority of this decrease was due to the planned expenditure for construction of facilities.

In the General Fund, the original budget projected a \$1,380,119 decrease in fund balance this fiscal year, however the actual decrease was \$2,523,811. The largest area of decrease was in building permit fees which is related to national housing crisis and recession.

The HUD Fund has a total fund balance of \$985,847 an increase of \$215,603 from the prior year. The budget included a planned increase in housing assistance based on an increase in revenues from HUD and utilizing past excess revenues received from HUD that increased prior year fund balance.

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 \$10,060,820. The total decrease in net assets was \$1.9 million from the prior year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amount to \$128,333,787 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges and water and sewer lines.

	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
Land	\$ 11,821,072	\$ 11,957,972	\$ 3,596,261	\$ 3,596,261	\$ 15,417,333	\$ 15,554,233
Buildings	5,147,165	5,147,165	1,774,525	1,806,167	6,921,690	6,953,332
Equipment	12,644,533	13,668,946	2,507,114	2,658,004	15,151,647	16,326,950
Construction in Progress	5,837,827	12,560,230	802,275	-	6,640,102	12,560,230
Other Structures	-	-	53,554,334	53,554,334	53,554,334	53,554,334
Improvements	1,660,169	1,660,169	3,093,109	4,092,732	4,753,278	5,752,901
Streets and Bridges	70,957,344	75,940,830	-	-	70,957,344	75,940,830
Drainage	7,319,619	7,319,619	-	-	7,319,619	7,319,619
Runways & Taxiways	-	-	2,796,087	2,796,087	2,796,087	2,796,087
Accumulated Depreciation	(39,787,444)	(41,801,096)	(25,282,336)	(26,623,633)	(65,069,780)	(68,424,729)
Total	\$ 75,600,285	\$ 86,453,835	\$ 42,841,369	\$ 41,879,952	\$ 118,441,654	\$ 128,333,787

Long-term Debt At the end of the current fiscal year, the City had total bonds outstanding of \$55,090,002. Of this amount \$54,490,002 is tax supported debt. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

	Governmental Activities		Business-Type Activities		Totals	
	2007	2008	2007	2008	2007	2008
General Obligation Bonds	\$ 31,391,531	\$ 30,811,531	\$ 7,068,471	\$ 6,648,471	\$ 38,460,002	\$ 37,460,002
Certificates of Obligation	14,245,000	14,060,000	3,110,000	2,970,000	17,355,000	17,030,000
Notes payable	890,760	-	928,941	928,941	1,819,701	928,941
Revenue Bonds	-	-	670,000	600,000	670,000	600,000
Capital Leases	51,485	638,907	820,000	658,810	871,485	1,297,717
Total	\$ 46,578,776	\$ 45,510,438	\$ 12,597,412	\$ 11,806,222	\$ 59,176,188	\$ 57,316,660

The City's total long-term debt decreased by \$1,859,528, during the current fiscal year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF LANCASTER, TEXAS
SEPTEMBER 30, 2008**

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2009 budget, general fund revenues are budgeted to increase by 0.9% from the 2008 budget year. This increase is mostly attributed to an adjustment to the property tax rate. This adjustment was necessary due to the closure of the local hospital; an additional ambulance crew was added to compensate for the additional time required to transport patients.

Property taxes make up about 54% of budgeted revenues and sales tax make up about 17% of budgeted revenues. Management is very concerned about the future. It is not known how much of an impact the recession will have on the City of Lancaster, Texas.

Request for Information

For additional information please contact Director of Finance, Carl Wessels at 972-218-1333 Finance Department, City of Lancaster, Texas, P.O. BOX 940 Lancaster, TX 75146 Email cwessels@lancaster-tx.com.

BASIC FINANCIAL STATEMENTS



Lancaster

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
ASSETS					
Cash and cash equivalents	\$ 8,721,397	\$ 15,967,510	\$ 24,688,907	\$ 3,021,471	\$ 687,033
Receivable(s) (net of allowance)					
Notes	13,595,000	-	13,595,000	-	-
Delinquent taxes	1,126,076	-	1,126,076	-	-
Accounts	591,968	1,461,825	2,053,793	12,133	-
Sales tax	616,078	-	616,078	123,216	246,431
Fines	149,434	-	149,434	-	-
Due from other governments	3,472	-	3,472	-	-
Prepaid items	3,621	-	3,621	-	-
Inventory	308	109,087	109,395	-	-
Debt issue costs	601,871	322,087	923,958	-	-
Restricted assets:					
Cash and cash equivalents	-	623,125	623,125	-	-
Capital assets:					
Land and construction in progress	24,518,202	3,596,261	28,114,463	100,378	989,118
Other capital assets, net of accumulated depreciation	61,935,633	38,283,691	100,219,324	-	14,435,608
Total assets	111,863,060	60,363,586	172,226,646	3,257,198	16,358,190
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts and contracts payable	3,199,732	554,013	3,753,745	9,049	5,405
Accrued liabilities	918,964	87,387	1,006,351	8,363	-
Accrued interest	244,408	61,145	305,553	15,456	54,300
Deposits	49,193	623,125	672,318	-	-
Noncurrent liabilities:					
Due within one year	1,512,629	1,320,800	2,833,429	105,000	480,000
Due in more than one year	44,718,387	10,723,380	55,441,767	2,880,000	10,130,000
Total Liabilities	50,643,313	13,369,850	64,013,163	3,017,868	10,669,705
Net Assets:					
Invested in capital assets, net of related debt	50,425,678	29,900,904	80,326,582	100,378	4,814,726
Restricted for debt service	297,651	1,820,910	2,118,561	-	-
Restricted for capital	-	5,211,102	5,211,102	-	-
Unrestricted	10,496,418	10,060,820	20,557,238	138,952	873,759
Total Net Assets	\$ 61,219,747	\$ 46,993,736	\$ 108,213,483	\$ 239,330	\$ 5,688,485

