

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Lufkin, Texas (City) was incorporated in 1890 and operates under the provisions of the City Charter as amended. The City operates 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, sanitation, recreation, education, public improvements, planning and zoning and general administrative services. In addition, the City owns and operates a water and sewer system and a solid waste/recycling system.

The accompanying financial statements present the government and its components units, entities for which government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component units. Lufkin Industrial Development Authority, Lufkin Housing Finance Corporation, Lufkin Health Facilities Development Corporation, and Lufkin Economic Development Corporation have been included in the reporting entity. The first three entities have been established to promote the sale of tax-exempt bonds within the City. The fourth entity was established to promote economic development in Lufkin.

The Lufkin Industrial Development Authority (Authority) was created by the Development Corporation Act of 1979 and the approval of the City Council and has been in operation since August 1979. The Authority was created to encourage industrial development in the City of Lufkin. As of September 30, 2008, there were no assets, liabilities, fund equities, revenues or expenditures of the Authority.

The Texas Housing Finance Corporation Act and the approval of the City Council created Lufkin Housing Finance Corporation. The Corporation was created to encourage safe, decent housing in the City. As of September 30, 2008 there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Housing Finance Corporation.

The Texas Health Facilities Development Act and the approval of the City Council created Lufkin Health Facilities Development Corporation. The Corporation's purpose is to encourage health care, research, and education and to assist with the maintenance of public health. As of September 30, 2008, there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Health Facilities Development Corporation.

During fiscal year 2004, the citizens of Lufkin voted to create a 4B Economic Development Corporation (EDC) effective October 1, 2004. The EDC is funded using one-eighth of one cent of the City's local sales tax rate of 1.5%. This equals 1/12 of the revenue from this revenue source. The City Council appoints the board members of the EDC. The City reports the EDC as a discretely presented component unit.

Any debt incurred through the issuance of bonds through the above entities is a liability of the entity receiving the benefits of the issue and not the City of Lufkin, Texas.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* is used to account for the accumulation of restricted monies for the payment of general obligation debt.

The government reports the following major proprietary funds:

The *water and sewer utility fund* accounts for the provision of water and sewer services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in the fund, including, but not limited to, production, maintenance, financing and related debt service, and billings and collections.

The *solid waste disposal fund* accounts for the activities related to the provision of sanitation and recycling services to the residents of the City.

Additionally, the government reports the following fund type:

The *internal service funds* account for the activities of the employee health benefit plan and the purchase and amortization of the City's equipment. The activities include the accounting for

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premiums provided for and the payment of eligible claims and related costs. The purchase cost and amortization of equipment (rolling stock) is now accounted for in this fund type.

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 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 this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer and solid waste disposal functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally, dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer utility enterprise fund, of the solid waste disposal enterprise fund, and of the government's internal service funds are charges to customers for sales and services. The water and sewer utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Cash equivalents are stated at fair value.

The City is authorized to invest in U.S. Treasury securities maturing in less than two (2) years, short-term obligations of U.S. Government Agencies, fully insured or collateralized certificates of deposit at commercial banks, repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement, obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment firm and having received a rating of not less than "AAA" or its equivalent, common trusts administered by Texas banks with assets consisting of all of the above and public funds and investment pools administered by banks domiciled in the State of Texas whose assets consist of all or a combination of the obligations stated.

Investments for the government are reported at fair value. TexPool and TexStar operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities or restricted and unrestricted assets are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 80% of outstanding taxes at September 30, 2008.

Property taxes are levied by October 1, and are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed. The City has entered into a contract with Angelina County Tax Assessor-Collector for the billing and collection of City property taxes.

The City is permitted by the City Charter (Article VI, Section 1) to levy taxes up to \$1.75 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2008, was .5554 per \$100 of assessed valuation. The adjusted total tax levy for fiscal year 2008 was \$9,292,226 and \$9,125,382 was collected for a current collection rate of 98.2%.

3. Inventories and prepaid items

All inventories are valued at cost using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Restricted assets include cash and investments for the proprietary funds that are legally restricted as to their use. The primary restricted assets are related to debt retirement, renewal and replacement, and construction activity of the Water and Sewer enterprise fund.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial, individual cost greater than or equal to \$5,000 for tangible personal property, \$50,000 for infrastructure and \$10,000 for improvements to buildings, machinery and equipment, and vehicles. Improvements to buildings must extend the useful life by ten years or be greater than ten percent of the original cost of the asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred during the current fiscal year was \$426,089. None of this amount was included as part of the cost of capital assets under construction in connection with water and sewer facilities construction projects.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives that an asset is expected to remain active and productive:

<u>Assets</u>	<u>Years</u>
Buildings, improvements and fixed equipment	15-20
Vehicles and equipment	2-20
Infrastructure	30-40

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. The City is prohibited from selling any pieces of the collection. The collection is capitalized as part of capital assets but not depreciated.

6. Compensated absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. The current portion of compensated absences is liquidated by the General Fund or the Civic Center Special Revenue Fund.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$47,543,064 distinction are as follows:

Bonds payable	\$ (42,635,000)
Accrued interest payable	(269,409)
Notes payable	(745,926)
Compensated absences	(2,229,443)
Net pension obligation	<u>(1,663,286)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (47,543,064)</u></u>

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of health insurance to individual funds. The significant portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.” The details of the \$94,086 difference are as follows:

Cash and cash equivalents	\$ 191,461
Investments	250,000
Receivables	48,497
Accounts payable	(389,363)
Accrued liabilities	<u>(6,509)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets- governmental activities	<u><u>\$ 94,086</u></u>

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of equipment amortization and replacement to individual funds. The significant portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.” The details of the \$4,460,362 difference are as follows:

Cash and cash equivalents	\$ 381,619
Investments	807,124
Receivables	769
Capital assets	3,271,120
Accounts payable	<u>(270)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets- governmental activities	<u><u>\$ 4,460,362</u></u>

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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$7,129,807 difference are as follows:

Capital outlay	\$ 8,695,508
Net effect of various miscellaneous transactions involving capital assets (ie: adjustments, sales, trade-ins and donations) is to decrease net assets	(96,386)
Depreciation expense	<u>(1,469,315)</u>
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 7,129,807</u></u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary accounting

The City follows these procedures (pursuant to Article V, Sections 2, 3 and 4 of the City Charter as amended) in establishing the budgetary data reflected in the financial statements:

- Forty-five (45) days prior to the end of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is displayed in a newspaper of general circulation within the City in order to obtain citizen comments.
- Prior to October 1, the budget is legally enacted through passage of an ordinance.
- The City Manager is authorized to transfer budgeted amounts between expenditure accounts within any department; however, any revisions that alter the total expenditures of any department (legal level of control) must be approved by the City Council.
- Formal budgetary integration is employed as a management control device during the year for the general fund, budgeted special revenue funds (Hotel/Motel, Zoo Building, FEMA Funded Grants, Special Recreation, Court Security/Technology, Animal Control–Kurth Grant, Animal’s Attic Gift Shop and debt service fund). Appropriations for these funds lapse at year-end.
- Budgets presented for the general, special revenue and debt service funds were adopted on a basis consistent with generally accepted accounting principles applicable to government units. Budgeted amounts reflected in the financial statements are as originally adopted or as amended by City Council or the City Manager.
- The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control is the department level. During the year, City Council made budgetary amendments to the General Fund budget totaling \$4,781,197, the Hotel/Motel Fund for \$315,870, Zoo Building Fund for \$607,316, FEMA Funded Grants Fund for \$1,407,290, Special Recreation Fund for \$3,170, Court Security/Technology Fund for \$720, and the Animal Control – Kurth Fund for \$126,652. Other budgetary transfers were made by the City Manager during the year.

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B. Excess expenditures over appropriations in individual departments

Fund	Amount
General Fund	
Human resources	(12,070)
Police	(61,116)
Fire	(246,146)
Animal control	(1,327)
Engineering	(5,869)

These over expenditures were covered by the available fund balance of the General Fund.

C. Deficit fund balance or Fund Net Assets of individual funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits.

Fund Name	Deficit Amount	Remarks
FEMA Funded Grants Fund	\$83,850	Incomplete documentation on work performed. Will request reimbursement when documentation is provided in support of request.

D. Compliance with debt ordinances

Debt ordinances on all general obligation bonds require that income from tax revenues be segregated and deposited into the Debt Service Fund annually. The amount required is the next anticipated bond interest and principal payment, but such annual deposits shall never be less than 2% of the original bond principal. The City satisfactorily complied with the bond ordinance requirements during the year ended September 30, 2008 and had restricted debt service funds of \$1,581,913 at year end.

The ordinances governing the issuance of the revenue bonds specify that the City shall make monthly deposits into the debt service accounts in the amount of one-sixth of the next maturing interest and one-twelfth of the next maturing principal. The ordinances also require that the City maintain a reserve account in the amount of \$1,252,029 (required reserve).

The assets available at September 30, 2008 compared to the balances required by the ordinances are as follows:

	Balance Required
Debt service required	\$ 864,130
Reserve account	1,252,029
Total balance required	2,116,159
Less assets available	3,146,634
Excess	\$ 1,030,475

IV. DETAIL NOTES ON ALL FUNDS

A. Deposits and investments

As of September 30, 2008, the City of Lufkin had the following deposits and investments:

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<u>Deposit Type:</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	
Federated MMMF/bank deposits	AAAm	\$ 1,093,582	0.118	
TexPool	AAAm	7,864,689	0.123	
TexStar	AAAm	1,224,577	0.096	
Total deposits		10,182,848	0.119	

<u>Investment Type:</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Concentration of Credit Risk Percentage</u>
FCB CDARS certificate of deposit	NR	\$ 10,000,000	0.880	41.44%
FHLMC Government Agency	AAA	2,004,298	0.093	8.31%
FNMA Government Agency	AAA	2,014,442	0.402	8.35%
FHLB Government Agency	AAA	2,022,942	0.675	8.38%
FHLB Government Agency	AAA	2,020,399	0.869	8.37%
FHLB Government Agency	AAA	2,019,035	1.224	8.37%
FHLB Government Agency	AAA	2,049,589	1.443	8.49%
FHLB Government Agency	AAA	1,999,947	1.692	8.29%
Total investments		24,130,652	0.900	
Total deposits and investments		\$ 34,313,500	0.669	

Interest rate risk. In accordance with the its investment policy, the City of Lufkin manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 270 days for operating funds, anticipated cash flow requirements or the “temporary period” as defined by Federal Tax law for construction funds and limiting maturity of investments in debt service funds to debt payment dates.

