

City of Lufkin, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2007

**Prepared by
Finance Department
Douglas R. Wood, CGFM, Director**

**CITY OF LUFKIN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

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INTRODUCTORY SECTION



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January 4, 2008

To the Honorable Mayor, members of the City Council and the Citizens of the City of Lufkin, Texas:

The comprehensive annual financial report of the City of Lufkin, Texas for the fiscal year ended September 30, 2007 is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the City of Lufkin issue annually a report on its financial position and activities in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Alexander, Lankford & Hiers, Inc., Certified Public Accountants, have issued an unqualified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2007. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Lufkin's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Lufkin, incorporated in 1890, is located in East Texas at the intersection of U.S. Highways 69 and 59, and serves as the county seat of Angelina County. It also acts as the commercial hub of a 12 county rural market region, serving over 300,000 residents. The City currently has a land area of 33.6 square miles and a population of 32,709 according to the 2000 census. It is empowered to levy a property tax on both real and personal property located within its boundaries and has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1918. Policymaking and legislative authority are vested in the City Council, which consists of a mayor, elected at large, and six council members, elected by district. Council members are elected on a non-partisan basis, at three-year staggered terms with two members elected each year. The mayor serves a three-year term. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations, and for appointing the heads of the City departments.

The City of Lufkin provides a full range of services, including police and fire protection; the construction and maintenance of streets; water and sewer utilities and solid waste disposal and recycling.

The annual budget serves as the foundation for the City of Lufkin's financial planning and control. All city departments are required to submit requests for appropriation to the City Manager prior to the end of May each year.

The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager presents this proposed budget to City Council for review prior to September 1. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than September 27, three days before the close of the City of Lufkin's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), department (e.g., police) and division (e.g., patrol). The City Manager may make transfers of budgeted amounts within a department. Any revisions that alter the total appropriated budget of any department must be approved by the City Council. Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the combining and individual fund statements and schedules.

Local economy

The City currently enjoys a stable economy that has been growing at a rate of about two percent per year during the last decade. Local indicators point to continued, stable growth. The economy of the region is dominated by timber, cattle and poultry production as well as manufacturing. Major industries with headquarters or divisions located within the City's boundaries or within close proximity include manufacturing, foundry, poultry and timber processing. Lufkin also serves as the region's health care provider with two major hospitals, both ranked in the top ten, one in cardiac care and the other for cancer treatment.

The 1990 census recorded Lufkin's population at 30,206 and Angelina County's population at 69,884. The 2000 census reflects Lufkin's current population at 32,709 and the county's population at 80,130. The unemployment rate for the City, as of September 2007, according to Texas Workforce statistics, is 4.3 percent compared to a 4.2 percent unemployment rate for Angelina County and 4.4 percent for the state. The national unemployment rate is 4.5%.

Long-term financial planning

City Council established the following goals and objectives to be carried out during the next several years.

- Improve drainage and correct problems within the City of Lufkin.
 - Complete drainage study of all watersheds within the city limits and extraterritorial jurisdiction.
 - Implement drainage study results:
 - Drainage detention system
 - Design and acquire property for three detention ponds by summer 2002 (complete).
- Develop and implement improvements for better mobility within the city.
 - Conduct inventory of all streets and classify by quality standards of the Street Improvement Plan (complete summer 2002)
 - Prepare recommendations and submit to Council.
 - Implement street improvements as approved by City Council in fiscal 2000.
 - Implement improvements to the central business district that were approved in the TEA 21 grant award (complete).
 - Implement plans and construct streets approved in the May 2001 street bond election (75% complete).
- Provide safe, secure environment to Lufkin citizens.
 - Maintain vehicular rotation schedule for public safety vehicles.
 - Replace fire rescue pumpers (complete) and maintain rotation schedule for ambulance replacements through Capital Improvement Planning.
 - Expand community and neighborhood policing projects on an ongoing basis.
 - Coordinate with Angelina College in developing a fire academy for training new personnel (complete).
- Establish reliable, broad based communications for public safety and citizen information purposes.
 - Upgrade and replace the current police communications system (complete).
 - Complete the update of each City department's web site (complete). Develop Internet web based uses for citizen utilization to include online building permitting, inquiry and payment of utility accounts (complete), recreation class schedules, fine payments (complete).

- Provide increased beautification and quality of life projects.
 - Implement improvements to the Kit McConnico Park as outlined in the Parks Master Plan (100% complete).
 - Develop entryway beautification program by utilizing the Angelina/Beautiful Clean program and funding from TxDOT grant program. Continue maintenance contracts and projects to enhance the perception of Lufkin as clean and beautiful.
 - Develop funding sources for increased color, planting and maintenance of public areas, major travel corridors and entryways.

Financial Policies

The City has adopted a set of financial policies to guide the financial operation of the City. Included in the policies are guidelines for accumulating and maintaining an operating position in certain budgeted governmental funds such that annual expenditures shall not exceed annual resources, including fund balances. The City shall accumulate and maintain an operating position in all proprietary funds such that annual expenses shall not exceed annual resources, including working cash balances. Other funds shall be fully self-supporting to the extent that the fund balance or retained earnings of each fund shall be zero or greater.

At September 30, 2007 the City of Lufkin has accumulated the following amounts in support of these policies:

FUND	POLICY AMOUNT	FUND TOTAL
Governmental Funds:		
General Fund - 25%	\$ 6,861,169	\$ 11,462,692
Hotel/Motel Tax Fund - 12.5%	95,849	254,598
Recreation Fund - 12.5%	22,674	43,630
Proprietary Funds:		
Water/Wastewater Fund - 12.5%	1,842,966	5,277,368
Solid Waste/Recycling Fund - 12.5%	751,757	8,772,820

Major initiatives

City management has completed comprehensive analysis of the rolling stock, developed a fleet services and replacement policy that has been adopted by City Council. This project resulted in developing a planned replacement of the vehicles and equipment used in our daily operation. High cost, long life equipment such as fire trucks and road equipment will be funded separately. During FY 2007 the City purchased \$1,508,000 in replacement equipment and is planning to replace approximately \$2.5 million of equipment in FY 2008.

The City is in the early stages of constructing a centralized service center facility for public works departments. The estimated cost is approximately \$2.7 million.

A new fire station is under construction and will provide quicker and safer access to the major hospital/medical developments in the area and a safer response onto Loop 287. The new location will allow a better response to residential, commercial and industrial areas of the City. The new station will house a new aerial platform truck acquired with a 90% Homeland Security Grant. The new fire station is estimated at \$900,000 and the total cost of the new fire truck is \$640,000.

The Solid Waste/Recycling Fund is constructing a new warehouse and fleet maintenance facility at an estimated cost of \$1,730,000.

Awards and Acknowledgments


The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lufkin, Texas for its comprehensive annual financial report (CAFR) for the fiscal

year ended September 30, 2006. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

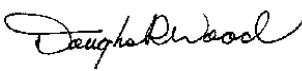
In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated August 26, 2006. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance department. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. We would also like to thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectively submitted,



Paul L. Parker
City Manager



Douglas R. Wood
Director of Finance

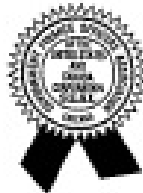
Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lufkin
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