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

**CITY OF LANCASTER
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2008**

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 5,395,286	\$ 25,410	\$ -	\$ -
Public safety	14,116,941	1,610,438	10,006	64,226
Public works	3,162,728	989,766	-	-
Community development and recreation	4,290,873	1,056,471	1,299,176	67,932
Social and welfare	9,015,301	-	9,279,272	-
Interest and fiscal charges	2,367,768	-	-	-
Total governmental activities	<u>38,348,897</u>	<u>3,682,085</u>	<u>10,588,454</u>	<u>132,158</u>
Business-type activities:				
Water and sewer	10,479,809	10,065,258	-	-
Refuse	2,026,237	1,988,397	-	-
Airport	914,387	682,872	19,281	-
Golf course	107,311	66,487	-	-
Total business-type activities	<u>13,527,744</u>	<u>12,803,014</u>	<u>19,281</u>	<u>-</u>
Total primary government	<u>\$ 51,876,641</u>	<u>\$ 16,485,099</u>	<u>\$ 10,607,735</u>	<u>\$ 132,158</u>
Component Units:				
Lancaster Economic Development Corporation	\$ 945,389	\$ -	\$ -	\$ -
Lancaster Recreational Development Corporation	2,566,519	-	518,094	-
	<u>\$ 3,511,908</u>	<u>\$ -</u>	<u>\$ 518,094</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, as restated

NET ASSETS, end of year

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

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

Primary Government			Component Units	
Governmental	Business - Type		Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Activities	Activities	Total		
\$ (5,369,876)	\$ -	\$ (5,369,876)	\$ -	\$ -
(12,432,271)	-	(12,432,271)	-	-
(2,172,962)	-	(2,172,962)	-	-
(1,867,294)	-	(1,867,294)	-	-
263,971	-	263,971	-	-
(2,367,768)	-	(2,367,768)	-	-
(23,946,200)	-	(23,946,200)	-	-
-	(414,551)	(414,551)	-	-
-	(37,840)	(37,840)	-	-
-	(212,234)	(212,234)	-	-
-	(40,824)	(40,824)	-	-
-	(705,449)	(705,449)	-	-
<u>\$ (23,946,200)</u>	<u>\$ (705,449)</u>	<u>\$ (24,651,649)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (945,389)	\$ -
-	-	-	-	(2,048,425)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (945,389)</u>	<u>\$ (2,048,425)</u>
12,617,630	-	12,617,630	-	-
3,463,123	-	3,463,123	692,625	1,396,371
2,158,341	-	2,158,341	-	-
41,853	-	41,853	-	-
1,141,586	143,189	1,284,775	2,413	9,392
204,380	9,110	213,490	-	21,200
1,327,654	(1,327,654)	-	-	-
<u>20,954,567</u>	<u>(1,175,355)</u>	<u>19,779,212</u>	<u>695,038</u>	<u>1,426,963</u>
(2,991,633)	(1,880,804)	(4,872,437)	(250,351)	(621,462)
<u>64,211,380</u>	<u>48,874,540</u>	<u>113,085,920</u>	<u>489,681</u>	<u>6,309,947</u>
<u>\$ 61,219,747</u>	<u>\$ 46,993,736</u>	<u>\$ 108,213,483</u>	<u>\$ 239,330</u>	<u>\$ 5,688,485</u>

**CITY OF LANCASTER
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

ASSETS	General Fund	HUD Fund	Capital Projects Fund	General Obligation Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,215,496	\$ 1,085,501	\$ 2,850,677	\$ 285,608	\$ 1,284,115	\$ 8,721,397
Receivable(s) (net of allowance for uncollectibles):						
Notes	-	-	-	13,595,000	-	13,595,000
Delinquent taxes	866,539	-	-	256,451	3,086	1,126,076
Accounts	457,967	-	17,000	-	117,001	591,968
Sales tax	616,078	-	-	-	-	616,078
Fines	149,434	-	-	-	-	149,434
Due from:						
Other funds	99,353	-	-	-	-	99,353
Other governments	3,472	-	-	-	-	3,472
Inventory, at cost	308	-	-	-	-	308
Prepaid items	-	3,621	-	-	-	3,621
TOTAL ASSETS	\$ 5,408,647	\$ 1,089,122	\$ 2,867,677	\$ 14,137,059	\$ 1,404,202	\$ 24,906,707
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and contracts payable	\$ 755,072	\$ 3,922	\$ 2,393,216	\$ -	\$ 47,522	\$ 3,199,732
Accrued liabilities	885,553	-	-	-	33,411	918,964
Deposits	49,193	-	-	-	-	49,193
Due to:						
Other funds	-	99,353	-	-	-	99,353
Deferred revenue	1,041,177	-	-	13,841,127	2,766	14,885,070
Total liabilities	2,730,995	103,275	2,393,216	13,841,127	83,699	19,152,312
Fund Balances:						
Reserved for:						
Debt service	-	-	-	295,932	-	295,932
Inventory and prepaid items	308	3,621	-	-	-	3,929
Unreserved:						
Unreserved and undesignated	2,677,344	982,226	474,461	-	1,320,503	5,454,534
Total fund balances	2,677,652	985,847	474,461	295,932	1,320,503	5,754,395
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,408,647	\$ 1,089,122	\$ 2,867,677	\$ 14,137,059	\$ 1,404,202	\$ 24,906,707

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

**CITY OF LANCASTER
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2008**

Total fund balance-governmental funds.	\$ 5,754,395
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and are capitalized and amortized over the life of the debt in the government-wide statements.	601,871
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.	86,453,835
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.	(244,408)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	1,290,070
Notes receivable are not measurable and available within sixty days of year end, and therefore are entirely deferred in the fund financial statements.	13,595,000
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	(30,811,531)
Certificates of obligation bonds	(14,060,000)
Premium payable	(319,156)
Capital lease	(638,907)
Compensated absences	(1,280,563)
Deferred loss on refunding	<u>879,141</u>
 Total net assets - governmental activities	 <u><u>\$ 61,219,747</u></u>