TexPool is a government investment pool. The State Comptroller of Public Accounts exercises oversight responsibility. TexPool operates in a manner consistent with the Public Funds Investment Act and portions of the SEC’s Rule 2a-7 of the Investment Company Act of 1940. Accordingly, it seeks to maintain a stable net asset value of \$1.00 per share and the fair value of the position in TexPool is the same as the fair value of TexPool shares.

TexStar is also a government investment pool. The pool is administered by J P Morgan Chase and First Southwest Asset Management, Inc. TexStar operates in a manner consistent with the Public Funds Investment Act and portions of the SEC’s Rule 2a-7 of the Investment Company Act of 1940. Accordingly, it seeks to maintain a stable net asset value of \$1.00 per share and the fair value of the position in TexStar is the same as the fair value of TexStar shares.

The investments of the Economic Development Corporation also include \$1,339,789 in land.

Investments (including restricted assets), which mature within three months or less of the date of purchase are included as cash equivalents.

Credit risk: City of Lufkin by policy limits the type of investment to the following: U. S. Treasury securities and obligations of U. S. Government Agencies and Instrumentalities. Deposits must be fully collateralized at eligible depositories with securities as defined by the Investment Policy. Eligible investment pools are those defined by and in compliance with the Public Funds Investment Act, that have been authorized by the City Council, that maintain a rating of a least AAA or AAAm, and whose investment philosophy and strategy seek to maintain a stable net asset value of \$1.00.

Custodial credit risk: All deposits of the City of Lufkin funds shall be secured by pledged collateral with a market value equal to or greater than 100% of the deposits, less any amount insured by the FDIC. Collateral pledged by City depositories is held by an independent third-party custodian with pledge and release of collateral securities at the discretion of the City. Collateral securities market value is reviewed at least monthly to ensure it equals or exceeds the related City of Lufkin deposit.

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Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5% of the City's investments are in the FCB CDARS certificates of deposit, Federal Home Loan Bank, FNMA, and FHLMC.

All direct security purchases are settled utilizing "delivery versus payment" procedures with the City's safekeeping agent (an independent third party to the transactions). Broker/Dealers are approved annually by the City's Finance Committee.

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and internal service funds in the aggregate, including the related allowances for uncollectible accounts are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Solid Waste Disposal Fund	Nonmajor and Internal Service Funds	Total
Receivables:						
Taxes	\$ 525,405	\$ 248,662	\$ -	\$ -	\$ -	\$ 774,067
Accounts	2,376,732	-	1,787,627	790,837	213,635	5,168,831
Other	62,110	7,414	22,792	745,926	239,148	1,077,390
Intergovernmental	1,817,719	-	76,322	21,401	1,059,985	2,975,427
Less allowance for uncollectibles	(1,622,220)	(198,930)	(220,205)	(129,331)	(146,146)	(2,316,832)
	<u>\$ 3,159,746</u>	<u>\$ 57,146</u>	<u>\$ 1,666,536</u>	<u>\$ 1,428,833</u>	<u>\$ 1,366,622</u>	<u>\$ 7,678,883</u>

Governmental funds report *deferred* revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred* revenue and *unearned* revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 105,081	\$ -
Delinquent property taxes receivable (debt service fund)	49,732	-
Municipal Court receivables (general fund)	659,886	-
Municipal Court receivables (special revenue fund)	16,238	-
Miscellaneous receivables (general fund)	75,267	-
Customer deposits (special revenue fund)	-	18,386
Ambulance receivables (general fund)	441,513	-
Grant receipts prior to meeting all eligibility requirements	-	5,274
Total	<u>\$ 1,347,717</u>	<u>\$ 23,660</u>

C. Interfund receivables, payables and transfers

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any amounts owed between governmental and business-type activities or restricted and unrestricted assets are defined as internal balances on the Statement of Net Assets.

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Interfund receivables and payables of the various funds at September 30, 2008 were as follows:

Fund	Receivables	Payables	Description
General Fund	\$ 327,590	\$ -	Short term advance
Nonmajor Governmental	-	327,590	Short term advance
Water and Sewer Utility Fund	326,502	326,502	Short term advance
Total	<u>\$ 654,092</u>	<u>\$ 654,092</u>	

Transfers at September 30, 2008 consisted of the following:

Transfer out:	Transfer in:				Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 542,816	\$ 241,891	\$ 784,707
Nonmajor Governmental	396,738	-	1,034,316	-	1,431,054
Water & Sewer Utility Fund	-	1,703,398	-	10,862	1,714,260
Solid Waste Disposal Fund	-	58,176	-	105,346	163,522
Total	<u>\$ 396,738</u>	<u>\$1,761,574</u>	<u>\$ 1,577,132</u>	<u>\$ 358,099</u>	<u>\$4,093,543</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest become due 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations 3) move initial funding of the equipment acquisition and replacement program.

D. Restricted assets

Restricted assets consist of cash, investments and other receivables and are limited to the payment of principal and interest on bonds, construction, and renewal and replacement of property, plant and equipment, customer refundable deposits and other receivables as follows:

	Bond Reserve	Construction	Renewal and Replacement	Operations	Total
Cash and cash equivalents	\$ 1,543,256	\$ 178,735	\$ 1,231,110	\$ -	\$ 2,953,101
Investments	1,600,312	900,297	2,426,884	-	4,927,493
Customer deposits	-	-	-	255,458	255,458
Other receivables	3,066	3,938	15,788	-	22,792
Intergovernmental receivables	-	-	38,875	-	38,875
Due from other funds	-	-	326,502	-	326,502
Total restricted assets	<u>\$ 3,146,634</u>	<u>\$ 1,082,970</u>	<u>\$ 4,039,159</u>	<u>\$ 255,458</u>	<u>\$ 8,524,221</u>

E. Capital assets

1. Storage space in Sam Rayburn Reservoir

In order to secure a firm supply of 28,000 acre-feet of water annually from the Sam Rayburn Reservoir for municipal and industrial use, the City entered into a contract with the Lower Neches Valley Authority. Under the terms of the contract, the City agreed to pay the Authority \$16,189 annually for a period of forty-six years beginning December 1, 1968, whether or not the City withdraws any amounts of water from the Sam Rayburn Reservoir. The City did not withdraw any water during the year ended September 30,

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2008. The City of Lufkin paid the Authority \$157,882 in December 2003 to complete this contract.

In order to provide water storage space in Sam Rayburn Reservoir, the City entered into a contract with the United States of America. Under the terms of the contract the City agrees to pay:

- The sum of \$220,000 in fifty consecutive annual installments in the amount of \$7,698 each, which commenced on the first day of January, 1970. Except for the first payment, which was applied solely to retirement of principal, all installments shall include accrued interest at the rate of 2.591% per annum on the unpaid balance.
- The sum of \$305,600 in forty consecutive annual installments in the amount of \$12,049 each, which commenced on the first day of January, 1976. Except for the first payment, which was applied solely to retirement of principal, all installments shall include accrued interest at the rate of 2.591% per annum on the unpaid balance.
- .692 percent of the annual experienced joint use costs of ordinary operation and maintenance of the Sam Rayburn Reservoir, which shall be applicable to the present water supply storage space.
- .964 percent of the annual experienced joint use costs of ordinary operation and maintenance of the Sam Rayburn Reservoir, which shall be applicable to the future water supply storage space.
- 1.689 percent of the joint use cost of sedimentation resurveys when incurred.
- 1.689 percent of the joint use cost of major capital replacement when incurred.

The \$220,000 and \$305,600 have been capitalized and will be amortized when actual water usage from the Sam Rayburn Reservoir occurs.

The amounts capitalized under the contracts with the Lower Neches Valley Authority and United States of America for storage space in the Sam Rayburn Reservoir are as follows:

Capitalized payments for water supply	\$	709,740
Capitalized contract for storage space		
50 year contract		220,000
40 year contract		305,600
		305,600
Storage space in Sam Rayburn Reservoir	\$	1,235,340

2. Infrastructure capital assets

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 characteristics of 1) 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.

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- 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 was scheduled to perform a complete inventory and condition assessment during the spring of 2008. However, due to unforeseen circumstances, the inventory was not completed. After training of staff, the condition inventory will be completed in the spring of 2009. This condition assessment will be performed every two years. Each street was assigned a physical condition based on nineteen potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned to each street and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned the physical characteristics of a new street. The following conditions were defined:

<u>Condition</u>	<u>Rating</u>
Excellent to Good	80-100
Fair to Good	56-79
Substandard	0-55

The City's policy is to achieve an average rating of 56 for all streets, which is a good rating. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. At year end, the City's street system was rated at a PCI index of 65 on the average with the detail conditions as follows:

<u>Condition</u>	<u>% of streets</u>		
	<u>2,008</u>	<u>2007</u>	<u>2006</u>
Excellent to Good	31.0%	27.0%	27.0%
Fair to Good	48.0%	50.0%	50.0%
Substandard	21.0%	23.0%	23.0%

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 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 \$3,657,064. A schedule of estimated annual amounts and actual expenditures for street maintenance for the past five years is as follows (in thousands):

<u>Fiscal year</u>	<u>Budget</u>	<u>Actual</u>
2008	\$ 4,116	\$ 3,779
2007	3,388	3,136
2006	3,194	3,187
2005	2,884	2,743
2004	2,767	2,400