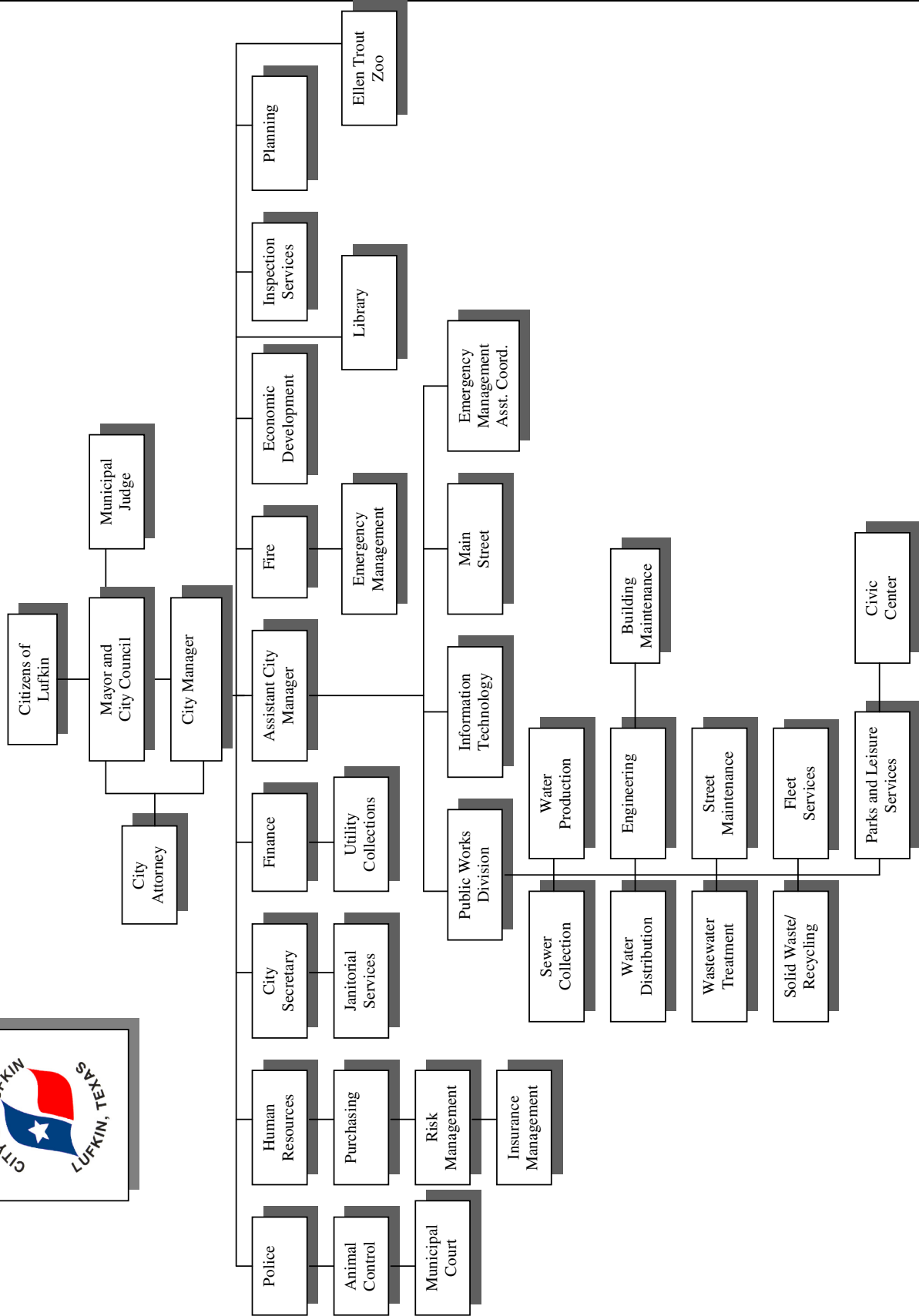
Oliver S. Cox

President

Jeffrey R. Snow

Executive Director

**CITY OF LUFKIN, TEXAS
ORGANIZATION CHART**



**City of Lufkin, Texas
List of Principal Officials
September 30, 2007**

Governing Body

Honorable Jack Gorden, Jr., Mayor

City Council

R. L. Kuykendall	Ward No. 1
Rose Faine Boyd	Ward No. 2
Lynn Torres	Ward No. 3
Don Langston	Ward No. 4
Rufus Duncan, Jr.	Ward No. 5
Phil Medford	Ward No. 6

Other Principal Officials

Paul L. Parker.....	City Manager
Keith Wright	Assistant City Manager-Public Works
David Koonce	Director of Human Resources
Larry Brazil.....	Police Chief
Fenton “Pete” Prewitt	Fire Chief
Douglas R. Wood	Director of Finance
Renee Thompson	City Secretary

FINANCIAL SECTION

Wilbur E. Alexander, CPA
Ted A. Lankford, CPA
Glenda J. Hiers, CPA
Richard A. Rudel, CPA
Chris Wethington, CPA
Yvette Sidnell, CPA



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lufkin, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental and internal service funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Lufkin, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service funds of the City of Lufkin, Texas, as of September 30, 2007, 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 January 4, 2008 on our consideration of City of Lufkin, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 12 through 21 and 66 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lufkin, Texas' basic combining, and individual fund financial statements. The introductory section, other schedules and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Lufkin, Texas. The schedule of expenditures of federal awards and other schedules have been subjected to the auditing procedures applied in the audit of the basic, combining and individual fund financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic, combining and individual fund financial statements and, accordingly, we express no opinion on them.



ALEXANDER, LANKFORD & HIERS, INC
Certified Public Accounts
Lufkin, Texas
January 4, 2008



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Management's Discussion and Analysis

As management of the City of Lufkin, Texas, we offer readers of the City of Lufkin's financial statements this narrative overview and analysis of the financial activities of the City of Lufkin (City) for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$120,485 (*net assets*). Of this amount, \$27,349 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,572, an increase of \$5,082 from the prior year. The increase is the result of the issuance of long-term debt for capital assets and the general fund current year revenues exceeding expenditures
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,349 or 45.1% of total general fund expenditures.
- The City's total debt increased by \$8,985 (17.2%) during the fiscal year. The key factors in this increase were the issuance of \$9,475 refunding bonds, \$7,610 general obligation debt, \$3,725 of revenue supported debt less payments of \$8,950 to escrow, \$3,020 for the retirement of general obligation debt, \$965 for the retirement of revenue supported debt, lease principal payments of \$186, and net pension obligation of \$1,201.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused 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 government, public safety, culture and recreation, planning and community development, and public works. The business-type activities of the City include water and sewer service and solid waste/recycling service.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lufkin can be divided into two categories: governmental funds or proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lufkin maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund, debt service fund, and special revenue funds-Zoo Building, Hotel/Motel Tax, Special Recreation, FEMA Funded Grant, Court Security/Technology, Animal Control-Kurth Grant and Animal's Attic Gift Shop Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer utility service and for its Solid Waste and Recycling operation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its self-insured group health insurance plan and for its Equipment Acquisition and Amortization Fund. Though these services benefit governmental and business-type functions, both funds are allocated to the governmental-type activities in the governmental-wide financial statements because the governmental funds receive most of the benefit from these funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer utility service and for the solid waste and recycling operation, both of which are considered to be major funds of the City of Lufkin. The internal service funds are presented in the proprietary fund financial statements.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the condition rating of the City of Lufkin's street system. Required supplementary information can be found on page 66 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 68-94 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$120,485 at the close of fiscal year 2007.

By far the largest portion of the City's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less related 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 of Lufkin's investment 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.

City of Lufkin's Combined Net Assets

	Governmental activities		Business-type activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 28,174	\$ 22,047	\$ 23,857	\$ 23,297	\$ 52,031	\$ 45,344
Capital assets	83,990	81,086	51,169	48,614	135,159	129,700
Total assets	<u>112,164</u>	<u>103,133</u>	<u>75,026</u>	<u>71,911</u>	<u>187,190</u>	<u>175,044</u>
Long-term liabilities outstanding	49,890	40,150	11,495	12,250	61,385	52,400
Other liabilities	3,064	2,665	2,255	2,222	5,319	4,887
Total liabilities	<u>52,954</u>	<u>42,815</u>	<u>13,750</u>	<u>14,472</u>	<u>66,704</u>	<u>57,287</u>
Net assets:						
Invested in capital assets, net of related debt	37,214	43,174	40,063	36,829	77,277	80,003
Restricted	7,344	3,104	8,515	14,980	15,859	18,084
Unrestricted	14,651	14,040	12,698	5,630	27,349	19,670
Total net assets	<u>\$ 59,209</u>	<u>\$ 60,318</u>	<u>\$ 61,276</u>	<u>\$ 57,439</u>	<u>\$ 120,485</u>	<u>\$ 117,757</u>

An additional portion of the City's net assets (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$27,349 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

There was an increase of \$4,240 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this increase resulted from the increase in unspent debt proceeds in capital projects funds. There was a decrease of \$6,465 in restricted net assets of the business-type activities due to the expenditure of renewal and replacement funds on various projects.

The government's net assets increased by \$2,728 during the current fiscal year. This increase is attributable to the additional investment in capital assets of \$5,459, an increase in restricted assets of \$460 for debt services, an increase in restricted assets of \$4,271 for construction of capital assets in the governmental-type activities, an increase in restricted assets of \$758 for construction of capital assets in the business-type activities, and a decrease in restricted assets of \$7,715 for renewal and replacement of assets in the business-type activities.