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

CITY OF LANCASTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2008

	General Fund	HUD Fund	Capital Projects Fund	Obligation Debt Service Fund	Non-major Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes and fees	\$ 16,011,131	\$ -	\$ -	\$ 2,150,822	\$ 1,027,942	\$ 19,189,895
Licenses and permits	771,028	-	-	-	220,412	991,440
Intergovernmental	85,190	9,230,350	67,932	-	-	9,383,472
Charges for services	455,084	-	-	-	-	455,084
Fines and forfeits	1,338,090	-	186,043	-	-	1,524,133
Interest	59,808	15,372	1,041,621	10,265	14,520	1,141,586
Miscellaneous	1,634,789	47,182	21,646	447,329	40,011	2,190,957
Total revenues	20,355,120	9,292,904	1,317,242	2,608,416	1,302,885	34,876,567
EXPENDITURES:						
Current:						
General government	4,185,437	-	1,884	-	908,990	5,096,311
Public safety	13,944,602	-	21,972	-	89,310	14,055,884
Public works	2,753,728	-	17,493	-	-	2,771,221
Community development and recreation	3,907,702	-	78,600	-	91,383	4,077,685
Social and welfare	-	9,015,301	-	-	-	9,015,301
Capital outlay	-	-	11,587,697	-	156,655	11,744,352
Debt service:						
Principal retirement	93,951	-	890,760	755,000	61,485	1,801,196
Interest and fiscal charges	30,668	-	26,992	2,481,168	48,468	2,587,296
Total expenditures	24,916,088	9,015,301	12,625,398	3,236,168	1,356,291	51,149,246
Excess (deficiency) of revenues over expenditures	(4,560,968)	277,603	(11,308,156)	(627,752)	(53,406)	(16,272,679)
Other financing sources (uses):						
Operating transfers in	1,429,334	-	955,873	-	125,035	2,510,242
Operating transfers out	(125,035)	(62,000)	-	-	(995,553)	(1,182,588)
Proceeds from capital lease	732,858	-	-	-	-	732,858
Total other financing sources (uses)	2,037,157	(62,000)	955,873	-	(870,518)	2,060,512
Fund balances, beginning of year, as restated	5,201,463	770,244	10,826,744	923,684	2,244,427	19,966,562
Fund balances, end of year	<u>\$ 2,677,652</u>	<u>\$ 985,847</u>	<u>\$ 474,461</u>	<u>\$ 295,932</u>	<u>\$ 1,320,503</u>	<u>\$ 5,754,395</u>

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

**CITY OF LANCASTER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008**

Net change in fund balances - total governmental funds		\$ (14,212,167)
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 are allocated over their estimated useful lives and reported as depreciation expense.		12,867,202
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.		(2,013,652)
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, certificate of obligation bonds, and note payable	\$ 1,655,760	
Capital leases	<u>145,436</u>	1,801,196
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:		
Capital lease proceeds	\$ 732,858	
Amortization of issue costs	(32,623)	
Amortization of refunding loss	(55,664)	
Amortization of bond premium/discount	<u>13,605</u>	658,176
Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		73,925
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.		(294,210)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		<u>(1,872,103)</u>
Change in net assets of governmental activities		<u>\$ (2,991,633)</u>

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

**CITY OF LANCASTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS SEPTEMBER 30, 2008**

ASSETS	Water and Sewer	Non-major Enterprise Funds	Total Proprietary Funds
Current assets:			
Cash and cash equivalents	\$ 15,828,363	\$ 139,147	\$ 15,967,510
Receivables (net of allowance for uncollectibles):			
Accounts	645,154	259,951	905,105
Unbilled	556,720	-	556,720
Due from other funds	246,872	-	246,872
Inventory	-	109,087	109,087
Total current assets	17,277,109	508,185	17,785,294
Restricted assets:			
Cash	623,125	-	623,125
Deferred bond issuance costs	318,605	3,482	322,087
Capital assets:			
Non-depreciable	85,561	3,510,700	3,596,261
Depreciable (net)	35,180,100	3,103,591	38,283,691
TOTAL ASSETS	53,484,500	7,125,958	60,610,458
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	301,160	252,853	554,013
Accrued Liabilities	78,163	9,224	87,387
Accrued Interest	55,740	5,405	61,145
Due to other funds	-	246,872	246,872
Deposits	623,125	-	623,125
Total current liabilities	1,058,188	514,354	1,572,542
Non-current liabilities:			
Due within one year	997,174	323,626	1,320,800
Due in more than one year	9,949,119	774,261	10,723,380
Total non-current liabilities	10,946,293	1,097,887	12,044,180
TOTAL LIABILITIES	12,004,481	1,612,241	13,616,722
NET ASSETS			
Invested in capital assets, net of related debt	24,384,500	5,516,404	29,900,904
Restricted for debt service	1,820,910	-	1,820,910
Restricted for impact fees	5,211,102	-	5,211,102
Unrestricted	10,063,507	(2,687)	10,060,820
TOTAL NET ASSETS	\$ 41,480,019	\$ 5,513,717	\$ 46,993,736