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Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 3,143,485	\$ 135,415	\$ -	\$ 3,278,900
Infrastructure	48,540,203	1,198,644	14,736	49,724,111
Works of art	278,500	-	-	278,500
Construction in progress	5,808,626	7,327,504	1,535,639	11,600,491
Total capital assets not being depreciated	<u>57,770,814</u>	<u>8,661,563</u>	<u>1,550,375</u>	<u>64,882,002</u>
Capital assets being depreciated:				
Buildings	12,404,914	810,922	-	13,215,836
Improvements other than buildings	15,136,908	-	-	15,136,908
Machinery and equipment	8,737,012	745,954	84,924	9,398,042
Vehicles	6,143,556	2,526,198	874,119	7,795,635
Total capital assets being depreciated	<u>42,422,390</u>	<u>4,083,074</u>	<u>959,043</u>	<u>45,546,421</u>
Less accumulated depreciation for:				
Buildings	(4,359,764)	(259,100)	-	(4,618,864)
Improvements other than buildings	(2,208,200)	(490,385)	-	(2,698,585)
Machinery and equipment	(5,864,365)	(525,381)	84,924	(6,304,822)
Vehicles	(3,770,827)	(805,374)	798,979	(3,777,222)
Total accumulated depreciation	<u>(16,203,156)</u>	<u>(2,080,240)</u>	<u>883,903</u>	<u>(17,399,493)</u>
Total capital assets, being depreciated, net	<u>26,219,234</u>	<u>2,002,834</u>	<u>75,140</u>	<u>28,146,928</u>
Governmental activities capital assets, net	<u>\$ 83,990,048</u>	<u>\$ 10,664,397</u>	<u>\$ 1,625,515</u>	<u>\$ 93,028,930</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 862,849	\$ 8,000	\$ -	\$ 870,849
Storage space	1,147,791	87,549	-	1,235,340
Construction in progress	6,176,159	7,303,830	2,380,059	11,099,930
Total capital assets not being depreciated	<u>8,186,799</u>	<u>7,399,379</u>	<u>2,380,059</u>	<u>13,206,119</u>
Capital assets being depreciated:				
Buildings	4,084,688	-	-	4,084,688
Improvements other than buildings	56,401,462	2,024,095	330,615	58,094,942
Machinery and equipment	12,649,641	512,937	208,522	12,954,056
Vehicles	4,342,962	-	754,271	3,588,691
Total capital assets being depreciated	<u>77,478,753</u>	<u>2,537,032</u>	<u>1,293,408</u>	<u>78,722,377</u>
Less accumulated depreciation for:				
Buildings	(1,665,487)	(82,084)	-	(1,747,571)
Improvements other than buildings	(18,859,753)	(1,075,568)	181,767	(19,753,554)
Machinery and equipment	(10,300,807)	(312,320)	208,522	(10,404,605)
Vehicles	(3,670,604)	(311,606)	682,964	(3,299,246)
Total accumulated depreciation	<u>(34,496,651)</u>	<u>(1,781,578)</u>	<u>1,073,253</u>	<u>(35,204,976)</u>
Total capital assets, being depreciated, net	<u>42,982,102</u>	<u>755,454</u>	<u>220,155</u>	<u>43,517,401</u>
Business-type activities capital assets, net	<u>\$ 51,168,901</u>	<u>\$ 8,154,833</u>	<u>\$ 2,600,214</u>	<u>\$ 56,723,520</u>

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Depreciation expense was charged to functions/programs of the City as follows:

	Total
Governmental activities:	
General government	\$ 167,826
Public safety	391,253
Cultural and recreation	530,300
Public works	379,936
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	610,925
Total governmental activities	\$ 2,080,240
Business-type activities:	
Water and Sewer	\$ 1,511,558
Solid Waste Disposal	270,020
Total business-type activities	\$ 1,781,578

3. Construction and other commitments

The government has active construction projects as of September 30, 2008. The projects include utility construction in areas with newly developed housing, widening and construction of existing streets, the replacement of asbestos and old water lines, and various culture and recreation improvements. At year end the government's commitments with contractors are as follows:

Project	Expended to date	Remaining Commitment	Funding Source
<u>Construction</u>			
Pines Theater Renovation	\$ 11,455	\$ 501,545	General Fund
Whitehouse Dr. Extension	4,325,002	212,035	1999 Capital Improvements Project Bond Program Fund
Lotus Lane Street Improvements	2,656,229	457,810	2001 Street Bond Program Fund
Convention Center	38,966	258,034	Department of Housing and Urban Development
Zoo Education Center	1,368,829	395,137	Private Donations
Service Center Complex	2,688,192	42,051	Solid Waste Renewal and Replacement Fund
Warehouse/Fleet Main Bldg.	1,753,867	15,600	Solid Waste Renewal and Replacement Fund
Fuel Stations	5,869	354,131	Solid Waste Renewal and Replacement Fund
Utility Line Relocation-59 South	2,993,469	76,571	Water and Sewer Renewal and Replacement Fund
Waterline replacement - Crown Colony	1,700,521	494,479	Drinking Water State Revolving Fund
ML King/Raguet Sewer Line Replacement	409	323,511	Water and Sewer Renewal and Replacement Fund
Sam Rayburn- Step 1 Implementation	1,117,102	30,698	Water and Sewer Renewal and Replacement Fund
Headworks Equipment	463,726	262,269	Water and Sewer Renewal and Replacement Fund
Chlorine Contact Basin	3,972	756,028	Water/Wastewater Fund-1999 CIP
Sub total - construction	19,127,608	4,179,899	
<u>Other</u>			
Rehabilitation of Ellen St and 2 ground storage water tanks	457,870	97,130	Drinking Water State Revolving Fund
US 59 Right-of -Way Acquisition	3,049,895	149,690	1999 Capital Improvements Project Bond Program Fund
I and I Study	182,343	379,586	Water and Sewer Operating Fund
Sub total - other	3,690,108	626,406	
Total construction and other commitments	\$ 22,817,716	\$ 4,806,305	

**CITY OF LUFKIN, TEXAS
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F. Current liabilities

1. Accounts/claims payable and accrued liabilities

Accounts/claims payable in the governmental activities is composed of amounts due vendors of \$2,372,185 and retainage of \$342,410. The governmental accrued liabilities are composed of accrued salaries and benefits of \$616,725, compensated absences of \$988,191 and other accrued liabilities of \$185,050. The business-type activities accounts/claims payable are composed of amounts due vendors, \$858,189 and retainage of \$88,030. The business-type accrued liabilities are composed of accrued salaries and benefits of \$80,725 and other accrued liabilities of \$66,464.

2. Compensated absences

The City recognizes liabilities for compensated absences related to unpaid vacation and sick leave when the following conditions are met.

The City's obligations are attributable to employees' services already rendered, compensated absence rights vest or are accumulated, payment of the compensated absences compensation is probable, and the compensated absences can be reasonably estimated.

At September 30, 2008, the City's liability for compensated absences consisted of the following:

	Governmental Activities	Business-type Activities	Total
Current	\$ 988,191	\$ 120,134	\$ 1,108,325
Long-term	2,229,443	110,894	2,340,337
	\$ 3,217,634	\$ 231,028	\$ 3,448,662

G. Capital leases

The City had entered into lease agreements as lessee for financing the acquisition of machinery and equipment. These lease agreements qualified as capital leases for accounting purposes and, therefore, were recorded at the present value of their future minimum lease payments as of the inception date. The amount of capital lease obligations at September 30, 2008 was \$0.

The City made \$85,704 in principal payments and \$2,744 in interest payments on capital leases for the year ended September 30, 2008.

H. Long-term debt

1. General obligation bonds payable

General obligation bonds payable at September 30, 2008 are comprised of the following individual issues:

\$4,650,000 Series 1998 Tax and Waterworks and Sewer System Revenue Certificates of Obligation due in annual installments of \$25,000 to \$350,000 from September 30, 1999 through September 30, 2020; interest at 4.00% to 6.00% \$ 3,375,000

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<p>\$4,400,000 Series 1999 Tax and Waterworks Revenue Certificates of Obligation due in annual installments of \$125,000 to \$350,000 from August 15, 2001 through August 15, 2020; interest at 5.00% to 6.00%.</p>	850,000
<p>\$8,705,000 Series 2002 General Obligation Refunding Bonds due in annual installments of \$45,000 to \$730,000 from February 15, 2003 through August 15, 2012; interest at 3.00% to 4.00 %.</p>	3,350,000
<p>\$2,200,000 Series 2002 General Obligation Bonds due in annual installments of \$25,000 to \$175,000 from August 15, 2003 through August 15, 2022; interest at 4.40% to 5.125%.</p>	1,800,000
<p>\$9,450,000 Series 2002 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$150,000 to \$725,000 from August 15, 2003 to August 15, 2022; interest at 4.50% to 5.00%.</p>	6,200,000
<p>\$1,700,000 Series 2003 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$50,000 to \$125,000 from August 15, 2005 to August 15, 2024; interest at 4.65% to 5.00%.</p>	1,500,000
<p>\$3,750,000 Series 2003 General Obligation Bonds due in annual installments of \$125,000 to \$275,000 from August 15, 2005 through August 15, 2024; interest at 4.75% to 5.25%.</p>	3,250,000
<p>\$8,200,000 Series 2004 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$250,000 to \$625,000 from August 15, 2006 through August 15, 2025; interest at 3.50% to 4.375%.</p>	7,400,000
<p>\$9,475,000 Series 2006 General Obligation Refunding Bonds due in semi-annual installments of \$0 to \$570,000 from February 15, 2007 through August 15, 2022; interest at 3.63% to 5.50%.</p>	8,100,000
<p>\$1,740,000 Series 2007 General Obligation Bonds due in annual installments of \$55,000 to \$125,000 from August 15, 2008 through August 15, 2027; interest at 4.15% to 5.125%.</p>	1,685,000
<p>\$5,870,000 Series 2007 Tax and Waterworks and Sewer System Revenue Certificates of Obligations due in annual installments of \$150,000 to \$280,000 from August 15, 2008 through August 15, 2027; interest at 4.125% to 4.50%.</p>	<u>5,125,000</u>
<p>Total general obligation bonds</p>	\$ <u><u>42,635,000</u></u>

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The City expended \$1,991,703 for interest on general obligation bonds for the year ended September 30, 2008.

The principal and interest requirements for general obligation bonds are as follows:

Year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 4,285,000	\$ 2,023,200	\$ 6,308,200
2010	3,825,000	1,861,326	5,686,326
2011	2,935,000	1,698,367	4,633,367
2012	3,060,000	1,571,930	4,631,930
2013	2,340,000	1,315,948	3,655,948
2014-2018	12,405,000	5,008,205	17,413,205
2019-2023	10,635,000	2,090,754	12,725,754
2024-2027	3,150,000	268,816	3,418,816
Total	\$ 42,635,000	\$ 15,838,546	\$ 58,473,546

2. Revenue bonds payable

Revenue bonds payable at September 30, 2008 are comprised of the following individual issues:

\$16,000,000 Series 2000 Waterworks and Sewer System Revenue Bonds due in annual installments of \$570,000 to \$990,000 from November 1, 2000 to November 1, 2019; interest at 2.95% to 4.10%. \$ 10,330,000

\$1,500,000 Series 2003 Waterworks and Sewer System Revenue Bonds due in annual installments of \$45,000 to \$115,000 from November 1, 2005 to November 1, 2024; interest at 4.70% to 5.00%. 1,360,000

Total revenue bonds \$ 11,690,000

The City expended \$422,125 for interest on revenue bonds for the year ended September 30, 2008.