Governmental activities. Governmental activities decreased the City of Lufkin's net assets by \$1,109 accounting for (40.7%) of the total growth in the net assets of the City. Key elements of this decrease are as follows:

City of Lufkin's Change in Net Assets

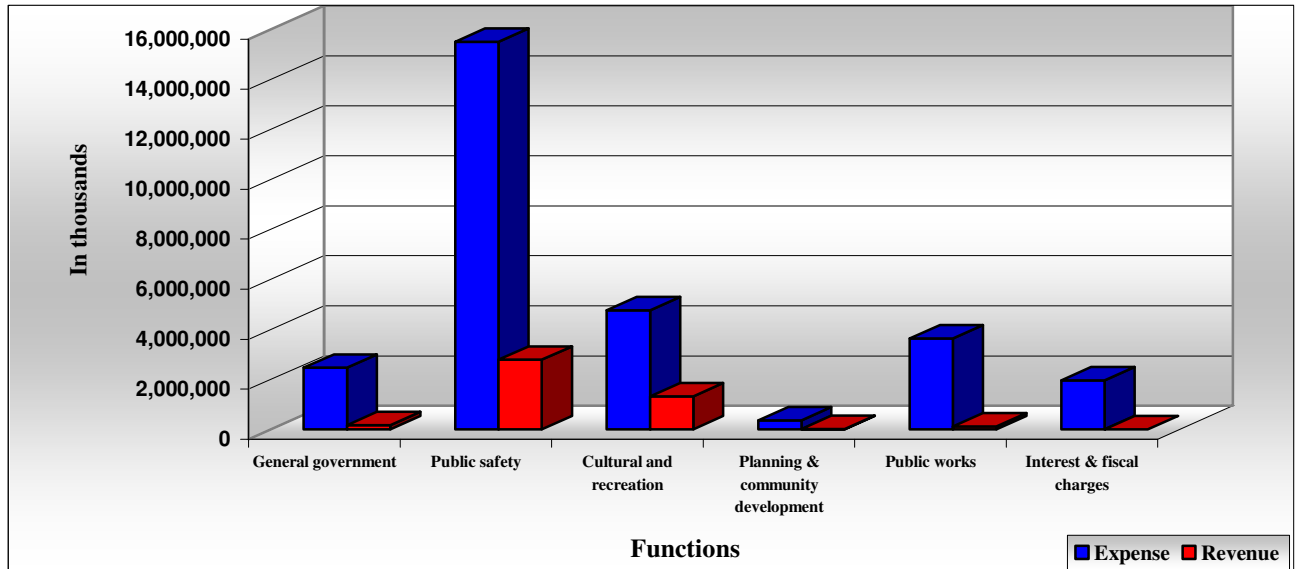
	Governmental activities		Business-type activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 4,047	\$ 2,449	\$ 18,991	\$ 19,650	\$ 23,038	\$ 22,099
Operating grants and contributions	292	807	-	-	292	807
Capital grants and contributions	18	671	1	-	19	671
General revenues:						
Property taxes	8,874	8,882	-	-	8,874	8,882
Other taxes	13,805	13,361	-	-	13,805	13,361
Other	3,386	1,413	1,148	864	4,534	2,277
Total revenues	<u>30,422</u>	<u>27,583</u>	<u>20,140</u>	<u>20,514</u>	<u>50,562</u>	<u>48,097</u>
Expenses:						
General government	2,457	1,786	-	-	2,457	1,786
Public safety	15,492	13,104	-	-	15,492	13,104
Cultural and recreation	4,757	4,575	-	-	4,757	4,575
Planning and community development	351	338	-	-	351	338
Public works	3,629	3,391	-	-	3,629	3,391
Non-departmental	-	239	-	-	-	239
Interest on long-term debt	1,947	1,851	-	-	1,947	1,851
Water and Sewer	-	-	13,150	12,166	13,150	12,166
Solid Waste Disposal	-	-	6,051	5,655	6,051	5,655
Total expenses	<u>28,633</u>	<u>25,284</u>	<u>19,201</u>	<u>17,821</u>	<u>47,834</u>	<u>43,105</u>
Increase in net assets before transfers and capital contributions	1,789	2,299	939	2,693	2,728	4,992
Transfers	1,918	2,530	(1,918)	(2,530)	-	-
Capital contributions	(4,816)	-	4,816	-	-	-
Change in net assets	(1,109)	4,829	3,837	163	2,728	4,992
Net assets, as previously reported	60,318	58,323	57,439	57,276	117,757	115,599
Reclassification of Economic Development Corp. to a discrete component unit	-	(634)	-	-	-	(634)
Correction of error resulting from the understatement of Governmental activities noncurrent liabilities	-	(2,200)	-	-	-	(2,200)
Net assets, ending	<u>\$ 59,209</u>	<u>\$ 60,318</u>	<u>\$ 61,276</u>	<u>\$ 57,439</u>	<u>\$ 120,485</u>	<u>\$ 117,757</u>

Property taxes decreased by \$8 (.09%) during the year. This decrease was the product of revenue recognition between FY 2006 and FY 2007.

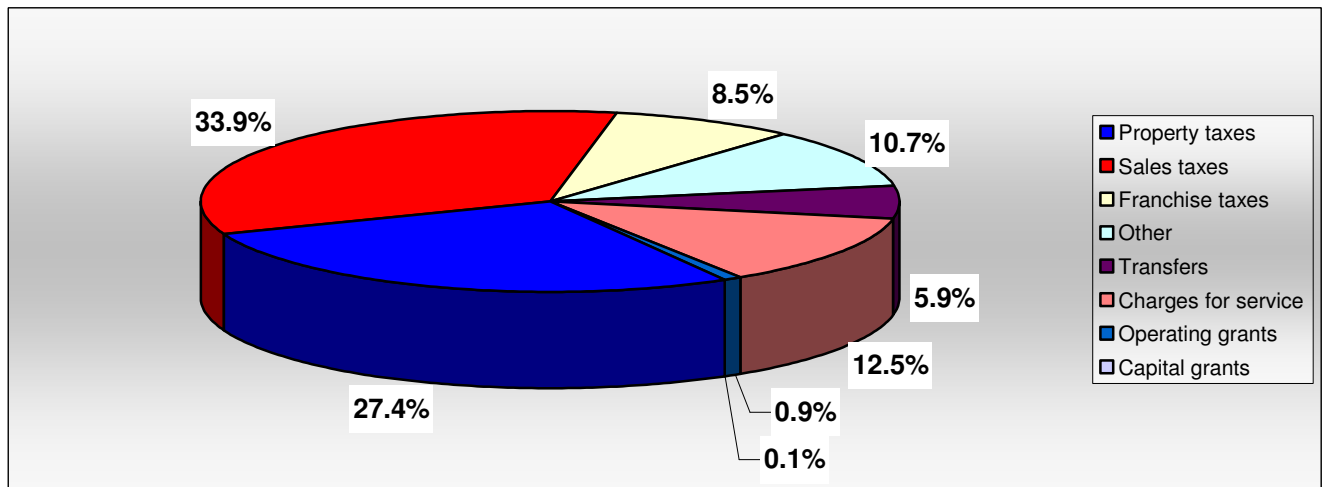
Operating grants for governmental activities decreased by \$515 (63.8%), due to prior year reimbursement of costs associated with the two hurricanes (Katrina and Rita) that affected the City of Lufkin in August and September 2005 and the continuation of grants from the prior year.

Capital grants for governmental activities decreased by \$653 (97.3%) as the result of receiving the balance of Homeland Security Grants to purchase equipment for police, fire and public works functions in FY 2006 with only one new capital grant awarded in FY 2007.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

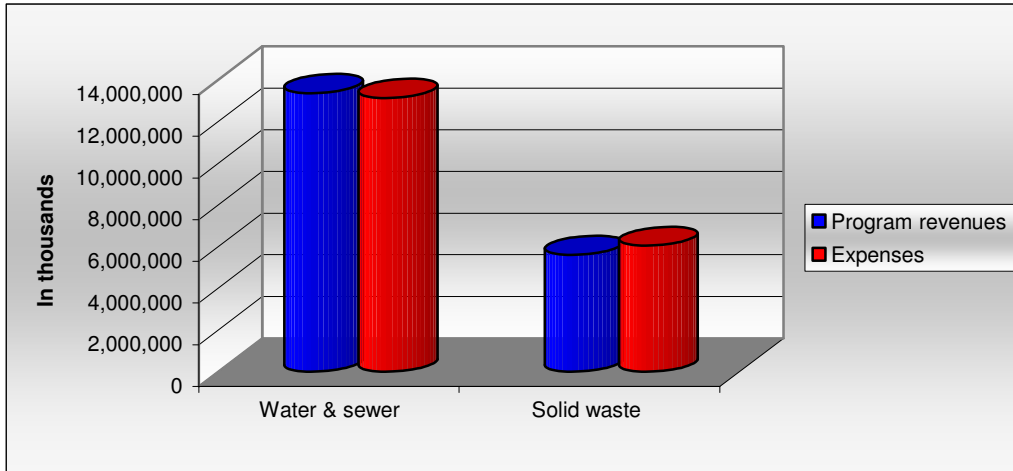


Business-type activities. Business-type activities increased the City’s net assets by \$3,837, accounting for 140.7% of the total growth in the government’s net assets. Key elements of this increase are as follows:

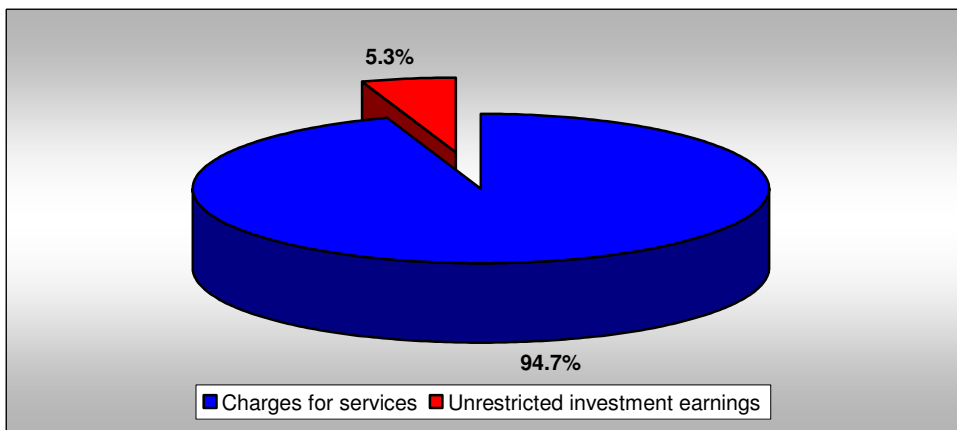
- Expenses exceeded charges for services by \$210. Charges for services decreased by 3.4% from last year due to an extended and unusually rainy period during the normal peak usage periods. Revenues increased as a result of an increase in interest earnings. Expenses increased by 7.7% as a result of the continued maintenance upgrade of a portion of the meter reading system, an increase in general and administrative fees of \$453 and a 3% cost of living compensation increase.
- The City increased water and sewer rates, system wide, by an average of 8.14% for all classes of customers.
- Capital contributions from governmental activities to the business-type activities totaled \$4,815. There were no capital contributions in FY 2006. Transfers to governmental activities from business-type activities decreased by \$612, a decrease of (24.2%) from the previous year. This decrease is primarily the

result of a reduction in the business-type activities share of debt service and current year funding of the City's Equipment Acquisition and Amortization Internal Service Fund.

Expenses and Program Revenues – Business-type activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Lufkin uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 a 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 of Lufkin's governmental funds reported combined ending fund balances of \$21,572, an increase of \$5,082 from the prior year.

Approximately 89% of this total amount, \$19,094 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to inventory \$114 and 2) to pay debt service, \$2,364.

The general fund is the chief operating fund of the City of Lufkin. At the end of the current fiscal year, unreserved fund balance was \$11,349, while total fund balance was \$11,463. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45.1% of total general fund expenditures, while total fund balance represents 45.6% of the same amount.

The fund balance of the City's general fund increased by \$198 during the current fiscal year. The increase was more than planned due to an increase in sales tax revenues, interest income and reductions in budgeted expenditures in public safety and public works.

The debt service fund has a total fund balance of \$2,364, all of which is reserved for the payment of debt service. The net decrease in fund balance in the debt service fund during the current year was \$31. This decrease resulted from the refunding of outstanding debt during FY 2007.

Proprietary Funds. The City of Lufkin's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Utility Fund at the end of the current fiscal year amounted to \$3,925, and the Solid Waste Disposal Fund amounted to \$8,773. The increase for Water and Sewer Utility totaled \$1,935 while the Solid Waste Disposal Fund increased by \$5,133. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences in the original and the final amended expenditure budget amounted to \$762 in increased appropriations. The major adjustments were:

- \$600 increase in public safety maintenance costs for the refurbishment of the police department facilities and capital outlay for police and fire.
- \$236 increase in cultural and recreation for capital outlay for items carried forward from the prior year and for the purchase of land not originally planned for FY 2007.
- \$74 decrease in various areas during mid-year review.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$804 being added to fund balance. This will allow the City to continue with some projects (maintenance and repair items) that have been in progress for several years.

Capital Asset and Debt Administration

Capital assets. The City of Lufkin's investment in capital assets for its governmental and business-type activities amounts to \$135,159 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, and bridges.

The City has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its paving system (streets). Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with the following characteristics 1) has an up-to-date inventory 2) performs condition assessments and summarizes the results using a measurement scale and 3) estimates annual amount to maintain and preserve at the established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The City's policy is to achieve an average rating of 56 for all streets. The average rating for the City's streets at September 30, 2006 was 65, a 2% increase over the previous year. The City's streets are constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. The City's budget for street maintenance for the fiscal year ended September 30, 2007 was \$3,609 as compared to \$3,194 for the previous year. Actual expenditures were \$3,136 for FY 2007, a decrease of \$51 from FY 2006. \$87 was carried forward to FY 2007 to complete projects in progress. These expenditures delayed deterioration. The City has determined that the amount of annual expenditures required to maintain the City's streets at the average PCI rating of 56 through the year 2008 is a minimum of \$4,110.

Condition Rating of the City's Street System

	Percentage of Lane-miles in Excellent to Very Good	
	2007	2006
Collector Streets	50.0%	50.0%
Residential Streets	26.0%	26.0%

	Percentage of Lane-miles in Substandard Condition	
	2007	2006
Collector Streets	17.0%	17.0%
Residential Streets	23.0%	23.0%

The condition of road pavement is measured using the Paver 4.2 Pavement Management System, which is based on a weighted average of 19 distress factors found in pavement surfaces dependent upon the type of road material (concrete or asphalt). The Paver Management System uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in *good to excellent* condition (80-100), *fair* condition (56-79), and *substandard* condition (less than 56).

Major capital asset events during the current fiscal year, with total cost to date, included the following:

Governmental

- Continued construction of Whitehouse Dr. extension - \$64 – Total cost - \$4,501
- Completed reconstruction of Abney Street - Total cost - \$1,531
- Completed reconstruction of Whitehouse St. - \$167 – Total cost -\$1,353
- Continued reconstruction of Lotus Lane - \$891– Total cost - \$2,691
- Completed reconstruction of Bob & Mize Street Drainage – Total cost - \$90
- Continued construction of a new fire station – \$674 - Total cost - \$1,120
- Continued Right-of- Way acquisition highway 59 - \$707 – Total cost - \$2,921

Business-type

- Began construction of Service Center Complex – \$550 - Total cost - \$2,740
- Began construction of Recycling Storage Facility – \$71 - Total cost -\$1,729
- Asbestos pipe replacement – completed, Project #5 - \$211 – Total cost \$859
- Asbestos pipe replacement – completed, Project #8 - \$93 – Total cost \$560
- Asbestos pipe replacement – in progress, Project #12 & #13 - \$1,109 – Total cost \$2,195
- Asbestos pipe replacement – completed, Project #9 & # 14 - Total cost \$1,526
- Asbestos pipe replacement – in progress, Project #15 - \$7 – Total cost \$955
- Completed Mantooth water line addition – Total cost \$154
- Continued Wastewater Treatment Headworks Equipment installation – \$76 -Total cost \$737
- Continued Sam Rayburn water supply implementation - \$450 – Total cost \$920
- Continued utility line relocation highway 59 - \$1,253 – total cost - \$2,836

City of Lufkin's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Land and storage space	\$ 3,143	\$ 2,998	\$ 2,011	\$ 2,009	\$ 5,154	\$ 5,007
Works of art	278	278	-	-	278	278
Buildings	8,045	8,182	2,419	2,501	10,464	10,683
Machinery and equipment	2,873	2,319	2,349	2,430	5,222	4,749
Vehicles	2,373	1,868	672	1,108	3,045	2,976
Improvements other than buildings	12,929	10,444	37,542	35,332	50,471	45,776
Infrastructure	48,540	48,468	-	-	48,540	48,468
Construction in progress	5,809	6,529	6,176	5,234	11,985	11,763
Total	\$ 83,990	\$ 81,086	\$ 51,169	\$ 48,614	\$ 135,159	\$ 129,700

Additional information on the City of Lufkin's capital assets can be found in note IV. E. on pages 49 - 53 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$58,020. Of this amount \$46,690 is backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenues (i.e., revenue bonds).

City of Lufkin's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 46,690	\$ 38,075	\$ -	\$ -	\$ 46,690	\$ 38,075
Revenue bonds	-	-	11,330	12,070	11,330	12,070
Total	\$ 46,690	\$ 38,075	\$ 11,330	\$ 12,070	\$ 58,020	\$ 50,145

The City's bonded debt increased by \$7,875 (15.7%) during the current year. The key factors in this increase were the issuance of \$9,475 refunding bonds, retirement of \$8,950 from the refunding, the issuance of \$7,610 general obligation bonds and \$3,725 in revenue bonds. General obligation bonds of \$3,020 and revenue bonds in the amount of \$965 were retired during the year.

The City of Lufkin maintains an "A1" rating from Moody's and an "A+" rating from Standard & Poor's for general obligation debt and the revenue bonds of the Water and Sewer Utility.

As a Home Rule City, the City of Lufkin, Texas is not limited by law in the amount of debt it may issue.

Additional information on the City's long-term debt can be found in note IV.H. on pages 55-59.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City, according to Texas Workforce statistics, is 4.3%, a decrease of 0.6% from last year. The 4.2% unemployment rate for Angelina County is a decrease of .6% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 4.5%.