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

**CITY OF LANCASTER
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS YEAR ENDED SEPTEMBER 30, 2008**

	<u>Water and Sewer Fund</u>	<u>Non-major Enterprise Funds</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 9,457,164	\$ 2,693,037	\$ 12,150,201
Intergovernmental	-	19,281	19,281
Miscellaneous	48,607	-	48,607
Total operating revenues	<u>9,505,771</u>	<u>2,712,318</u>	<u>12,218,089</u>
OPERATING EXPENSES:			
Personnel services	1,340,301	172,446	1,512,747
Maintenance	561,149	185,704	746,853
Purchase of water	2,018,807	-	2,018,807
Materials and supplies	152,423	430,151	582,574
Heat, light and power	201,217	52,386	253,603
Depreciation	1,241,133	100,164	1,341,297
Benefit payments	405,170	-	405,170
Sewage treatment	3,112,031	-	3,112,031
Special services	506,201	2,047,008	2,553,209
Miscellaneous	103,634	2,158	105,792
Equipment rental	6,641	-	6,641
Total operating expenses	<u>9,648,707</u>	<u>2,990,017</u>	<u>12,638,724</u>
OPERATING LOSS	<u>(142,936)</u>	<u>(277,699)</u>	<u>(420,635)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	142,212	977	143,189
Interest and fiscal charges	(732,066)	(13,199)	(745,265)
Other nonoperating revenues	460,451	9,110	469,561
Total nonoperating revenues (expenses)	<u>(129,403)</u>	<u>(3,112)</u>	<u>(132,515)</u>
LOSS BEFORE TRANSFERS	<u>(272,339)</u>	<u>(280,811)</u>	<u>(553,150)</u>
TRANSFERS:			
Operating transfers out	(1,324,236)	(3,418)	(1,327,654)
Total transfers	<u>(1,324,236)</u>	<u>(3,418)</u>	<u>(1,327,654)</u>
CHANGE IN NET ASSETS	(1,596,575)	(284,229)	(1,880,804)
NET ASSETS, BEGINNING OF YEAR	<u>43,076,594</u>	<u>5,797,946</u>	<u>48,874,540</u>
NET ASSETS, END OF YEAR	<u>\$ 41,480,019</u>	<u>\$ 5,513,717</u>	<u>\$ 46,993,736</u>

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

**CITY OF LANCASTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS YEAR ENDED SEPTEMBER 30, 2008**

	Water and Sewer Fund	Non-major Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 9,787,924	\$ 2,658,090	\$ 12,446,014
Payments to other funds	(94,199)	-	(94,199)
Payments to employees	(1,729,658)	-	(1,729,658)
Payments to suppliers	(7,120,554)	(2,661,091)	(9,781,645)
Net cash provided by (used for) operating activities	843,513	(3,001)	840,512
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(348,238)	(31,642)	(379,880)
Principal payments on debt	(625,000)	-	(625,000)
Interest payments on debt	(788,207)	(6,866)	(795,073)
Principal payments on capital leases	(161,190)	(5,000)	(166,190)
Interest payments on capital leases	(61,117)	-	(61,117)
Impact fees collected	460,451	-	460,451
Net cash used for capital and related financing activities	(1,523,301)	(43,508)	(1,566,809)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers out to other funds	(1,324,236)	(3,418)	(1,327,654)
Proceeds from other nonoperating revenue	-	6,368	6,368
Net cash provided by (used for) noncapital financing activities	(1,324,236)	2,950	(1,321,286)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	142,212	3,719	145,931
Net decrease in cash and cash equivalents	(1,861,812)	(39,840)	(1,901,652)
Cash and cash equivalents, beginning of year	18,313,300	178,987	18,492,287
Cash and cash equivalents, end of year	\$ 16,451,488	\$ 139,147	\$ 16,590,635
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Unrestricted cash and cash equivalents	\$ 15,828,363	\$ 139,147	\$ 15,967,510
Restricted cash and cash equivalents	623,125	-	623,125
Total Cash and cash equivalents	\$ 16,451,488	\$ 139,147	\$ 16,590,635
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating loss	\$ (142,936)	\$ (277,699)	\$ (420,635)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	1,241,133	100,164	1,341,297
Provision for bad debts	180,381	-	180,381
Change in assets and liabilities:			
Increase in accounts receivable	(122,749)	(98,947)	(221,696)
(Increase) decrease in due to/ from other funds	(94,199)	94,199	-
(Increase) decrease in inventory	400	(29,087)	(28,687)
Increase (decrease) in accounts and contracts payable	(371,345)	208,248	(163,097)
Increase in accrued liabilities	11,530	121	11,651
Increase in deposits	125,485	-	125,485
Increase in compensated absences	15,813	-	15,813
Net cash provided by (used for) operating activities	\$ 843,513	\$ (3,001)	\$ 840,512

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The City of Lancaster's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, "The Financial Reporting Entity" as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units". GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (A) the primary government must be able to impose its will, or (B) the primary government may potentially benefit financially or be financially responsible for the component unit.

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Presentation

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Presentation – Continued

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

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

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

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

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

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

C. Measurement Focus

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

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

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus – Continued

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Cash Flows Statement

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

F. Investments

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

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

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

G. Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2008 and 2007 were \$198,175 and \$164,016 for uncollectible taxes, \$489,871 and \$309,490 for water and sewer billings, and \$1,216,349 and \$4,962,088 for court fees and fines. Ambulance receivables were first recorded during the current fiscal year and an allowance for uncollectible ambulance of \$2,249,137 is reflected in the financial statements.

H. Inventory

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

I. Prepaid Items

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. Interfund Receivables and Payables

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

K. Transactions Between Funds

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

L. Capital Assets

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

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

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

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

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

The liability for unused vested vacation leave as of September 30, 2008, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the proprietary funds. The amount to be paid from current available financial resources is not considered significant.

NOTE 2. CASH AND INVESTMENTS

At year-end, the carrying amount of the City's bank deposits was \$1,653,294 (composed of \$1,193,908 related to the primary government and \$459,386 related to discretely presented component units) and the bank balances were \$1,954,045. The bank balances on September 30, 2008 were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies and repurchase agreements and municipal pools. During the year ended September 30, 2008, the City did not own any types of securities other than those permitted by the statute.

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

During the year ended September 30, 2008 the City invested in the Texpool fund, which is an investment fund authorized by the Texas Legislature and administered by the Texas State Treasury. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly the fair value of the position in TexPool is the same as the value of TexPool shares. Texpool is rated as a AAA money market fund by Standard and Poor's and Moody's.

Interest Rate Risk

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

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Credit Risk

In compliance with the City’s Investment Policy as of September 30, 2008, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, broker/dealers, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities are minimized.