The principal and interest requirements for revenue bonds payable are as follows:

Year ending September 30,	Business-type Activities		
	Principal	Interest	Total
2009	\$ 740,000	\$ 432,726	\$ 1,172,726
2010	765,000	406,448	1,171,448
2011	795,000	379,547	1,174,547
2012	820,000	351,126	1,171,126
2013	855,000	320,868	1,175,868
2014-2018	4,775,000	1,089,475	5,864,475
2019-2023	2,715,000	213,642	2,928,642
2024-2025	225,000	10,694	235,694
Total	\$ 11,690,000	\$ 3,204,526	\$ 14,894,526

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3. Notes payable

Primary Government

The City contracted for the review and improvements in energy efficiency of the City's facilities. To fund this contract, \$745,926 was borrowed from the Solid Waste Fund at an interest rate of 4.75% with a payback over 6 years.

The City did not pay for any interest on notes payable for governmental activities for the year ended September 30, 2008.

The principal and interest requirements for notes payable are as follows:

Year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 124,321	\$ 35,747	\$ 160,068
2010	124,321	29,842	154,163
2011	124,321	23,937	148,258
2012	124,321	18,032	142,353
2013	124,321	12,127	136,448
2014	124,321	6,221	130,542
	\$ 745,926	\$ 125,906	\$ 871,832

The City has acquired storage space in Sam Rayburn Reservoir by issuing notes payable. The space purchased is pledged as collateral for the notes payable. The amount of the notes payable for storage space at September 30, 2008 was \$149,117.

The City expended \$3,964 for interest on notes payable for business-type activities for the year ended September 30, 2008.

The City entered into an agreement with The Office of Rural Community Affairs (ORCA) to reimburse them for a grant for the construction of roads, water and sewer lines and a detention pond in support of the construction of low to moderate income housing. The City's agent did not fulfill the requirements of the grant. The grant in the amount of \$400,000 is being repaid in 36 payments without any interest costs. The amount of the note payable to ORCA at September 30, 2008 was \$377,777.

Year ending September 30,	Business-type Activities		
	Principal	Interest	Total
2009	\$ 149,217	\$ 3,864	\$ 153,081
2010	149,629	3,452	153,081
2011	127,829	3,030	130,859
2012	17,151	2,597	19,748
2013	17,596	2,152	19,748
2014-2018	57,967	4,626	62,593
2019	7,505	195	7,700
	\$ 526,894	\$ 19,916	\$ 546,810

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Component Unit

The Economic Development Corporation (EDC) acquired land by issuing a note payable dated August 11, 2006 with an interest rate of 4.3%. The note matures August 7, 2009. The land is pledged as collateral on the note.

The interest expense on the note was \$9,282 for the year ended September 30, 2008.

The principal and interest requirements for notes payable are as follows:

Year ending September 30, 2009	Component Unit		
	Principal	Interest	Total
	\$ 133,333	\$ 4,312	\$ 137,645
	\$ 133,333	\$ 4,312	\$ 137,645

4. Change in long-term liabilities

Primary government

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<u>Governmental activities</u>					
Bonds payable					
General obligation bonds	\$ 46,690,000	\$ -	\$ 4,055,000	\$ 42,635,000	\$ 4,285,000
Notes payable	-	745,926	-	745,926	124,321
Capital leases	85,704	-	85,704	-	-
Compensated absences	1,913,871	315,572	-	2,229,443	133,767
Net pension obligation	1,200,529	462,757	-	1,663,286	-
Total governmental activities long-term liabilities	\$ 49,890,104	\$ 1,524,255	\$ 4,140,704	\$ 47,273,655	\$ 4,543,088
<u>Business-type activities</u>					
Bonds payable					
Revenue bonds	\$ 11,330,000	\$ 1,075,000	\$ 715,000	\$ 11,690,000	\$ 740,000
Notes payable	164,600	400,000	37,706	526,894	149,217
Compensated absences	222,317	8,711	-	231,028	120,134
Total business-type long-term liabilities	\$ 11,716,917	\$ 1,483,711	\$ 752,706	\$ 12,447,922	\$ 1,009,351

Component Unit

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Notes payable	\$ 266,667	\$ -	\$ 133,334	\$ 133,333	\$ 133,333
Total component unit long-term liabilities	\$ 266,667	\$ -	\$ 133,334	\$ 133,333	\$ 133,333

CITY OF LUFKIN, TEXAS
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5. Bond issuance costs

In general government type activities, bond issuance costs are recognized in the current period. Bond issuance costs for governmental activities and business-type activities are deferred and amortized over the term of the bonds, using the straight-line method. Bond issuance costs are recorded as deferred charges.

6. Advance and current refundings

On December 1, 2006, The City issued \$9,475,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for providing resources for all future debt service payments of \$9,100,000 in refunded debt. The refunded debt consisted of \$1,725,000 Series 1995 Waterworks and Sewer System Revenue Bonds, \$1,925,000 Series 1997 Waterworks and Sewer System Revenue Bonds, \$1,675,000 Series 1996 General Obligation Bonds, \$2,350,000 Series 1999 Tax and Waterworks Revenue Certificates of Obligation and \$1,425,000 Series 2002 Tax and Waterworks and Sewer System Certificates of Obligation. The amount refunded for the Series 1999 Tax and Waterworks Revenue Certificates of Obligation and Series 2002 Tax and Waterworks and Sewer System Certificates of Obligation was only a partial amount of the amount outstanding. As a result, the refunded bonds are considered defeased and the liabilities have been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$269,325. This amount is being amortized over the life of the new debt, which is the same life as the refunded debt. This advance refunding was undertaken to reduce total debt service payments of the next 15 years by \$552,550 and resulted in an economic gain of \$394,095. Defeased debt outstanding at September 30, 2008 was \$3,775,000.

I. Other information

1. 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 purchases workers' compensation insurance coverage from Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustaining through member premiums. The Fund reinsures through commercial companies for claims in excess of \$500,000 per occurrence. The City pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the City is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. However, members would be contingently liable for their share of liabilities in the event the assets of the Fund were exhausted. The Fund was solvent as of the most recent audited financial statements.

The City maintains insurance coverage covering liability and property risks of loss with Texas Municipal League Intergovernmental Risk Pool, a self-insurance pool created by its members to provide various coverages to participating members. Excess insurance is purchased to provide additional financial stability to the Pool. Catastrophic losses that exceed the Pool's self-insured retention are secured by excess insurance purchased from domestic A-rated companies.

The Pool's retention is \$1,000,000 per occurrence in excess of member deductibles for property insurance, \$3,000,000 per occurrence for boiler and machinery coverage, \$1,000,000 per occurrence for liability insurance, and \$1,000,000 per vehicle, \$1,000,000 per occurrence in excess of member deductibles for automobile physical damage coverage. City management believes such coverage is sufficient to preclude any significant losses to the City. Settled claims did not exceed the coverage during the last three fiscal years.

The City has entered into agreements with outside firms to administer its employee health benefit plan for twelve (12) month periods. Under the terms of the agreement, the administrator (1)

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reviews claims for benefits under the plan and determines whether they have been properly filed and determines the amount, if any, which is due and payable with respect thereto, (2) on behalf of the City, disburses claim payments that it determines to be due in accordance with the provisions of the plan to the eligible individual or assignee of such eligible individual entitled thereto, and (3) takes all reasonable steps to process claims and disburse claim payments expeditiously.

The Plan provides coverage of up to \$75,000 for each individual. The City has reinsurance agreements for the plan years. Such agreements generally provide for a stop loss per individual. At September 30, 2008, the individual stop loss amount was \$75,000.

Under the terms of the plan, eligible claims and related expenses are paid from premiums paid by covered employees and the various funds of the City in which they are employed.

The City accounts for the transactions of the plan in the Group Health Insurance Fund, an Internal Service Fund. At September 30, 2008, the City had recorded a liability of \$389,363 for claims incurred but not paid at that date. This liability was based on a review of claims paid subsequent to the end of the year.

For the Year Ended September 30,	Claims Payable October 1,	Claims Incurred	Claims Paid	Claims Payable September 30,
2000	\$163,649	\$ 2,359,582	\$ 2,419,212	\$ 104,019
2001	104,019	2,238,578	2,191,589	151,008
2002	151,008	2,483,652	2,515,088	119,572
2003	119,572	2,205,658	2,108,908	216,322
2004	216,322	3,256,626	3,091,483	381,465
2005	381,465	3,521,799	3,329,361	573,903
2006	573,903	2,477,494	2,747,857	303,540
2007	303,540	2,767,632	2,720,711	350,461
2008	350,461	2,903,818	2,864,916	389,363

2. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City of Lufkin entered into an agreement with The Board of Trustees of The Firemen's Relief and Retirement Fund (Fund) of Lufkin during FY 2004 stating that the City of Lufkin did not desire to opt out of the mandate stipulated by the Texas Legislature under Proposition XV requiring Cities to be responsible for insuring that the benefits payable under the fund are not reduced. The agreement allows the City of Lufkin to make provisions to the plan that will help to guarantee the financial soundness of it. Should the Fund become insolvent, the City of Lufkin will be responsible for the costs of the Fund. At September 30, 2008, the City has an estimated net pension obligation for the Fund of \$1,663,286.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

3. Retirement plan

The City provides pension benefits for all of its full time employees (except fire fighters) through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 827 municipalities has an annual individual actuarial valuation performed. All assumptions for the 12-31-07 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 87814-9153.

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 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.

Members can retire at age 60 and above with 5 years or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

a. Contributions

The contribution rate for the employees is 7% and the City matching percent is currently 2 to 1 both as adopted by the City Council. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City's matching percent, which are the obligation of the City as of the employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The projected unit credit actuarial method is used for determining the City's contribution rate. 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 lag between the actuarial valuation that is the basis of the rate and the calendar year when the rate goes into effect. The December 31, 2007 valuation is effective for rates beginning January 2009.