- The state sales tax receipts for the current fiscal year totaled \$10,975, an increase of \$674 or (6.5%) from the previous year indicating a moderate increase in the retail economy.
- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the City of Lufkin's budget for the 2008 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$11,349. The City has appropriated \$283 of this amount for spending in the 2008 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2008 fiscal year.

The Water and Sewer Utility rates were increased for the 2008 budget. The water and sewer rates increased an average of 8.14%. The rate varies dependent on the different types of users. These rate increases are the result of recommendations made by the consultant performing the rate study. The increases are necessary to cover the cost of service among the utilities customers and to finance debt service, construction, renewal and replacement of equipment and the increased cost of service provided by the water and sewer utility.

Requests for information

This financial report is designed to provide a general overview of the City of Lufkin's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, P.O. Box 190, 300 East Shepherd, City of Lufkin, Texas 77902-0190.

BASIC FINANCIAL STATEMENTS

CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2007

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNIT
	ACTIVITIES	ACTIVITIES		ECONOMIC DEVELOPMENT CORP.
ASSETS				
Cash and cash equivalents	\$ 12,540,871	\$ 3,719,995	\$ 16,260,866	\$ 911,098
Investments	12,377,656	7,229,618	19,607,274	1,262,761
Receivables - net	1,372,875	2,314,250	3,687,125	80,588
Inventories	113,923	206,973	320,896	-
Prepaid items	28,156	12,569	40,725	-
Deferred charges	755,975	388,545	1,144,520	-
Restricted Assets:				
Cash and cash equivalents	-	4,394,528	4,394,528	-
Cash and cash equivalents-customer deposits	-	266,876	266,876	-
Investments	-	5,035,791	5,035,791	-
Accounts receivable	-	27,156	27,156	-
Intergovernmental receivables	984,173	174,782	1,158,955	-
Notes receivable - net	-	85,704	85,704	-
Capital assets (net of accumulated depreciation):				
Land	3,143,485	862,849	4,006,334	-
Storage space in Sam Rayburn Reservoir	-	1,147,791	1,147,791	-
Infrastructure	48,540,203	-	48,540,203	-
Works of art	278,500	-	278,500	-
Buildings	8,045,150	2,419,201	10,464,351	-
Improvements other than buildings	12,928,708	37,541,709	50,470,417	-
Machinery and equipment	2,872,647	2,348,834	5,221,481	-
Vehicles	2,372,729	672,358	3,045,087	-
Construction in progress	5,808,626	6,176,159	11,984,785	-
Total assets	<u>112,163,677</u>	<u>75,025,688</u>	<u>187,189,365</u>	<u>2,254,447</u>
LIABILITIES				
Accounts/claims payable	1,243,182	1,478,560	2,721,742	16,645
Accrued interest	252,056	-	252,056	1,719
Accrued liabilities	1,548,031	347,347	1,895,378	34,218
Unearned revenues	21,039	-	21,039	-
Payable from restricted assets	-	429,248	429,248	-
Noncurrent liabilities:				
Due within one year	4,254,582	730,483	4,985,065	133,333
Due in more than one year	45,635,522	10,764,117	56,399,639	133,334
Total liabilities	<u>52,954,412</u>	<u>13,749,755</u>	<u>66,704,167</u>	<u>319,249</u>
NET ASSETS				
Invested in capital assets, net of related debt	37,214,344	40,062,846	77,277,190	-
Restricted for:				
Retirement of debt	2,363,799	2,150,885	4,514,684	-
Capital projects	4,980,325	1,581,182	6,561,507	-
Renewal and replacement	-	4,782,727	4,782,727	-
Unrestricted	14,650,797	12,698,293	27,349,090	1,935,198
Total net assets	<u>\$ 59,209,265</u>	<u>\$ 61,275,933</u>	<u>\$ 120,485,198</u>	<u>\$ 1,935,198</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
STATEMENT OF ACTIVITIES
For the Year ended September 30, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS				COMPONENT UNIT ECONOMIC DEVELOPMENT CORP.
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES		TOTAL	
			OPERATING GRANTS AND CONTRIBUTIONS						
Primary government:									
Governmental activities:									
General government	\$ 2,456,365	\$ 151,056	\$ 7,969	\$ -	\$ (2,297,340)	\$ -	\$ (2,297,340)	\$ -	
Public safety	15,492,724	2,494,340	282,054	-	(12,716,330)	-	(12,716,330)	-	
Cultural and recreation	4,757,012	1,290,508	-	18,190	(3,448,314)	-	(3,448,314)	-	
Planning and community development	351,415	3,600	-	-	(347,815)	-	(347,815)	-	
Public works	3,628,960	107,456	1,933	-	(3,519,571)	-	(3,519,571)	-	
Interest and fiscal charges	1,947,234	-	-	-	(1,947,234)	-	(1,947,234)	-	
Total governmental activities	28,633,710	4,046,960	291,956	18,190	(24,276,604)	-	(24,276,604)	-	
Business-type activities:									
Water and Sewer	13,150,676	13,378,681	1,646	-	-	229,651	229,651	-	
Solid Waste Disposal	6,050,803	5,612,849	-	-	-	(437,954)	(437,954)	-	
Total business-type activities	19,201,479	18,991,530	1,646	-	-	(208,303)	(208,303)	-	
Total primary government	\$ 47,835,189	\$ 23,038,490	\$ 293,602	\$ 18,190	\$ (24,276,604)	\$ (208,303)	\$ (24,484,907)	\$ -	
Component Unit:									
Economic Development Corporation	\$ 360,975	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (360,975)	
General revenues:									
Property taxes					8,874,145	-	8,874,145	-	
Sales taxes					10,975,271	-	10,975,271	997,752	
Franchise taxes					2,748,241	-	2,748,241	-	
Mixed beverage tax					81,833	-	81,833	-	
Other					1,762,809	-	1,762,809	99,930	
Unrestricted investment earnings					1,623,235	1,054,642	2,677,877	31,917	
Gain on retirement of capital assets					-	92,850	92,850	-	
Capital contributions					(4,815,726)	4,815,726	-	-	
Transfers					1,917,740	(1,917,740)	-	-	
Total general revenues and transfers					23,167,548	4,045,478	27,213,026	1,129,599	
Change in net assets					(1,109,056)	3,837,175	2,728,119	768,624	
Net assets - beginning					60,318,321	57,438,758	117,757,079	1,166,574	
Net assets - ending					\$ 59,209,265	\$ 61,275,933	\$ 120,485,198	\$ 1,935,198	

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007

	GENERAL	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
ASSETS				
Cash and cash equivalents	\$ 3,308,645	\$ 1,694,860	\$ 6,916,028	\$ 11,919,533
Investments	8,906,422	651,810	1,156,968	10,715,200
Receivables:				
Taxes	522,632	263,177	-	785,809
Accounts	7,745,573	-	164,913	7,910,486
Other	71,369	19,729	174,034	265,132
Allowance for uncollectibles	(7,236,778)	(210,542)	(146,599)	(7,593,919)
Due from other funds	18,190	-	-	18,190
Intergovernmental receivables	965,983	-	18,190	984,173
Inventories	113,923	-	-	113,923
Prepaid items	16,388	-	11,768	28,156
Total assets	<u>\$ 14,432,347</u>	<u>\$ 2,419,034</u>	<u>\$ 8,295,302</u>	<u>\$ 25,146,683</u>
LIABILITIES				
Accounts/claims payable	\$ 431,288	\$ 2,600	\$ 452,247	\$ 886,135
Due to other funds	-	-	18,190	18,190
Accrued compensated absences	944,098	-	5,828	949,926
Accrued liabilities	561,789	-	36,316	598,105
Deferred revenues	1,032,480	52,635	37,328	1,122,443
Total liabilities	<u>2,969,655</u>	<u>55,235</u>	<u>549,909</u>	<u>3,574,799</u>
FUND BALANCES				
Reserved:				
For inventory	113,923	-	-	113,923
Debt service	-	2,363,799	-	2,363,799
Unreserved, reported in:				
General fund	11,348,769	-	-	11,348,769
Special revenue funds	-	-	2,765,068	2,765,068
Capital projects funds	-	-	4,980,325	4,980,325
Total fund balances	<u>11,462,692</u>	<u>2,363,799</u>	<u>7,745,393</u>	<u>21,571,884</u>
Total liabilities and fund balances	<u>\$ 14,432,347</u>	<u>\$ 2,419,034</u>	<u>\$ 8,295,302</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	82,628,003
Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.	944,243
Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.	755,975
Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.	157,161
An internal service fund is used to charge the cost of health insurance to individual funds. The funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	60,459
An internal service fund is used for equipment acquisition and replacement. The governmental funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	3,233,700
Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.	(50,142,160)
Net assets of governmental activities	<u>\$ 59,209,265</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended September 30, 2007