Investments at year end are shown below:

	<u>Carrying amount</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>
Primary Government Texpool	<u>\$ 24,118,124</u>	<u>\$ 24,118,124</u>	0.003
Total Primary Government	<u>24,118,124</u>	<u>24,118,124</u>	
Component Units Texpool	<u>3,249,118</u>	<u>3,249,118</u>	
Total Component Units	<u>3,249,118</u>	<u>3,249,118</u>	0.003
Total	<u><u>\$ 27,367,242</u></u>	<u><u>\$ 27,367,242</u></u>	

NOTE 3. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. Tax collections for the year ended September 30, 2008, were 96.7% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30 which are not expected to be collected within 60 days are recorded as taxes receivable and deferred revenues. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the State of Texas do not prescribe a legal debt limit, nor does the City’s charter provide for a debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000, population limits ad valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city, which operates under a Home Rule Charter, Lancaster has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2008, the City had a tax rate of \$.671700 per \$100 assessed valuation, of which \$.6091 was allocated for general government and \$.0626 was allocated for the payment of principal and interest on general obligation debt.

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

NOTE 3. PROPERTY TAXES – CONTINUED

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

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

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

NOTE 4. INTERFUND TRANSACTIONS

At September 30, 2008, interfund balances and transactions, excluding discretely presented component units were as follows:

	Interfund receivables	Interfund payables	Transfers in	Transfers out
General fund	\$ 99,353	\$ -	\$ 1,429,334	\$ 125,035
HUD special revenue fund	-	99,353	-	62,000
Capital Projects Fund	-	-	955,873	-
Non major governmental funds	-	-	125,035	995,553
Water and sewer fund	246,872	-	-	1,324,236
Non-major enterprise funds	-	246,872	-	3,418
	<u>\$ 346,225</u>	<u>\$ 346,225</u>	<u>\$ 2,510,242</u>	<u>\$ 2,510,242</u>

The General Fund interfund receivable is for a temporary loan to the HUD Fund for expenditures paid by the General Fund. The Water and Sewer Fund interfund receivable is a temporary cash overdraft for the Non-major Enterprise Funds. The interfund transfer to the General Fund from the HUD Special Revenue Fund, Non major Governmental Funds, Water and Sewer Funds, and Non-major Enterprise Funds is for indirect services provided by central service departments accounted for in the General Fund. The interfund transfer from the General Fund to the Non-major Governmental Funds is for the creation of a Special Revenue Fund that had previously been reported in the General Fund.

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

NOTE 5. FIXED ASSETS

Governmental Funds

Capital assets of the Governmental Funds are as follows:

	Balance September 30, 2007	Increases	Decreases	Transfers	Balance September 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 11,821,072	\$ 136,900	\$ -	\$ -	\$ 11,957,972
Construction in progress	5,837,827	11,433,661	-	(4,711,258)	12,560,230
Total capital assets not being depreciated	17,658,899	11,570,561	-	(4,711,258)	24,518,202
Capital assets being depreciated:					
Buildings	5,147,165	-	-	-	5,147,165
Improvements	79,937,132	272,228	-	4,711,258	84,920,618
Equipment and furniture	12,644,533	1,024,413	-	-	13,668,946
Total capital assets being depreciated	97,728,830	1,296,641	-	4,711,258	103,736,729
Less accumulated depreciation	39,787,444	2,013,652	-	-	41,801,096
Total capital assets being depreciated, net	57,941,386	(717,011)	-	4,711,258	61,935,633
Governmental activities capital assets, net	<u>\$ 75,600,285</u>	<u>\$ 10,853,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,453,835</u>

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

General and administrative	\$ 235,273
Public safety	626,123
Public works	1,087,037
Community development and recreation	65,219
Total depreciation expense - governmental activities	<u>\$ 2,013,652</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Enterprise Funds

Fixed assets of the Enterprise Funds are as follows:

	Balance September 30, 2007	Increases	Decreases	Transfers	Balance September 30, 2008
Business-type activities:					
Water and Sewer System:					
Capital assets not being depreciated:					
Land	\$ 85,561	\$ -	\$ -	\$ -	\$ 85,561
Construction in progress	802,275	-	-	(802,275)	-
Total capital assets not being depreciated	887,836	-	-	(802,275)	85,561
Capital assets being depreciated:					
Plants and buildings	193,993	-	-	-	193,993
Improvements	52,649,259	197,349	-	802,275	53,648,883
Machinery and equipment	1,787,210	150,889	-	-	1,938,099
Total capital assets being depreciated	54,630,462	348,238	-	802,275	55,780,975
Less accumulated depreciation	19,359,742	1,241,133	-	-	20,600,875
Total capital assets being depreciated, net	35,270,720	(892,895)	-	802,275	35,180,100
Water and Sewer System capital assets, net	<u>\$ 36,158,556</u>	<u>\$ (892,895)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,265,661</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Enterprise Funds – Continued

	Balance September 30, 2007	Increases	Decreases	Adjustments/ Transfers	Balance September 30, 2008
Business-type activities:					
Regional Airport:					
Capital assets not being depreciated:					
Land	\$ 3,161,146	\$ -	\$ -	\$ -	\$ 3,161,146
Total capital assets not being depreciated	3,161,146	-	-	-	3,161,146
Capital assets being depreciated:					
Runways and taxiways	2,796,087	-	-	-	2,796,087
Buildings	1,580,532	-	-	-	1,580,532
Other equipment	143,425	-	-	-	143,425
Total capital assets being depreciated	4,520,044	-	-	-	4,520,044
Less accumulated depreciation	3,652,166	22,930	-	-	3,675,096
Total capital assets being depreciated, net	867,878	(22,930)	-	-	844,948
Regional Airport capital assets, net	<u>\$ 4,029,024</u>	<u>\$ (22,930)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,006,094</u>
Municipal Golf Course:					
Capital assets not being depreciated:					
Land	\$ 349,554	\$ -	\$ -	\$ -	\$ 349,554
Total capital assets not being depreciated	349,554	-	-	-	349,554
Capital assets being depreciated:					
Plants and buildings	3,093,109	-	-	-	3,093,109
Other structures	905,075	31,642	-	-	936,717
Machinery and equipment	576,479	-	-	-	576,479
Total capital assets being depreciated	4,574,663	31,642	-	-	4,606,305
Less accumulated depreciation	2,270,428	77,234	-	-	2,347,662
Total capital assets being depreciated, net	2,304,235	(45,592)	-	-	2,258,643
Municipal Golf Course capital assets, net	<u>\$ 2,653,789</u>	<u>\$ (45,592)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,608,197</u>