The City's total payroll in fiscal year 2008 was \$17,809,568 and the City's contributions were based on a payroll of \$13,556,262. Both the City and the covered employees made the required contributions, amounting to \$1,891,141 (14.01% of covered payroll for the months in calendar year 2008 and 13.72% for the months in calendar year 2007) for the City and \$948,939 (7.00%) for the employees. There were no related party transactions.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

b. Actuarial valuation information

Actuarial valuation date	December 31, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll
Remaining amortization period	30 years –closed period
Asset valuation method	Amortized cost
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	Varies by age and service
Inflation	3.0%
Cost-of-living adjustment	2.1%

c. Trend information

<u>Year Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1999	\$ 1,057,250	100%	-
2000	1,132,286	100%	-
2001	1,180,491	100%	-
2002	1,294,330	100%	-
2003	1,377,091	100%	-
2004	1,332,204	100%	-
2005	1,544,921	100%	-
2006	1,629,939	100%	-
2007	1,708,333	100%	-
2008	1,891,141	100%	-

d. Schedule of funding progress

Actuarial Valuation Payroll Date	(1) Actuarial Value of Assets	(2) Actuarially Accrued Liability	(3) Percentage Funded (1) / (2)	(4) Unfunded Accrued Liability (UAAL)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) / (5)
12/31/98	\$13,192,610	\$17,097,580	77.2%	\$3,904,970	\$ 9,055,427	43.1%
12/31/99	15,079,785	21,211,912	71.1%	6,132,127	9,557,580	64.2%
12/31/00	15,854,922	22,415,858	70.7%	6,560,936	9,824,010	66.8%
12/31/01	17,975,956	25,643,395	70.1%	7,667,439	9,986,871	76.8%
12/31/02	20,581,935	29,004,545	71.0%	8,422,610	11,426,474	73.7%
12/31/03	21,357,580	31,030,915	68.8%	9,673,335	10,761,057	89.9%
12/31/04	22,071,439	32,523,270	67.9%	10,451,831	10,542,672	99.1%
12/31/05	24,387,268	35,561,244	68.6%	11,173,976	11,522,243	97.0%
12/31/06	25,242,986	37,233,229	67.8%	11,990,243	11,614,248	103.2%
12/31/07	27,565,130	47,329,961	58.2%	19,764,831	12,463,578	158.6%

4. Firemen's retirement fund

The Firemen's Relief and Retirement Fund (Fund) of Lufkin, Texas is a single-employer defined benefit pension plan administered by a board of trustees. The Firemen's Relief and Retirement Fund of Lufkin, Texas is not considered to be a component unit of the City or of any other reporting entity. The fund issues a publicly available financial report that includes financial

**CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

statements and required supplementary information. The report may be obtained by writing the Firemen's Relief and Retirement Fund of Lufkin, Texas, P.O. Drawer 190, Lufkin, Texas 75902.

Fire fighters in the Lufkin Fire Department are covered by the Fund. As of the latest actuarial information dated December 31, 2006, the fund had the following membership information:

Retirees, vested terminated employees and beneficiaries	57
Current employees:	
Fully vested	27
Non-vested	49
Total	<u>133</u>

The Fund operates primarily under the "Texas Local Fire Fighters Retirement Act," Article 6243.e *Vernon's Texas Civil Statutes*, 45th Legislature as revised by the 75th Legislature and administers retirement and disability and death benefits to employees and beneficiaries of the employees of the fire department of City of Lufkin, Texas. The plan uses the accrual basis of accounting. The plan document was amended effective November 26, 2007.

Service retirement eligibility is as follows:

Normal – age 50 with 10 years of service (15 years of service if hired after September 1, 2005)

Disability retirement eligibility is as follows:

An active fire fighter who has completed his probationary period will qualify for a disability benefit if he becomes disabled from any cause whatsoever for either physical or mental reasons, except for those causes specified in the plan document. Under certain circumstances, the Board of Trustees may deny disability benefits.

Vested termination eligibility is as follows:

If a fire fighter has completed at least 10 years of service (15 years of service if hired after September 1, 2005) but has not attained the age of 50 at the time of termination of service, a deferred retirement is available commencing on the end of the month age 50 is attained.

Death benefit eligibility is as follows:

Death benefits are payable to the participant's spouse for life as long as the spouse does not remarry, or remarries and subsequently divorces. Benefits are payable to a participant's children until age 18, age 22 if the child remains a full-time student, or life as long as the child is disabled by a physical or mental illness.

Deferred retirement option provision eligibility is as follows:

If a firefighter is eligible for a service retirement as described above, they may elect an alternative form of retirement known as the Deferred Retirement Option Provision (DROP).

Under the DROP, a firefighter is treated by the Fund as if they retired. Their monthly pension is determined based on pay and service to the date they elected to participate in the DROP. The firefighter may participate in the DROP for a maximum of six years. During the time they are participating in the DROP, they continue to work for the Fire Department in their regular capacity. Their monthly pension and their monthly contributions to the Fund remain in the Fund.

**CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

The firefighter may leave the program at any time within the six year period. At the time the firefighter does leave the DROP, they are entitled to receive the amount which has accumulated in the Fund by making an irrevocable decision to request payment of the entire amount in a lump-sum, or to request that the accumulation be paid in not more than three installments beginning not more than thirteen months from leaving the DROP, with the final installment being made not more than thirty-seven months after leaving the DROP. The Fund must be given a 180 day notice of fund withdrawal. They are also entitled to begin receiving their monthly pension that was previously being paid monthly into the Fund. They must also retire from active duty with the Fire Department at the time they leave the DROP.

The actuarially accrued liability is the standardized disclosure measure of the present value of pension benefits estimated to be paid in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Firemen's Relief and Retirement Fund of Lufkin, Texas funding status, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employees retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the fund.

The contribution rate of the fire fighters is determined by the fire fighters. The City's contribution rate is determined by negotiations with the fire fighters. The actuary certifies the actuarial annual required contribution (ARC). The total contributions of the fire fighters and the City are less than the actuarial annual required contribution. At September 30, 2008, the City's net pension obligation for the Fireman's Relief and Retirement Fund of Lufkin, Texas was estimated to be \$1,633,286.

The City's total salaries and wages for fiscal year 2008 for firemen was \$4,308,215 and the City's contributions were based on a payroll of \$4,085,488. Both the City and the covered employees made contributions, amounting to \$496,519 (11.65% for October 2007 and 12.20% for November 2007 through September 2008) by employees and \$690,455 (15.74% for October 2007 and 17.00% for November 2007 through September 2008) by the City. The minimum actuarial contribution rate with a 40 year amortization period would be 37.9% or with a 30 year amortization period would be 39.4%.

As permitted by GASB Statement No. 25, the following information is being presented only for as many years as available. Contributions during the periods shown have been made in accordance with actuarial requirements.

a. Actuarial valuation information

Valuation date	December 31, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	Infinite – open period
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	3.0%
Amortization increase	1.6%
Inflation rate	3.0%

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

b. Trend information

Year Ended December 31,	Annual Pension Cost (APC)	Contributions Paid			Percentage of APC	Net Pension Obligation
		City	Firemen	Total		
1998	\$ 517,194	\$ 258,597	\$ 258,597	\$ 517,194	100%	\$ -
1999	584,880	292,440	292,440	584,880	100%	-
2000	601,946	300,973	300,973	601,946	100%	-
2001	655,434	327,717	327,717	655,434	100%	-
2002	701,778	350,889	350,889	701,778	100%	-
2003	785,384	355,800	355,800	711,600	91%	73,784
2004	803,257	360,849	360,849	721,698	90%	155,058
2005	1,052,872	412,016	388,017	800,033	76%	407,299
2006	1,333,453	494,984	388,544	883,528	66%	853,461
2007	1,390,797	533,523	410,319	943,842	68%	1,300,416

c. Schedule of funding progress

Actuarial Valuation Payroll Date	(1) Actuarial Value of Assets	(2) Actuarially Accrued Liability	(3) Percentage Funded (1) / (2)	(4)	(5) Annual Covered Payroll	(6)
				Unfunded Accrued Liability (UAAL)		UAAL as a Percentage of Covered Payroll (3) / (5)
5/31/89	\$ 4,254,289	\$ 5,803,232	73.3%	\$ 1,548,943	\$ 1,448,153	107.0%
12/31/92	5,694,765	7,654,481	74.4%	1,959,716	1,708,570	114.7%
12/31/95	6,800,995	9,756,867	69.7%	2,955,872	1,999,097	147.9%
12/31/98	9,736,390	11,853,931	82.1%	2,117,541	2,397,350	88.3%
12/31/00	11,018,263	13,937,639	79.1%	2,919,376	2,685,849	108.7%
12/31/02	9,611,084	15,747,613	61.0%	6,136,529	3,226,247	190.2%
12/31/04	10,673,969	17,613,892	60.6%	6,939,923	3,041,650	228.2%
12/31/06	10,612,279	21,164,321	50.1%	10,552,042	3,552,919	297.0%

The schedule of funding progress information was obtained from the December 31, 2006, actuarial valuation reports. The actuarial valuation of assets for prior years has been restated from the original actuarial reports in accordance with GASB 25 and GASB 27.

5. Other postemployment benefits

The City of Lufkin provides other postemployment benefits (OPEB), as per the requirements of a local ordinance, for certain of its retired employees until age 65. The City pays 100% of the premiums of health care coverage for employees who retire from the City until age 65. At age 65, retirees become eligible for Medicare and the health insurance coverage discontinues. The City's regular health insurance providers underwrite the retiree's policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year end, there were 33 employees who had retired that were receiving the 100 percent premium-coverage benefit. The City finances the plan on a pay-as-you go basis. For the year ended September 30, 2008, the City contributed \$177,000 for these benefits.

**CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
CONDITION RATING OF THE CITY'S STREET SYSTEM
SEPTEMBER 30, 2008**

	Percentage of Lane-miles in Excellent to Very Good		
	2008	2007	2006
Collector Streets	52.0%	50.0%	50.0%
Residential Streets	33.0%	26.0%	26.0%

	Percentage of Lane-miles in Substandard Condition		
	2008	2007	2006
Collector Streets	13.0%	17.0%	17.0%
Residential Streets	20.0%	23.0%	23.0%

**COMPARISON OF NEEDED-TO-ACTUAL
MAINTENANCE/PRESERVATION
(in thousands)**

	2008	2007	2006
Collector streets:			
Needed	\$ 160	\$ 189	\$ 189
Actual	-	129	82
Residential streets:			
Needed	2,895	3,468	3,468
Actual	3,779	3,007	3,105
Overall system			
Needed	3,055	3,657	3,657
Actual	3,779	3,136	3,187
Difference	724	521	470

The average rating for the City's streets at September 30, 2008 was 65; this rating remained flat from the previous year.

Note: 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 4.2 Pavement 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 55). It is the City of Lufkin's policy to maintain at least a 56 condition index of its street system. No more than 10% should be in substandard condition. Condition assessments are determined bi-annually.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Hotel/Motel Tax Fund – To account for the maintenance of the Civic Center and its major financing from Hotel/Motel Tax.