	GENERAL	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Revenues				
Taxes:				
Property	\$ 5,666,949	\$ 3,235,903	\$ -	\$ 8,902,852
Sales	10,975,271	-	-	10,975,271
Franchise	2,748,241	-	-	2,748,241
Other	81,833	-	689,298	771,131
Licenses and permits	252,589	-	-	252,589
Fines and forfeitures	727,660	-	-	727,660
Charges for services	1,700,294	-	483,305	2,183,599
Interest income	708,169	252,554	212,133	1,172,856
Intergovernmental	2,414,703	-	196,063	2,610,766
Other revenues	522,131	8,535	224,667	755,333
Total revenues	<u>25,797,840</u>	<u>3,496,992</u>	<u>1,805,466</u>	<u>31,100,298</u>
Expenditures				
Current:				
General government	3,334,554	-	129,543	3,464,097
Public safety	13,929,428	-	145,885	14,075,313
Cultural and recreation	3,231,996	-	949,213	4,181,209
Planning and community development	333,341	-	-	333,341
Public works	4,135,037	-	-	4,135,037
Debt service:				
Principal	186,345	3,020,000	-	3,206,345
Interest and fiscal charges	8,706	1,737,491	-	1,746,197
Bond issuance costs	-	-	90,000	90,000
Capital outlay	-	-	2,632,944	2,632,944
Total expenditures	<u>25,159,407</u>	<u>4,757,491</u>	<u>3,947,585</u>	<u>33,864,483</u>
Excess (deficiency) of revenues over (under) expenditures	<u>638,433</u>	<u>(1,260,499)</u>	<u>(2,142,119)</u>	<u>(2,764,185)</u>
Other Financing Sources (Uses)				
Refunding bonds issued	-	9,591,335	-	9,591,335
Payment to refunded bond escrow agent	-	(9,580,206)	-	(9,580,206)
Transfers in	611,312	1,218,330	733,890	2,563,532
Transfers out	(1,051,639)	-	(91,400)	(1,143,039)
Capital contributions	-	-	(1,195,300)	(1,195,300)
General obligation bonds issued	-	-	1,740,000	1,740,000
Certificates of obligation bonds issued	-	-	5,870,000	5,870,000
Total other financing sources (uses)	<u>(440,327)</u>	<u>1,229,459</u>	<u>7,057,190</u>	<u>7,846,322</u>
Net change in fund balances	198,106	(31,040)	4,915,071	5,082,137
Fund balances - beginning	<u>11,264,586</u>	<u>2,394,839</u>	<u>2,830,322</u>	<u>16,489,747</u>
Fund balances - ending	<u>\$ 11,462,692</u>	<u>\$ 2,363,799</u>	<u>\$ 7,745,393</u>	<u>\$ 21,571,884</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds	\$ 5,082,137
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	40,578
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	1,683,867
Governmental funds report capital outlay as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,541,699
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>(9,457,337)</u>
Change in net assets of governmental activities	<u><u>\$ (1,109,056)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2007

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)
Revenues				
Taxes:				
Ad valorem	\$ 5,612,859	\$ 5,596,500	\$ 5,666,949	\$ 70,449
Sales	10,171,517	10,312,500	10,975,271	662,771
Franchise	2,725,800	2,786,339	2,748,241	(38,098)
Other	68,000	68,000	81,833	13,833
Total taxes	<u>18,578,176</u>	<u>18,763,339</u>	<u>19,472,294</u>	<u>708,955</u>
Licenses and Permits:				
Building permits and inspections	160,000	200,000	177,833	(22,167)
Plumbing permits and inspections	10,000	10,000	14,373	4,373
Electric permits and inspections	17,000	17,000	20,829	3,829
Heat and vent permits	11,200	11,200	15,411	4,211
Other permits	6,300	6,300	23,060	16,760
Licenses	1,600	1,600	1,083	(517)
Total licenses and permits	<u>206,100</u>	<u>246,100</u>	<u>252,589</u>	<u>6,489</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	795,000	718,000	722,585	4,585
Parking fines	1,500	1,500	5,075	3,575
Total fines and forfeitures	<u>796,500</u>	<u>719,500</u>	<u>727,660</u>	<u>8,160</u>
Charges for Services:				
Emergency medical services	1,141,400	1,491,400	1,471,774	(19,626)
Emergency medical service - County	175,560	175,560	175,560	-
Mowing lots	1,500	1,500	2,691	1,191
False alarm fees	18,000	18,000	20,340	2,340
Other	27,600	27,600	29,929	2,329
Total charges for services	<u>1,364,060</u>	<u>1,714,060</u>	<u>1,700,294</u>	<u>(13,766)</u>
Interest Income	<u>275,000</u>	<u>350,000</u>	<u>708,169</u>	<u>358,169</u>
Intergovernmental:				
Grant revenues	21,400	144,260	118,333	(25,927)
General and administrative services	2,296,370	2,296,370	2,296,370	-
Total intergovernmental	<u>2,317,770</u>	<u>2,440,630</u>	<u>2,414,703</u>	<u>(25,927)</u>
Other Revenues:				
Parks	20,000	20,000	13,220	(6,780)
Library	25,015	25,015	28,306	3,291
Animal shelter collections	66,600	66,600	70,360	3,760
Zone change fees	4,000	4,000	3,600	(400)
Zoo admission fees	60,000	60,000	72,129	12,129
Rent on city property	38,260	38,260	41,607	3,347
Salvage and auction	-	85,230	85,229	(1)
Miscellaneous	31,060	41,060	55,495	14,435
Salary reimbursements	120,000	120,000	152,185	32,185
Total other revenues	<u>364,935</u>	<u>460,165</u>	<u>522,131</u>	<u>61,966</u>
Total revenues	<u>23,902,541</u>	<u>24,693,794</u>	<u>25,797,840</u>	<u>1,104,046</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2007

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
Current:				
General government:				
General:				
Payroll costs	106,318	110,949	108,250	2,699
Supplies	19,420	26,550	22,528	4,022
Maintenance	300	300	-	300
Miscellaneous services	110,501	84,266	68,000	16,266
Sundry charges	105,712	105,872	104,278	1,594
Total general	<u>342,251</u>	<u>327,937</u>	<u>303,056</u>	<u>24,881</u>
City manager:				
Payroll costs	224,253	231,215	241,838	(10,623)
Supplies	14,000	14,000	9,628	4,372
Maintenance	5,200	5,200	-	5,200
Miscellaneous services	25,000	26,000	21,154	4,846
Total city manager	<u>268,453</u>	<u>276,415</u>	<u>272,620</u>	<u>3,795</u>
Finance:				
Payroll costs	383,088	386,407	386,674	(267)
Supplies	23,400	22,250	21,122	1,128
Maintenance	3,100	2,060	2,172	(112)
Miscellaneous services	85,060	85,610	85,450	160
Sundry charges	-	100	100	-
Capital outlay	-	9,132	9,132	-
Total finance	<u>494,648</u>	<u>505,559</u>	<u>504,650</u>	<u>909</u>
Legal:				
Miscellaneous services	125,000	156,000	154,774	1,226
Total legal	<u>125,000</u>	<u>156,000</u>	<u>154,774</u>	<u>1,226</u>
Tax:				
Miscellaneous services	160,000	160,000	152,761	7,239
Total tax	<u>160,000</u>	<u>160,000</u>	<u>152,761</u>	<u>7,239</u>
Human resources:				
Payroll costs	215,728	215,728	211,090	4,638
Supplies	14,450	14,450	10,474	3,976
Maintenance	1,200	1,368	168	1,200
Miscellaneous services	49,760	47,760	49,855	(2,095)
Sundry charges	22,000	22,000	19,859	2,141
Total human resources	<u>303,138</u>	<u>301,306</u>	<u>291,446</u>	<u>9,860</u>
Municipal building:				
Payroll costs	61,267	62,813	63,771	(958)
Supplies	21,900	46,700	45,784	916
Maintenance	64,340	57,340	47,333	10,007
Miscellaneous services	339,125	247,600	235,724	11,876
Total municipal building	<u>486,632</u>	<u>414,453</u>	<u>392,612</u>	<u>21,841</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2007