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

NOTE 5. FIXED ASSETS – CONTINUED

Discretely Presented Component Units

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

	Balance September 30, 2007	Increases	Decreases	Balance September 30, 2008
Lancaster Economic Development Corporation: Capital assets not being depreciated:				
Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Construction in progress	-	-	-	-
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, 2007	Increases	Decreases	Balance September 30, 2008
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>379,259</u>	<u>-</u>	<u>-</u>	<u>379,259</u>
Total capital assets being depreciated	20,142,428	-	-	20,142,428
Less accumulated depreciation	<u>4,920,094</u>	<u>786,726</u>	<u>-</u>	<u>5,706,820</u>
Total capital assets being depreciated, net	<u>15,222,334</u>	<u>(786,726)</u>	<u>-</u>	<u>14,435,608</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 16,211,452</u>	<u>\$ (786,726)</u>	<u>\$ -</u>	<u>\$ 15,424,726</u>

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

NOTE 6. LONG-TERM LIABILITIES

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

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008	Due Within One Year
Governmental activities					
Note payable to other government	\$ 890,760	\$ -	\$ (890,760)	\$ -	\$ -
General obligation bonds	31,391,531	-	(580,000)	30,811,531	480,000
Certificates of obligation	14,245,000	-	(185,000)	14,060,000	350,000
Premiums on bond debt	332,761	-	(13,605)	319,156	-
Deferred loss on refunding	(934,805)	-	55,664	(879,141)	-
Compensated absences	1,206,638	539,211	(465,286)	1,280,563	525,235
Capital leases	51,485	732,858	(145,436)	638,907	157,394
Total governmental activities	\$ 47,183,370	\$ 1,272,069	\$ (2,224,423)	\$ 46,231,016	\$ 1,512,629
Business-type activities					
General obligation bonds	\$ 7,068,471	\$ -	\$ (420,000)	\$ 6,648,471	\$ 495,000
Notes payable	928,941	-	-	928,941	313,626
Certificates of obligation	3,110,000	-	(140,000)	2,970,000	200,000
Premiums on bond debt	295,401	-	(28,377)	267,024	-
Deferred loss on refunding	(139,370)	-	45,173	(94,197)	-
Revenue bonds	670,000	-	(70,000)	600,000	70,000
Compensated absences	49,319	46,268	(30,456)	65,131	36,603
Capital leases	820,000	27,270	(188,460)	658,810	205,571
Total business-type activities	\$ 12,802,762	\$ 73,538	\$ (832,120)	\$ 12,044,180	\$ 1,320,800
Discretely presented component units					
Notes payable to primary government	\$ 14,110,000	\$ -	\$ (515,000)	\$ 13,595,000	\$ 585,000
Total discretely presented component units	\$ 14,110,000	\$ -	\$ (515,000)	\$ 13,595,000	\$ 585,000

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

CITY OF LANCASTER
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

General obligation bonds, revenue bonds, certificates of obligation and capital leases outstanding at September 30, 2008, consist of the following individual issues:

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>
<u>General Obligation Bonds</u>				
\$14,200,000 2002 General Obligation Refunding Bonds, due in annual installments through February 15, 2005, 3.00% - 4.50%	\$ 12,831,531	\$ 371,191	\$ 77,280	\$ 13,280,002
\$24,300,000 General Obligation Refunding Bonds, due in annual installments through February 15, 2032, 4.00% - 5.00%	<u>17,980,000</u>	<u>6,110,000</u>	<u>90,000</u>	<u>24,180,000</u>
	<u>\$ 30,811,531</u>	<u>\$ 6,481,191</u>	<u>\$ 167,280</u>	<u>\$ 37,460,002</u>
<u>Revenue Bonds</u>				
\$2,905,000 1995 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, due in annual installments through September 1, 2015, 3.90% - 5.60%	<u>\$ -</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 600,000</u>
<u>Certificates of Obligation</u>				
\$3,210,000 2003 Certificate of Obligation Bonds, due in annual installments through February 15, 2023, 3.25% - 4.50%	\$ 2,665,000	\$ -	\$ -	\$ 2,665,000
\$14,565,000 2007 Certificate of Obligation Bonds, due in annual installments through February 15, 2032, 4.00% - 4.375%	<u>11,395,000</u>	<u>2,970,000</u>	<u>-</u>	<u>14,365,000</u>
	<u>\$ 14,060,000</u>	<u>\$ 2,970,000</u>	<u>\$ -</u>	<u>\$ 17,030,000</u>

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

	Governmental Activities	Water and Sewer	Airport	Total Primary Government	Discretely Presented Component Units
<u>Note payable</u>					
\$11,530,000 note payable, due in annual installments on February 15, 3.00% - 4.50%	\$ -	\$ -	\$ -	\$ -	\$ 10,610,000
\$3,035,000 note payable, due in annual installments through February 15, 2032 4.00% - 4.375%	-	-	-	-	2,985,000
\$812,500 note payable, due in quarterly installments through November 15, 2010 - 6.5%	-	-	812,500	812,500	-
\$116,441 note payable, due in monthly installments through July 1, 2015 - 7.5%	-	-	116,441	116,441	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 928,941</u>	<u>\$ 928,941</u>	<u>\$ 13,595,000</u>
<u>Capital Leases</u>					
\$1,885,000 Lease Purchase Agreement, due in monthly installments through March 1, 2011, 4.35% - 5.00%	\$ -	\$ 635,000	\$ -	\$ 635,000	\$ -
\$500,000 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	412,699	23,810	-	436,509	-
\$260,128 Lease Purchase Agreement, due in annual installments through January 1, 2012, 4.38%	226,208	-	-	226,208	-
	<u>\$ 638,907</u>	<u>\$ 658,810</u>	<u>\$ -</u>	<u>\$ 1,297,717</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. The City entered into two capital lease agreements in the current year, totaling \$760,128. These leases were for the acquisition of telephone equipment and vehicles.

As of September 30, 2008, property and equipment is carried at \$2,645,128, with \$453,013 in accumulated depreciation.