Zoo Building Fund – To account for admission fees and donations and their expenditures.

FEMA Funded Grants Fund – To account for revenues and expenditures applicable to FEMA Funded Grants Program.

Police Seized Fund – To account for seized drug funds and their disposition.

Court Security/Technology Fund – To account for certain fees assessed on fines.

Police Grants Fund – To account for certain grants received by the Police Department requiring separate funds.

Special Recreation Fund - To account for tuition for recreational classes and related expenditures.

Insurance Loss Fund – To account for sales tax revenues reserved by the City Council for paying insurance losses in the property, liability and Group Health Insurance Funds.

Animal Control – Kurth Grant Fund – To account for revenues and expenditures from the Kurth Grant.

Animal’s Attic Gift Shop Fund – To account for the revenues and expenditures of the gift shop in the City’s Animal Control Shelter.

Police DARE Contribution Grant Fund – To account for support to the school anti-drug program.

CAPITAL PROJECTS FUNDS

Street Construction Fund – To account for projects financed directly by the General Fund.

1999 CIP Bond Program Fund – To account for projects financed from the 1999 Capital Improvement Program.

2001 CIP Street Bond Program Fund – To account for street improvements financed by the 2001 bond referendum.

Wetlands Project Fund – To account for revenues and expenditures for the construction of wetlands in the City.

Drainage Mitigation Fund – To account for developer fees.

Convention Center Fund – To account for costs associated with the feasibility study for a new convention center.

INTERNAL SERVICE FUNDS

Equipment Acquisition and Replacement Fund – To account for the rental of equipment and motor vehicles to other departments, the purchase of new equipment and related costs.

Group Health Insurance Fund – To account for employer contributions, employee premiums and the cost of health expenditures for employees, retirees and dependents.

**CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2008**

	<u>SPECIAL REVENUE FUNDS</u>	<u>CAPITAL PROJECTS FUNDS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and cash equivalents	\$ 868,301	\$ 1,556,733	\$ 2,425,034
Investments	1,206,901	98,446	1,305,347
Receivables:			
Accounts	164,369	-	164,369
Other	238,603	545	239,148
Allowance for uncollectibles	(146,146)	-	(146,146)
Intergovernmental receivables	248,242	811,743	1,059,985
Total assets	<u>\$ 2,580,270</u>	<u>\$ 2,467,467</u>	<u>\$ 5,047,737</u>
 LIABILITIES			
Accounts payable	\$ 76,212	\$ 855,588	\$ 931,800
Due to other funds	327,590	-	327,590
Accrued compensated absences	4,487	-	4,487
Accrued liabilities	37,021	38,966	75,987
Deferred revenues	37,663	-	37,663
Total liabilities	<u>482,973</u>	<u>894,554</u>	<u>1,377,527</u>
 FUND BALANCES			
Unreserved, undesignated	<u>2,097,297</u>	<u>1,572,913</u>	<u>3,670,210</u>
Total fund balances	<u>2,097,297</u>	<u>1,572,913</u>	<u>3,670,210</u>
Total liabilities and fund balances	<u>\$ 2,580,270</u>	<u>\$ 2,467,467</u>	<u>\$ 5,047,737</u>

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

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues			
Other taxes	\$ 783,894	\$ -	\$ 783,894
Charges for services	523,584	-	523,584
Interest income	80,480	117,026	197,506
Intergovernmental	1,125,543	2,035,524	3,161,067
Other revenues	150,127	794,923	945,050
Total revenues	<u>2,663,628</u>	<u>2,947,473</u>	<u>5,611,101</u>
Expenditures			
Current:			
General government	94,443	-	94,443
Public safety	1,157,757	-	1,157,757
Public works	-	126,400	126,400
Cultural and recreation	1,276,374	-	1,276,374
Capital outlay:			
Cultural and recreation	-	1,389,604	1,389,604
Public works	-	5,112,998	5,112,998
Public safety	-	674,786	674,786
Total expenditures	<u>2,528,574</u>	<u>7,303,788</u>	<u>9,832,362</u>
Excess (deficiency) of revenues over (under) expenditures	<u>135,054</u>	<u>(4,356,315)</u>	<u>(4,221,261)</u>
Other Financing Sources (Uses)			
Transfers in	29,816	1,547,316	1,577,132
Transfers out	(832,641)	(598,413)	(1,431,054)
Total other financing sources (uses)	<u>(802,825)</u>	<u>948,903</u>	<u>146,078</u>
Net change in fund balances	(667,771)	(3,407,412)	(4,075,183)
Fund balances - beginning	<u>2,765,068</u>	<u>4,980,325</u>	<u>7,745,393</u>
Fund balances - ending	<u>\$ 2,097,297</u>	<u>\$ 1,572,913</u>	<u>\$ 3,670,210</u>

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

**CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2008**

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	FEMA FUNDED GRANTS FUND	POLICE SEIZED FUND	COURT SECURITY/ TECHNOLOGY FUND
ASSETS					
Cash and cash equivalents	\$ 89,245	\$ 337,586	\$ 2,114	\$ 122,149	\$ 50,580
Investments	59,776	720,584	-	50,000	-
Receivables:					
Accounts	-	-	-	-	162,384
Other	232,695	4,982	-	-	-
Allowance for uncollectibles	-	-	-	-	(146,146)
Intergovernmental receivables	6,615	-	241,627	-	-
Total assets	<u>\$ 388,331</u>	<u>\$ 1,063,152</u>	<u>\$ 243,741</u>	<u>\$ 172,149</u>	<u>\$ 66,818</u>
LIABILITIES					
Accounts payable	\$ 74,396	\$ 713	\$ 1	\$ 39	\$ 11
Due to other funds	-	-	327,590	-	-
Accrued compensated absences	4,487	-	-	-	-
Accrued liabilities	4,605	-	-	32,164	-
Deferred revenues	16,400	-	-	-	16,238
Total liabilities	<u>99,888</u>	<u>713</u>	<u>327,591</u>	<u>32,203</u>	<u>16,249</u>
FUND BALANCES					
Unreserved, undesignated	<u>288,443</u>	<u>1,062,439</u>	<u>(83,850)</u>	<u>139,946</u>	<u>50,569</u>
Total liabilities and fund balances	<u>\$ 388,331</u>	<u>\$ 1,063,152</u>	<u>\$ 243,741</u>	<u>\$ 172,149</u>	<u>\$ 66,818</u>

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

<u>POLICE GRANTS FUND</u>	<u>SPECIAL RECREATION FUND</u>	<u>INSURANCE LOSS FUND</u>	<u>ANIMAL CONTROL - KURTH GRANT FUND</u>	<u>POLICE DARE CONTRIBUTION GRANT FUND</u>
\$ 4,039	\$ 42,896	\$ 126,827	\$ 85,774	\$ 108
-	-	75,890	300,651	-
-	1,985	-	-	-
-	-	96	830	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 4,039</u>	<u>\$ 44,881</u>	<u>\$ 202,813</u>	<u>\$ 387,255</u>	<u>\$ 108</u>
\$ -	\$ 791	\$ 172	\$ 88	\$ -
-	-	-	-	-
-	-	-	-	-
-	252	-	-	-
3,039	1,986	-	-	-
<u>3,039</u>	<u>3,029</u>	<u>172</u>	<u>88</u>	<u>-</u>
<u>1,000</u>	<u>41,852</u>	<u>202,641</u>	<u>387,167</u>	<u>108</u>
<u>\$ 4,039</u>	<u>\$ 44,881</u>	<u>\$ 202,813</u>	<u>\$ 387,255</u>	<u>\$ 108</u>

Continued

**CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2008**

	<u>ANIMAL'S ATTIC GIFT SHOP FUND</u>	<u>TOTAL NONMAJOR SPECIAL REVENUE FUNDS</u>
ASSETS		
Cash and cash equivalents	\$ 6,983	\$ 868,301
Investments	-	1,206,901
Receivables:		
Accounts	-	164,369
Other	-	238,603
Allowance for uncollectibles	-	(146,146)
Intergovernmental receivables	-	248,242
Total assets	<u>\$ 6,983</u>	<u>\$ 2,580,270</u>
LIABILITIES		
Accounts payable	\$ 1	\$ 76,212
Due to other funds	-	327,590
Accrued compensated absences	-	4,487
Accrued liabilities	-	37,021
Deferred revenues	-	37,663
Total liabilities	<u>1</u>	<u>482,973</u>
FUND BALANCES		
Unreserved, undesignated	<u>6,982</u>	<u>2,097,297</u>
Total liabilities and fund balances	<u>\$ 6,983</u>	<u>\$ 2,580,270</u>

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



CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2008

	HOTEL/MOTEL TAX FUND	ZOO BUILDING FUND	FEMA FUNDED GRANTS FUND	POLICE SEIZED FUND	COURT SECURITY/ TECHNOLOGY FUND
Revenues					
Other taxes	\$ 783,894	\$ -	\$ -	\$ -	\$ -
Charges for services	136,030	226,465	-	-	-
Intergovernmental	169,282	-	727,930	-	-
Other revenues	64	10,000	-	15,013	50,949
Interest income	6,123	46,350	6,089	5,270	(264)
Total revenues	<u>1,095,393</u>	<u>282,815</u>	<u>734,019</u>	<u>20,283</u>	<u>50,685</u>
Expenditures					
Current:					
General government	-	-	-	-	-
Public safety	-	-	1,127,204	6,707	21,575
Cultural and recreation	1,061,548	50,406	-	-	-
Total expenditures	<u>1,061,548</u>	<u>50,406</u>	<u>1,127,204</u>	<u>6,707</u>	<u>21,575</u>
Excess (deficiency) of revenues over (under) expenditures	<u>33,845</u>	<u>232,409</u>	<u>(393,185)</u>	<u>13,576</u>	<u>29,110</u>
Other Financing Sources (Uses)					
Transfers in	-	-	29,816	-	-
Transfers out	-	(654,316)	-	(6,287)	(47,038)
Total other financing sources (uses)	<u>-</u>	<u>(654,316)</u>	<u>29,816</u>	<u>(6,287)</u>	<u>(47,038)</u>
Net change in fund balances	33,845	(421,907)	(363,369)	7,289	(17,928)
Fund balances - beginning	<u>254,598</u>	<u>1,484,346</u>	<u>279,519</u>	<u>132,657</u>	<u>68,497</u>
Fund balances - ending	<u>\$ 288,443</u>	<u>\$ 1,062,439</u>	<u>\$ (83,850)</u>	<u>\$ 139,946</u>	<u>\$ 50,569</u>