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Information technology:				
Payroll costs	283,756	285,046	283,344	1,702
Supplies	125,550	125,650	121,529	4,121
Maintenance	332,512	304,792	260,356	44,436
Miscellaneous services	141,345	156,765	154,609	2,156
Capital outlay	152,811	190,422	189,732	690
Total information technology	<u>1,035,974</u>	<u>1,062,675</u>	<u>1,009,570</u>	<u>53,105</u>
Non-departmental:				
Payroll costs	17,500	17,500	29,207	(11,707)
Supplies	1,000	1,000	-	1,000
Miscellaneous services	100,342	102,143	110,997	(8,854)
Capital outlay	-	112,861	112,861	-
Total non-departmental	<u>118,842</u>	<u>233,504</u>	<u>253,065</u>	<u>(19,561)</u>
Total general government	<u>3,334,938</u>	<u>3,437,849</u>	<u>3,334,554</u>	<u>103,295</u>
Public safety:				
Municipal court:				
Payroll costs	198,480	198,959	202,162	(3,203)
Supplies	11,825	12,025	9,373	2,652
Maintenance	-	-	285	(285)
Miscellaneous services	9,000	31,100	9,052	22,048
Total municipal court	<u>219,305</u>	<u>242,084</u>	<u>220,872</u>	<u>21,212</u>
Police:				
Payroll costs	5,820,300	5,930,337	5,884,855	45,482
Supplies	388,682	402,959	359,834	43,125
Maintenance	116,428	536,628	500,260	36,368
Miscellaneous services	463,340	468,540	426,491	42,049
Sundry charges	1,000	1,000	315	685
Capital outlay	-	21,041	12,368	8,673
Total police	<u>6,789,750</u>	<u>7,360,505</u>	<u>7,184,123</u>	<u>176,382</u>
Fire:				
Payroll costs	4,790,535	4,819,977	4,886,828	(66,851)
Supplies	302,050	353,662	346,309	7,353
Maintenance	118,620	124,913	125,285	(372)
Miscellaneous services	351,998	346,529	336,510	10,019
Sundry charges	200	200	-	200
Capital outlay	-	10,143	26,526	(16,383)
Total fire	<u>5,563,403</u>	<u>5,655,424</u>	<u>5,721,458</u>	<u>(66,034)</u>
Inspection:				
Payroll costs	408,718	346,611	354,161	(7,550)
Supplies	20,230	21,996	19,805	2,191
Maintenance	2,400	1,950	1,075	875
Miscellaneous services	54,718	52,918	36,203	16,715
Sundry charges	100	100	99	1
Total inspection	<u>486,166</u>	<u>423,575</u>	<u>411,343</u>	<u>12,232</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2007

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Animal control:				
Payroll costs	315,265	273,908	295,715	(21,807)
Supplies	47,500	44,400	36,370	8,030
Maintenance	15,900	12,900	4,600	8,300
Miscellaneous services	78,083	72,333	54,947	17,386
Total animal control	<u>456,748</u>	<u>403,541</u>	<u>391,632</u>	<u>11,909</u>
Total public safety	<u>13,515,372</u>	<u>14,085,129</u>	<u>13,929,428</u>	<u>155,701</u>
Cultural and recreation:				
Parks:				
Payroll costs	807,037	827,477	757,091	70,386
Supplies	142,700	127,460	105,694	21,766
Maintenance	69,875	95,919	95,666	253
Miscellaneous services	476,713	468,479	420,986	47,493
Sundry charges	-	8,030	8,030	-
Capital outlay	6,000	92,340	92,340	-
Total parks	<u>1,502,325</u>	<u>1,619,705</u>	<u>1,479,807</u>	<u>139,898</u>
Zoo:				
Payroll costs	884,559	841,916	852,240	(10,324)
Supplies	136,663	138,475	142,831	(4,356)
Maintenance	6,140	13,626	11,546	2,080
Miscellaneous services	150,626	146,489	118,793	27,696
Capital outlay	-	150,000	132,886	17,114
Total zoo	<u>1,177,988</u>	<u>1,290,506</u>	<u>1,258,296</u>	<u>32,210</u>
Library:				
Payroll costs	375,164	370,522	379,478	(8,956)
Supplies	17,557	17,557	11,826	5,731
Maintenance	37,005	45,005	36,018	8,987
Miscellaneous services	109,773	95,680	66,571	29,109
Total library	<u>539,499</u>	<u>528,764</u>	<u>493,893</u>	<u>34,871</u>
Total cultural and recreation	<u>3,219,812</u>	<u>3,438,975</u>	<u>3,231,996</u>	<u>206,979</u>
Planning and community development:				
Main street				
Payroll costs	91,713	91,713	94,858	(3,145)
Supplies	6,019	6,019	3,226	2,793
Maintenance	1,299	799	94	705
Miscellaneous services	15,098	14,850	12,784	2,066
Total main street	<u>114,129</u>	<u>113,381</u>	<u>110,962</u>	<u>2,419</u>
Planning and Zoning:				
Payroll costs	196,465	190,362	188,717	1,645
Supplies	9,500	7,800	7,297	503
Maintenance	600	100	-	100
Miscellaneous services	27,732	30,182	26,365	3,817
Total planning and zoning	<u>234,297</u>	<u>228,444</u>	<u>222,379</u>	<u>6,065</u>
Total planning and community development	<u>348,426</u>	<u>341,825</u>	<u>333,341</u>	<u>8,484</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2007

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Public Works				
Engineering:				
Payroll costs	412,767	355,321	359,566	(4,245)
Supplies	13,850	29,066	23,461	5,605
Maintenance	22,500	15,300	13,000	2,300
Miscellaneous services	80,832	75,382	67,990	7,392
Total engineering	<u>529,949</u>	<u>475,069</u>	<u>464,017</u>	<u>11,052</u>
Street:				
Payroll costs	1,308,804	1,236,118	1,210,391	25,727
Supplies	199,180	219,158	205,643	13,515
Maintenance	888,925	973,498	786,838	186,660
Miscellaneous services	1,208,598	958,825	932,779	26,046
Capital outlay	35,000	221,545	220,545	1,000
Total street	<u>3,640,507</u>	<u>3,609,144</u>	<u>3,356,196</u>	<u>252,948</u>
Fleet management:				
Payroll costs	295,674	279,279	266,318	12,961
Supplies	38,086	30,620	30,393	227
Maintenance	21,980	23,150	13,148	10,002
Miscellaneous services	47,810	47,640	4,965	42,675
Capital outlay	14,000	-	-	-
Total fleet management	<u>417,550</u>	<u>380,689</u>	<u>314,824</u>	<u>65,865</u>
Total public works	<u>4,588,006</u>	<u>4,464,902</u>	<u>4,135,037</u>	<u>329,865</u>
Debt Service:				
Capital leases:				
Principal	186,345	186,345	186,345	-
Interest	8,706	8,706	8,706	-
Total debt service	<u>195,051</u>	<u>195,051</u>	<u>195,051</u>	<u>-</u>
Total expenditures	<u>25,201,605</u>	<u>25,963,731</u>	<u>25,159,407</u>	<u>804,324</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,299,064)</u>	<u>(1,269,937)</u>	<u>638,433</u>	<u>1,908,370</u>
Other Financing Sources (Uses)				
Transfers out	(86,438)	(1,091,639)	(1,051,639)	40,000
Transfers in	90,000	611,313	611,312	(1)
Total other financing sources (uses)	<u>3,562</u>	<u>(480,326)</u>	<u>(440,327)</u>	<u>39,999</u>
Net change in fund balances	(1,295,502)	(1,750,263)	198,106	1,948,369
Fund balances - beginning	11,264,586	11,264,586	11,264,586	-
Fund balances - ending	<u>\$ 9,969,084</u>	<u>\$ 9,514,323</u>	<u>\$ 11,462,692</u>	<u>\$ 1,948,369</u>

The notes to the financial statements are an integral part of this statement.



CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,140,468	\$ 2,579,527	\$ 3,719,995	\$ 621,338
Investments	1,561,667	5,667,951	7,229,618	1,662,456
Restricted assets:				
Cash and cash equivalents	2,000,259	-	2,000,259	-
Cash and cash equivalents-customer deposits	266,876	-	266,876	-
Investments	1,020,598	-	1,020,598	-
Accounts receivable (net of allowance for uncollectibles)	1,624,527	689,723	2,314,250	5,367
Accounts receivable - restricted	4,202	-	4,202	-
Intergovernmental receivables	-	174,782	174,782	-
Note receivable (net of allowance for uncollectibles)	-	85,704	85,704	-
Inventories	189,914	17,059	206,973	-
Prepaid items	12,569	-	12,569	-
Deferred charges	388,545	-	388,545	-
Total current assets	<u>8,209,625</u>	<u>9,214,746</u>	<u>17,424,371</u>	<u>2,289,161</u>
Noncurrent assets:				
Restricted Assets:				
Cash and cash equivalents	2,394,269	-	2,394,269	-
Investments	4,015,193	-	4,015,193	-
Accounts receivable (net of allowance for uncollectibles)	22,954	-	22,954	-
Total restricted noncurrent assets	<u>6,432,416</u>	<u>-</u>	<u>6,432,416</u>	<u>-</u>
Capital assets:				
Land	701,485	161,364	862,849	-
Storage space in Sam Rayburn Reservoir	1,147,791	-	1,147,791	-
Buildings	3,051,842	1,032,846	4,084,688	-
Machinery and equipment	11,699,498	950,143	12,649,641	515,834
Vehicles	1,360,599	2,982,363	4,342,962	992,665
Improvements	56,145,666	255,796	56,401,462	-
Construction in progress	5,463,985	712,174	6,176,159	-
Less accumulated depreciation	<u>(30,678,812)</u>	<u>(3,817,839)</u>	<u>(34,496,651)</u>	<u>(146,454)</u>
Total capital assets (net of accumulated depreciation)	<u>48,892,054</u>	<u>2,276,847</u>	<u>51,168,901</u>	<u>1,362,045</u>
Total noncurrent assets	<u>55,324,470</u>	<u>2,276,847</u>	<u>57,601,317</u>	<u>1,362,045</u>
Total assets	<u>63,534,095</u>	<u>11,491,593</u>	<u>75,025,688</u>	<u>3,651,206</u>

The notes to the financial statements are an integral part of this statement.