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

NOTE 6. LONG-TERM LIABILITIES – CONTINUED

The annual requirements to amortize the long-term debt as of September 30, 2008 are as follows:

Fiscal Year	General Obligation Bonds			Revenue Bonds	
	Governmental Activities	Water and Sewer Fund	Airport Fund	Total	Water and Sewer Fund
2009	\$ 1,978,911	\$ 771,017	\$ 17,218	\$ 2,767,146	\$ 102,655
2010	2,060,504	761,417	16,818	2,838,739	109,015
2011	2,122,453	771,017	16,418	2,909,888	104,775
2012	2,126,494	769,617	16,018	2,912,129	105,455
2013	2,182,599	772,317	15,618	2,970,534	105,822
2014-2018	11,624,038	4,111,203	76,850	15,812,091	211,473
2019-2023	12,967,919	273,819	56,989	13,298,727	-
2024-2028	8,177,432	55,507	11,595	8,244,534	-
2029-2032	5,566,275	-	-	5,566,275	-
	48,806,625	8,285,914	227,524	57,320,063	739,195
Less Interest	17,995,094	1,804,723	60,244	19,860,061	139,195
Total principal	\$ 30,811,531	\$ 6,481,191	\$ 167,280	\$ 37,460,002	\$ 600,000

Fiscal Year	Certificates of Obligation		Note Payable		
	Governmental Activities	Water and Sewer Fund	Governmental Activities	Business-type Activities	Component Unit
2009	\$ 939,229	\$ 317,906	\$ -	\$ 529,562	\$ 1,133,507
2010	940,592	309,906	-	289,416	1,133,600
2011	940,854	311,706	-	89,040	1,137,049
2012	988,992	313,106	-	22,248	1,134,190
2013	1,005,111	314,106	-	22,248	1,144,795
2014-2018	5,340,795	986,031	-	42,644	5,729,752
2019-2023	5,392,094	832,353	-	-	5,773,112
2024-2028	3,872,590	670,144	-	-	1,840,928
2029-2032	2,249,465	-	-	-	-
	21,669,722	4,055,258	-	995,158	19,026,933
Less Interest	7,609,722	1,085,258	-	66,217	5,431,933
Total principal	\$ 14,060,000	\$ 2,970,000	\$ -	\$ 928,941	\$ 13,595,000

Fiscal Year	Capital Leases		
	Governmental Activities	Business-type Activities	Total
2009	\$ 190,057	\$ 233,106	\$ 423,163
2010	192,160	237,934	430,094
2011	192,162	232,112	424,274
2012	141,158	6,632	147,790
	715,537	709,784	1,425,321
Less Interest	76,630	50,974	127,604
Total principal	\$ 638,907	\$ 658,810	\$ 1,297,717

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

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), one of over 827 administered by TMRS, an agent multiple-employer public employee retirement system.

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

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

Deposit rate	7%
Matching ratio (City to employee)	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The service retirement eligibilities for the City are 5 years at 60 years of age, or 20 years at any age.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Plan Description – Continued

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

Contributions

Under the state law governing TMRS, an actuary annually determines the City contribution rate. The projected unit credit actuarial cost method is used for determining the City contribution 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 is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006 valuation is effective for rates beginning January 2008)

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehension Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$36,162,885 and the funded ratio would have been 73.9%.

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Contributions – Continued

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

The following is a schedule of actuarial liabilities and funding progress and includes those employees of the Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation covered by the plan.

Actuarial valuation date	12/31/2007
Actuarial valuation of assets	\$ 26,735,438
Actuarial accrued liability	\$ 42,017,867
Percentage funded	63.63%
Unfunded actuarial accrued liability	\$ 15,282,429
Annual covered payroll	\$ 13,260,730
Unfunded actuarial accrued liability as a percentage of covered payroll	115.25%
Net pension obligation (NPO) at beginning of period	\$ -
Annual pension cost:	
Annual required contribution (ARC)	\$ 1,481,222
Interest on NPO	-
Adjusted to the ARC	-
Total annual pension costs	<u>\$ 1,481,222</u>
Contributions made	(1,481,222)
Increase in NPA	-
NPO at end of period	<u><u>\$ -</u></u>

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Contributions – Continued

Trend information for the past three years for TMRS is as follows:

	Fiscal Year Ended September 30		
	2008	2007	2006
NPO at the beginning of the period	\$ -	\$ -	\$ -
Annual required contribution	1,481,222	1,357,201	1,283,308
Contributions made (100%)	<u>1,481,222</u>	<u>1,357,201</u>	<u>1,283,308</u>
NPO at the end of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following actuarial assumptions were used:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	30 years – closed period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.1%

The City is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Risk Management

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

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

NOTE 8. COMMITMENTS AND CONTINGENCIES – CONTINUED

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby the Authority finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2008 was \$3,001,161. 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, 2008.

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2008 may be impaired.

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

Other Contingencies

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

NOTE 9. RESERVATIONS AND DESIGNATIONS OF FUND BALANCE / RETAINED EARNINGS

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

**CITY OF LANCASTER
NOTES TO BASIC 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>Department</u>	<u>Excess Expenditures over Appropriations</u>
General Fund	General government	\$ 683,914
General Fund	Public safety	95,337
HUD Fund	Social and welfare	1,444,201

NOTE 11. PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended September 30, 2007, amounts totaling \$1,751,477 were incorrectly recorded as expenditures of the General Fund. These amounts should have been recorded as net operations of the component unit known as the Lancaster Recreation Development Corporation (LRDC), thereby understating fund balance in the General Fund and overstating fund balance in the LRDC.

NOTE 12. DEFICIT NET ASSETS

At year-end, a deficit net asset of \$220,159 was reported in the refuse disposal fund. Management has increased residential refuse disposal fees during fiscal year 2009 which is estimated to significantly reduce the deficit over the next fiscal year.