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

<u>POLICE GRANTS FUND</u>	<u>SPECIAL RECREATION FUND</u>	<u>INSURANCE LOSS FUND</u>	<u>ANIMAL CONTROL - KURTH GRANT FUND</u>	<u>POLICE DARE CONTRIBUTION GRANT FUND</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	161,089	-	-	-
-	-	-	228,331	-
3,000	-	66,197	-	-
-	1,553	7,542	7,698	3
<u>3,000</u>	<u>162,642</u>	<u>73,739</u>	<u>236,029</u>	<u>3</u>
-	-	94,443	-	-
2,000	-	-	-	-
-	164,420	-	-	-
<u>2,000</u>	<u>164,420</u>	<u>94,443</u>	<u>-</u>	<u>-</u>
<u>1,000</u>	<u>(1,778)</u>	<u>(20,704)</u>	<u>236,029</u>	<u>3</u>
-	-	-	-	-
-	-	-	(125,000)	-
-	-	-	(125,000)	-
1,000	(1,778)	(20,704)	111,029	3
-	43,630	223,345	276,138	105
<u>\$ 1,000</u>	<u>\$ 41,852</u>	<u>\$ 202,641</u>	<u>\$ 387,167</u>	<u>\$ 108</u>

Continued

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2008

	<u>ANIMAL'S ATTIC GIFT SHOP FUND</u>	<u>TOTAL NONMAJOR SPECIAL REVENUE FUNDS</u>
Revenues		
Other taxes	\$ -	\$ 783,894
Charges for services	-	523,584
Intergovernmental	-	1,125,543
Other revenues	4,904	150,127
Interest income	116	80,480
Total revenues	<u>5,020</u>	<u>2,663,628</u>
Expenditures		
Current:		
General government	-	94,443
Public safety	271	1,157,757
Cultural and recreation	-	1,276,374
Total expenditures	<u>271</u>	<u>2,528,574</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,749</u>	<u>135,054</u>
Other Financing Sources (Uses)		
Transfers in	-	29,816
Transfers out	-	(832,641)
Total other financing sources (uses)	<u>-</u>	<u>(802,825)</u>
Net change in fund balances	4,749	(667,771)
Fund balances - beginning	<u>2,233</u>	<u>2,765,068</u>
Fund balances - ending	<u>\$ 6,982</u>	<u>\$ 2,097,297</u>

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



**CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
September 30, 2008**

	STREET CONSTRUCTION FUND	1999 CIP BOND PROGRAM FUND	2001 CIP STREET BOND PROGRAM PROGRAM	WETLANDS PROJECT FUND	DRAINAGE MITIGATION FUND
ASSETS					
Cash and cash equivalents	\$ 509,686	\$ 195,306	\$ 519,432	\$ -	\$ 30,698
Investments	-	-	98,446	-	-
Receivables:					
Other	-	-	545	-	-
Intergovernmental	-	772,777	-	-	-
Total assets	<u>\$ 509,686</u>	<u>\$ 968,083</u>	<u>\$ 618,423</u>	<u>\$ -</u>	<u>\$ 30,698</u>
LIABILITIES					
Accounts payable	\$ -	\$ 459,209	\$ 158,408	\$ -	\$ 7
Accrued liabilities					
Total liabilities	<u>-</u>	<u>459,209</u>	<u>158,408</u>	<u>-</u>	<u>7</u>
FUND BALANCES					
Unreserved, undesignated	<u>509,686</u>	<u>508,874</u>	<u>460,015</u>	<u>-</u>	<u>30,691</u>
Total liabilities and fund balances	<u>\$ 509,686</u>	<u>\$ 968,083</u>	<u>\$ 618,423</u>	<u>\$ -</u>	<u>\$ 30,698</u>

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

ZOO EDUCATION CENTER FUND	CONVENTION CENTER FUND	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
\$ 301,611	\$ -	\$ 1,556,733
-	-	98,446
-	-	545
-	38,966	811,743
<u>\$ 301,611</u>	<u>\$ 38,966</u>	<u>\$ 2,467,467</u>
\$ 237,964	\$ -	\$ 855,588
	38,966	38,966
<u>237,964</u>	<u>38,966</u>	<u>894,554</u>
<u>63,647</u>	<u>-</u>	<u>1,572,913</u>
<u>\$ 301,611</u>	<u>\$ 38,966</u>	<u>\$ 2,467,467</u>

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
For The Year Ended September 30, 2008

	STREET CONSTRUCTION FUND	1999 CIP BOND PROGRAM FUND	2001 CIP STREET BOND PROGRAM PROGRAM	WETLANDS PROJECT FUND	DRAINAGE MITIGATION FUND
Revenues					
Interest income	\$ -	\$ 65,149	\$ 32,302	\$ 111	\$ 954
Other revenues	-	35,273	-	-	-
Intergovernmental	-	2,014,749	-	-	-
Total revenues	<u>-</u>	<u>2,115,171</u>	<u>32,302</u>	<u>111</u>	<u>954</u>
Expenditures					
Public works	126,400	-	-	-	-
Capital outlay:					
Cultural and recreation	-	-	-	-	-
Street	110,486	3,628,796	1,373,716	-	-
Fire	-	674,786	-	-	-
Total expenditures	<u>236,886</u>	<u>4,303,582</u>	<u>1,373,716</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of of revenues over (under) expenditures	<u>(236,886)</u>	<u>(2,188,411)</u>	<u>(1,341,414)</u>	<u>111</u>	<u>954</u>
Other Financing Sources (Uses)					
Transfers in	513,000	-	380,000	-	-
Transfers out	(214,080)	(380,000)	-	(4,333)	-
Total other financing sources (uses)	<u>298,920</u>	<u>(380,000)</u>	<u>380,000</u>	<u>(4,333)</u>	<u>-</u>
Net change in fund balances	62,034	(2,568,411)	(961,414)	(4,222)	954
Fund balances - beginning	<u>447,652</u>	<u>3,077,285</u>	<u>1,421,429</u>	<u>4,222</u>	<u>29,737</u>
Fund balances - ending	<u>\$ 509,686</u>	<u>\$ 508,874</u>	<u>\$ 460,015</u>	<u>\$ -</u>	<u>\$ 30,691</u>

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

ZOO EDUCATION CENTER FUND	CONVENTION CENTER FUND	TOTAL NONMAJOR CAPITAL PROJECT FUNDS
\$ 18,510	\$ -	\$ 117,026
759,650	-	794,923
-	20,775	2,035,524
<u>778,160</u>	<u>20,775</u>	<u>2,947,473</u>
-	-	126,400
1,368,829	20,775	1,389,604
-	-	5,112,998
-	-	674,786
<u>1,368,829</u>	<u>20,775</u>	<u>7,303,788</u>
<u>(590,669)</u>	<u>-</u>	<u>(4,356,315)</u>
654,316	-	1,547,316
-	-	(598,413)
<u>654,316</u>	<u>-</u>	<u>948,903</u>
63,647	-	(3,407,412)
-	-	4,980,325
<u>\$ 63,647</u>	<u>\$ -</u>	<u>\$ 1,572,913</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
WATER AND SEWER UTILITY ENTERPRISE FUND
For The Year Ended September 30, 2008

Utility collections:	
Payroll costs	\$ 537,712
Supplies	305,919
Maintenance of equipment	13,973
Miscellaneous services	244,746
Total utility collections	<u>1,102,350</u>
 Water utilities:	
Payroll costs	748,818
Supplies	118,400
Maintenance of equipment	461,323
Miscellaneous services	119,596
Total water utilities	<u>1,448,137</u>
 Wastewater treatment plant:	
Payroll costs	874,959
Supplies	216,370
Maintenance of equipment	212,109
Miscellaneous services	753,688
Total wastewater treatment plant	<u>2,057,126</u>
 Water production:	
Payroll costs	77,135
Supplies	268,402
Maintenance of equipment	546,072
Miscellaneous services	1,505,894
Total water production	<u>2,397,503</u>
 Sewer utilities:	
Payroll costs	912,175
Supplies	226,261
Maintenance of equipment	411,800
Miscellaneous services	388,147
Total sewer utilities	<u>1,938,383</u>
 Depreciation and amortization	1,538,870
General and administrative	1,793,541
Non-departmental	354,028
Total operating expenses	<u>\$ 12,629,938</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
SOLID WASTE DISPOSAL ENTERPRISE FUND
For The Year Ended September 30, 2008

Assistant city manager:	
Payroll costs	\$ 174,964
Supplies	5,134
Maintenance of equipment	-
Miscellaneous services	17,816
Sundry charges	-
Total assistant city manager	<u>197,914</u>
 Sanitation:	
Payroll costs	1,081,519
Supplies	1,435,861
Maintenance of equipment	175,119
Miscellaneous services	2,124,123
Total sanitation	<u>4,816,622</u>
 Recycling:	
Payroll costs	229,448
Supplies	36,167
Maintenance of equipment	69,349
Miscellaneous services	157,000
Total recycling	<u>491,964</u>
 Depreciation and amortization	270,020
General and administrative	1,177,921
Non-departmental	208,729
Total operating expenses	<u>\$ 7,163,170</u>