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>ACTIVITIES- INTERNAL SERVICE FUNDS</u>
LIABILITIES				
Current liabilities:				
Accounts/claims payable	1,112,331	366,229	1,478,560	350,828
Accrued compensated absences	88,996	31,522	120,518	-
Accrued liabilities	90,892	34,138	125,030	6,219
Current liabilities payable from restricted assets:				
Accrued interest payable	162,372	-	162,372	-
Customer deposits	266,876	-	266,876	-
Notes payable - current maturities	15,483	-	15,483	-
Bonds payable - current maturities	715,000	-	715,000	-
Total current liabilities	2,451,950	431,889	2,883,839	357,047
Noncurrent liabilities:				
Accrued compensated absences	91,762	10,037	101,799	-
Notes payable	149,117	-	149,117	-
Revenue bonds payable	10,615,000	-	10,615,000	-
Total noncurrent liabilities	10,855,879	10,037	10,865,916	-
Total liabilities	13,307,829	441,926	13,749,755	357,047
NET ASSETS				
Invested in capital assets, net of related debt	37,785,999	2,276,847	40,062,846	1,362,045
Restricted for retirement of debt	2,150,885	-	2,150,885	-
Restricted for construction	1,581,182	-	1,581,182	-
Restricted for renewal and replacement	4,782,727	-	4,782,727	-
Unrestricted	3,925,473	8,772,820	12,698,293	1,932,114
Total net assets	\$ 50,226,266	\$ 11,049,667	\$ 61,275,933	\$ 3,294,159

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Operating Revenues:				
Water sales	\$ 6,254,587	\$ -	\$ 6,254,587	\$ -
Sewer service charges	6,639,466	-	6,639,466	-
Sanitation collections	-	5,304,870	5,304,870	-
Provision for bad debts	(27,533)	(11,836)	(39,369)	-
Service revenue	341,147	-	341,147	-
General and administrative	101,474	-	101,474	-
Employee premiums	-	-	-	646,390
Employer premiums	-	-	-	2,131,200
Equipment rental	-	-	-	1,554,429
Miscellaneous	69,540	319,815	389,355	149,581
Total operating revenues	<u>13,378,681</u>	<u>5,612,849</u>	<u>18,991,530</u>	<u>4,481,600</u>
Operating Expenses:				
Assistant city manager	-	186,864	186,864	-
Utility collections	1,995,885	-	1,995,885	-
Water utilities	1,406,587	-	1,406,587	-
Sewer utilities	1,956,692	-	1,956,692	-
Wastewater treatment plant	1,990,163	-	1,990,163	-
Water production	2,105,166	-	2,105,166	-
Sanitation department	-	3,691,637	3,691,637	-
Recycling department	-	551,668	551,668	-
Public works	-	-	-	7,965
Insurance claims and related expenses	-	-	-	3,297,788
Depreciation and amortization	1,588,071	474,938	2,063,009	146,454
General and administrative	1,272,107	1,125,737	2,397,844	-
Non-departmental	168,206	19,959	188,165	14,750
Total operating expenses	<u>12,482,877</u>	<u>6,050,803</u>	<u>18,533,680</u>	<u>3,466,957</u>
Operating income (loss)	<u>895,804</u>	<u>(437,954)</u>	<u>457,850</u>	<u>1,014,643</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	1,646	-	1,646	-
Interest income	604,630	450,010	1,054,640	171,979
Interest expense	(403,641)	-	(403,641)	-
Bond fees and issuance costs	(5,037)	-	(5,037)	-
Gain on sale of assets	-	92,850	92,850	-
Loss on retirement of assets	(259,121)	-	(259,121)	-
Total nonoperating revenues (expenses)	<u>(61,523)</u>	<u>542,860</u>	<u>481,337</u>	<u>171,979</u>
Income before contributions and transfers	834,281	104,906	939,187	1,186,622
Capital contributions	4,815,726	-	4,815,726	-
Transfers in	-	-	-	497,245
Transfers out	(1,388,186)	(529,552)	(1,917,738)	-
Change in net assets	<u>4,261,821</u>	<u>(424,646)</u>	<u>3,837,175</u>	<u>1,683,867</u>
Total net assets - beginning	45,964,445	11,474,313	57,438,758	1,610,292
Total net assets - ending	<u>\$ 50,226,266</u>	<u>\$ 11,049,667</u>	<u>\$ 61,275,933</u>	<u>\$ 3,294,159</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LUFKIN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 13,392,693	\$ 5,565,238	\$ 18,957,931	\$ 795,971
Receipts from interfund services provided	-	-	-	3,685,629
Payments to suppliers	(7,311,694)	(3,209,886)	(10,521,580)	(3,274,178)
Payments to employees	(3,016,585)	(1,377,821)	(4,394,406)	-
Payments for interfund services used	(706,476)	(774,124)	(1,480,600)	-
Net cash provided by operating activities	<u>2,357,938</u>	<u>203,407</u>	<u>2,561,345</u>	<u>1,207,422</u>
Cash Flows From Noncapital Financing Activities:				
Transfer from other funds	-	-	-	497,245
Transfer to other funds	(1,388,186)	(529,552)	(1,917,738)	-
Intergovernmental grants	1,646	-	1,646	-
Net cash used by noncapital and financing activities	<u>(1,386,540)</u>	<u>(529,552)</u>	<u>(1,916,092)</u>	<u>497,245</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from capital debt	3,725,000	-	3,725,000	-
Capital contributions	4,815,726	-	4,815,726	-
Purchase of capital assets	(354,319)	-	(354,319)	(1,508,499)
Acquisition and construction of capital assets	(4,020,214)	(577,187)	(4,597,401)	-
Principal paid on capital debt	(4,480,092)	-	(4,480,092)	-
Interest and fees paid on capital debt	(463,717)	-	(463,717)	-
Proceeds from sale of capital assets	104,290	92,850	197,140	-
Net cash used by capital and related financing activities	<u>(673,326)</u>	<u>(484,337)</u>	<u>(1,157,663)</u>	<u>(1,508,499)</u>
Cash Flows From Investing Activities:				
Proceeds from sale and maturities of investments	3,119,658	2,624,259	5,743,917	230,391
Purchase of investments	(5,250,000)	(3,504,670)	(8,754,670)	(1,530,000)
Collections on note receivable	-	186,345	186,345	-
Interest and dividends received	487,758	380,646	868,404	137,598
Net cash used by investing activities	<u>(1,642,584)</u>	<u>(313,420)</u>	<u>(1,956,004)</u>	<u>(1,162,011)</u>
Net (decrease) in cash and cash equivalents	(1,344,512)	(1,123,902)	(2,468,414)	(965,843)
Cash and cash equivalents - beginning	7,146,384	3,703,429	10,849,813	1,587,181
Cash and cash equivalents - ending	<u>\$ 5,801,872</u>	<u>\$ 2,579,527</u>	<u>\$ 8,381,399</u>	<u>\$ 621,338</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF LUFKIN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 895,804	\$ (437,954)	\$ 457,850	\$ 1,014,643
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	1,588,071	474,938	2,063,009	146,454
(Increase) decrease in accounts receivable-net	26,781	(47,611)	(20,830)	-
(Increase) decrease in inventories	(88,400)	28,301	(60,099)	-
(Increase) in prepaid items	(12,569)	-	(12,569)	-
Decrease in deferred charges	46,215	-	46,215	-
Increase (decrease) in accounts/claims payable	(132,380)	166,345	33,965	46,820
Increase in accrued compensated absences	36,564	14,476	51,040	-
(Decrease) in customer deposits	(12,769)	-	(12,769)	-
Increase (decrease) in accrued liabilities	10,621	4,912	15,533	(495)
Total adjustments	<u>1,462,134</u>	<u>641,361</u>	<u>2,103,495</u>	<u>192,779</u>
Net cash provided by operating activities	<u>\$ 2,357,938</u>	<u>\$ 203,407</u>	<u>\$ 2,561,345</u>	<u>\$ 1,207,422</u>

The notes to the financial statements are an integral part of this statement.