Lancaster

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2000	\$ 15,081,238	\$ 19,739,569	76.4%	\$ 4,658,331	\$ 7,368,692	63.2%
12/31/2001	16,672,228	21,734,002	76.7%	5,061,774	7,078,232	71.5%
12/31/2002	17,961,871	23,228,811	77.3%	5,266,940	7,826,294	67.3%
12/31/2003	19,287,766	25,747,040	74.9%	6,459,274	8,406,699	76.8%
12/31/2004	21,655,578	28,263,527	76.6%	6,607,949	10,219,681	64.7%
12/31/2005	23,216,765	30,675,710	75.7%	7,458,945	10,642,679	70.1%
12/31/2006	25,073,831	33,586,441	74.7%	8,512,610	11,817,666	72.0%
12/31/2007	26,735,438	42,017,867	63.6%	15,282,429	13,260,730	115.2%

**CITY OF LANCASTER, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes and fees	\$ 16,389,349	\$ 16,189,349	\$ 16,011,131	\$ (178,218)
Licenses and permits	718,600	718,600	771,028	52,428
Intergovernmental	-	-	85,190	85,190
Charges for services	872,500	872,500	455,084	(417,416)
Fines and forfeits	1,698,950	1,698,950	1,338,090	(360,860)
Interest	79,000	79,000	59,808	(19,192)
Miscellaneous	1,633,639	1,633,639	1,634,789	1,150
Total revenues	<u>21,392,038</u>	<u>21,192,038</u>	<u>20,355,120</u>	<u>(836,918)</u>
Expenditures				
Current:				
General government	3,301,523	3,501,523	4,185,437	(683,914)
Public safety	13,849,265	13,849,265	13,944,602	(95,337)
Public works	3,059,179	3,059,179	2,753,728	305,451
Community development and recreation	4,187,712	3,924,312	3,907,702	16,610
Debt service:				
Non-departmental	-	-	93,951	(93,951)
	-	-	30,668	(30,668)
Total expenditures	<u>24,397,679</u>	<u>24,334,279</u>	<u>24,916,088</u>	<u>(581,809)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,005,641)</u>	<u>(3,142,241)</u>	<u>(4,560,968)</u>	<u>(1,418,727)</u>
Other financing sources (uses)				
Operating transfers in	2,507,522	1,625,522	1,429,334	(196,188)
Operating transfers out	(882,000)	-	(125,035)	(125,035)
Proceeds from capital lease	-	-	732,858	732,858
Total other financing sources (uses)	<u>1,625,522</u>	<u>1,625,522</u>	<u>2,037,157</u>	<u>411,635</u>
Net change in fund balance	(1,380,119)	(1,516,719)	(2,523,811)	(1,007,092)
Fund balances - beginning of year, as restated	<u>5,201,463</u>	<u>5,201,463</u>	<u>5,201,463</u>	<u>-</u>
Fund balances - end of year	<u>\$ 3,821,344</u>	<u>\$ 3,684,744</u>	<u>\$ 2,677,652</u>	<u>\$ (1,007,092)</u>

**CITY OF LANCASTER, TEXAS
HUD FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 7,975,000	\$ 7,975,000	\$ 9,230,350	\$ 1,255,350
Interest	-	-	15,372	15,372
Miscellaneous	-	-	47,182	47,182
Total revenues	<u>7,975,000</u>	<u>7,975,000</u>	<u>9,292,904</u>	<u>1,317,904</u>
Expenditures				
Social and welfare	<u>7,571,100</u>	<u>7,571,100</u>	<u>9,015,301</u>	<u>(1,444,201)</u>
Total expenditures	<u>7,571,100</u>	<u>7,571,100</u>	<u>9,015,301</u>	<u>(1,444,201)</u>
Excess (deficiency) of revenues over expenditures	<u>403,900</u>	<u>403,900</u>	<u>277,603</u>	<u>(126,297)</u>
Other financing uses				
Operating transfers out	<u>(64,525)</u>	<u>(64,525)</u>	<u>(62,000)</u>	<u>(2,525)</u>
Net change in fund balance	339,375	339,375	215,603	(128,822)
Fund balances - beginning of year	<u>770,244</u>	<u>770,244</u>	<u>770,244</u>	<u>-</u>
Fund balances - end of year	<u>\$ 1,109,619</u>	<u>\$ 1,109,619</u>	<u>\$ 985,847</u>	<u>\$ (128,822)</u>

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

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

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

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had expenditures in excess of appropriations for the fiscal year ended September 30, 2008:

Fund	Department	Excess Expenditures over Appropriations
General Fund	General government	\$ 683,914
General Fund	Public safety	95,337
HUD Fund	Social and welfare	1,444,201

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION – THE BONDS

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West & Associates L.L.P.

320 S. R.L. Thornton Freeway, Suite 300
Dallas, Texas 75203
214.941.1881 Phone
214.941.1399 Fax
westllp.com

_____, 2010

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

CITY OF LANCASTER, TEXAS, GENERAL OBLIGATION BONDS, TAXABLE SERIES 2010A (Build America Bonds – Direct Payment), dated March 15, 2010, in the aggregate principal amount of \$22,995,000 maturing on February 15 in the years 2012 through and including 2025, and as term Bonds scheduled to mature on February 15, 2030 and February 14, 2040. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, and bear interest, and may be transferred and exchanged as set out in the Bonds and in the Ordinance adopted by the City Council authorizing their issuance.

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

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

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and

remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

Respectfully submitted,

APPENDIX D

FORM OF BOND COUNSEL'S OPINION – THE CERTIFICATES

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West & Associates L.L.P.

320 S. R.L. Thornton Freeway, Suite 300
Dallas, Texas 75203
214.941.1881 Phone
214.941.1399 Fax
westllp.com

_____, 2010

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

CITY OF LANCASTER, TEXAS TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2010A (Build America Bonds – Direct Payment), dated March 15, 2010, in the aggregate principal amount of \$12,000,000, maturing on February 15 in the years 2012 through and including 2020, and as term Certificates scheduled to mature on February 15, 2025, February 15, 2030 and February 15, 2040. The Certificates are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Certificates and in the Ordinance adopted by the City Council authorizing their issuance.

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

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

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

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

may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law;

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

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

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

Respectfully submitted,

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