CITY OF LUFKIN, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Ad valorem taxes	\$ 3,377,219	\$ 3,377,219	\$ 3,394,093	\$ 16,874
Interest income	120,000	120,000	116,708	(3,292)
Total revenues	<u>3,497,219</u>	<u>3,497,219</u>	<u>3,510,801</u>	<u>13,582</u>
Expenditures				
Debt service:				
Principal:				
1998 certificates of obligation	175,000	175,000	175,000	-
1999 certificates of obligation	175,000	175,000	175,000	-
2002 certificates of obligation	75,000	75,000	75,000	-
2002 general obligation bonds	375,000	375,000	375,000	-
2002 general obligation refunding bonds	1,240,000	1,240,000	1,240,000	-
2003 general obligation bonds	125,000	125,000	125,000	-
2003 certificates of obligation	50,000	50,000	50,000	-
2004 certificates of obligation	275,000	275,000	275,000	-
2006 general obligation refunding bonds	765,000	765,000	765,000	-
2007 general obligation bonds	55,000	55,000	55,000	-
2007 certificates of obligation	745,000	745,000	745,000	-
Total principal	<u>4,055,000</u>	<u>4,055,000</u>	<u>4,055,000</u>	<u>-</u>
Interest:				
1998 certificates of obligation	163,150	163,150	163,150	-
1999 certificates of obligation	178,012	178,012	51,586	126,426
2002 certificates of obligation	91,570	91,570	91,570	-
2002 general obligation bonds	389,624	389,624	318,374	71,250
2002 general obligation refunding bonds	153,691	153,691	153,691	-
2003 general obligation bonds	144,926	144,926	144,926	-
2003 certificates of obligation	69,850	69,850	69,850	-
2004 certificates of obligation	314,144	314,144	314,144	-
2006 general obligation refunding	352,842	352,842	352,842	-
2007 general obligation bonds	78,326	78,326	78,326	-
2007 certificates of obligation	253,244	253,244	253,244	-
Total interest	<u>2,189,379</u>	<u>2,189,379</u>	<u>1,991,703</u>	<u>197,676</u>
Bond issuance costs and paying agent fees	10,550	10,550	7,558	2,992
Total expenditures	<u>6,254,929</u>	<u>6,254,929</u>	<u>6,054,261</u>	<u>200,668</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,757,710)</u>	<u>(2,757,710)</u>	<u>(2,543,460)</u>	<u>214,250</u>
Other Financing Sources (Uses)				
Transfers in	1,761,574	1,761,574	1,761,574	-
Total other financing sources (uses)	<u>1,761,574</u>	<u>1,761,574</u>	<u>1,761,574</u>	<u>-</u>
Net change in fund balances	(996,136)	(996,136)	(781,886)	214,250
Fund balances - beginning	2,363,799	2,363,799	2,363,799	-
Fund balances - ending	<u>\$ 1,367,663</u>	<u>\$ 1,367,663</u>	<u>\$ 1,581,913</u>	<u>\$ 214,250</u>

CITY OF LUFKIN, TEXAS
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Other taxes	\$ 570,000	\$ 640,000	\$ 783,894	\$ 143,894
Charges for services	114,200	114,200	136,030	21,830
Intergovernmental	-	162,553	169,282	6,729
Other revenue	-	4,000	64	(3,936)
Interest income	3,000	3,000	6,123	3,123
Total revenues	<u>687,200</u>	<u>923,753</u>	<u>1,095,393</u>	<u>171,640</u>
Expenditures				
Current:				
Cultural and recreation	<u>766,788</u>	<u>1,082,658</u>	<u>1,061,548</u>	<u>21,110</u>
Total expenditures	<u>766,788</u>	<u>1,082,658</u>	<u>1,061,548</u>	<u>21,110</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(79,588)</u>	<u>(158,905)</u>	<u>33,845</u>	<u>192,750</u>
Other Financing Sources (Uses)				
Transfers in	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Net change in fund balances	(54,588)	(133,905)	33,845	167,750
Fund balances - beginning	<u>254,598</u>	<u>254,598</u>	<u>254,598</u>	<u>-</u>
Fund balances - ending	<u>\$ 200,010</u>	<u>\$ 120,693</u>	<u>\$ 288,443</u>	<u>\$ 167,750</u>

CITY OF LUFKIN, TEXAS
ZOO BUILDING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Charges for services	\$ 217,000	\$ 217,000	\$ 226,465	\$ 9,465
Other revenue	-	-	10,000	10,000
Interest income	30,000	30,000	46,350	16,350
Total revenues	<u>247,000</u>	<u>247,000</u>	<u>282,815</u>	<u>35,815</u>
Expenditures				
Current:				
Cultural and recreation	119,700	72,700	50,406	22,294
Total expenditures	<u>119,700</u>	<u>72,700</u>	<u>50,406</u>	<u>22,294</u>
Excess (deficiency) of revenues over (under) expenditures	<u>127,300</u>	<u>174,300</u>	<u>232,409</u>	<u>58,109</u>
Other Financing Sources (Uses)				
Transfers out	-	(654,316)	(654,316)	-
Total other financing sources (uses)	<u>-</u>	<u>(654,316)</u>	<u>(654,316)</u>	<u>-</u>
Net change in fund balances	127,300	(480,016)	(421,907)	58,109
Fund balances - beginning	<u>1,484,346</u>	<u>1,484,346</u>	<u>1,484,346</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,611,646</u>	<u>\$ 1,004,330</u>	<u>\$ 1,062,439</u>	<u>\$ 58,109</u>

CITY OF LUFKIN, TEXAS
FEMA FUNDED GRANTS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Intergovernmental	\$ -	\$ 1,072,658	\$ 727,930	\$ (344,728)
Interest income	-	-	6,089	6,089
Total revenues	<u>-</u>	<u>1,072,658</u>	<u>734,019</u>	<u>(338,639)</u>
Expenditures				
Current:				
Public safety	-	1,377,474	1,127,204	250,270
Total expenditures	<u>-</u>	<u>1,377,474</u>	<u>1,127,204</u>	<u>250,270</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(304,816)</u>	<u>(393,185)</u>	<u>(88,369)</u>
Other Financing Sources (Uses)				
Transfers in	-	29,816	29,816	-
Total other financing sources (uses)	<u>-</u>	<u>29,816</u>	<u>29,816</u>	<u>-</u>
Net change in fund balances	-	(275,000)	(363,369)	(88,369)
Fund balances - beginning	<u>279,519</u>	<u>279,519</u>	<u>279,519</u>	<u>-</u>
Fund balances - ending	<u>\$ 279,519</u>	<u>\$ 4,519</u>	<u>\$ (83,850)</u>	<u>\$ (88,369)</u>

CITY OF LUFKIN, TEXAS
COURT SECURITY/TECHNOLOGY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Interest income	\$ 2,500	\$ 2,500	\$ (264)	\$ (2,764)
Other revenues	46,000	46,000	50,949	4,949
Total revenues	<u>48,500</u>	<u>48,500</u>	<u>50,685</u>	<u>2,185</u>
Expenditures				
Current:				
Public safety	28,480	29,200	21,575	7,625
Total expenditures	<u>28,480</u>	<u>29,200</u>	<u>21,575</u>	<u>7,625</u>
Excess (deficiency) of revenues over (under) expenditures	<u>20,020</u>	<u>19,300</u>	<u>29,110</u>	<u>9,810</u>
Other Financing Sources (Uses)				
Transfers out	(47,038)	(47,038)	(47,038)	-
Total other financing sources (uses)	<u>(47,038)</u>	<u>(47,038)</u>	<u>(47,038)</u>	<u>-</u>
Net change in fund balances	(27,018)	(27,738)	(17,928)	9,810
Fund balances - beginning	<u>68,497</u>	<u>68,497</u>	<u>68,497</u>	<u>-</u>
Fund balances - ending	<u>\$ 41,479</u>	<u>\$ 40,759</u>	<u>\$ 50,569</u>	<u>\$ 9,810</u>

CITY OF LUFKIN, TEXAS
SPECIAL RECREATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Charges for services	\$ 182,075	\$182,075	\$ 161,089	\$ (20,986)
Interest income	800	800	1,553	753
Total revenues	<u>182,875</u>	<u>182,875</u>	<u>162,642</u>	<u>(20,233)</u>
Expenditures				
Current:				
Cultural and recreation	<u>181,395</u>	<u>184,565</u>	<u>164,420</u>	<u>20,145</u>
Total expenditures	<u>181,395</u>	<u>184,565</u>	<u>164,420</u>	<u>20,145</u>
Net change in fund balances	1,480	(1,690)	(1,778)	(88)
Fund balances - beginning	<u>43,630</u>	<u>43,630</u>	<u>43,630</u>	<u>-</u>
Fund balances - ending	<u>\$ 45,110</u>	<u>\$ 41,940</u>	<u>\$ 41,852</u>	<u>\$ (88)</u>

CITY OF LUFKIN, TEXAS
ANIMAL CONTROL-KURTH GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Intergovernmental	\$ 120,000	\$ 190,000	\$ 228,331	\$ 38,331
Interest income	3,000	3,000	7,698	4,698
Total revenues	<u>123,000</u>	<u>193,000</u>	<u>236,029</u>	<u>43,029</u>
Expenditures				
Current:				
Public safety	85,000	211,652	-	211,652
Total expenditures	<u>85,000</u>	<u>211,652</u>	<u>-</u>	<u>211,652</u>
Excess (deficiency) of revenues over (under) expenditures	<u>38,000</u>	<u>(18,652)</u>	<u>236,029</u>	<u>254,681</u>
Other Financing Sources (Uses)				
Transfers out	(125,000)	(125,000)	(125,000)	-
Total other financing sources (uses)	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Net change in fund balances	(87,000)	(143,652)	111,029	254,681
Fund balances - beginning	<u>276,138</u>	<u>276,138</u>	<u>276,138</u>	<u>-</u>
Fund balances - ending	<u>\$ 189,138</u>	<u>\$ 132,486</u>	<u>\$ 387,167</u>	<u>\$ 254,681</u>

CITY OF LUFKIN, TEXAS
ANIMAL'S ATTIC GIFT SHOP SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Other revenues	\$ 3,000	\$ 3,000	\$ 4,904	\$ 1,904
Interest income	400	400	116	(284)
Total revenues	<u>3,400</u>	<u>3,400</u>	<u>5,020</u>	<u>1,620</u>
Expenditures				
Current:				
Public safety	1,200	1,200	271	929
Total expenditures	<u>1,200</u>	<u>1,200</u>	<u>271</u>	<u>929</u>
Net change in fund balances	2,200	2,200	4,749	2,549
Fund balances - beginning	<u>2,233</u>	<u>2,233</u>	<u>2,233</u>	<u>-</u>
Fund balances - ending	<u>\$ 4,433</u>	<u>\$ 4,433</u>	<u>\$ 6,982</u>	<u>\$ 2,549</u>

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2008

	<u>GROUP HEALTH INSURANCE</u>	<u>EQUIPMENT ACQUISITION AND REPLACEMENT</u>	<u>TOTAL</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 191,461	\$ 381,619	\$ 573,080
Investments	250,000	807,124	1,057,124
Accounts receivable (net of allowance for uncollectibles)	48,497	769	49,266
Total current assets	<u>489,958</u>	<u>1,189,512</u>	<u>1,679,470</u>
Capital assets:			
Machinery and equipment	-	822,973	822,973
Vehicles	-	3,205,526	3,205,526
Less accumulated depreciation	-	<u>(757,379)</u>	<u>(757,379)</u>
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>3,271,120</u>	<u>3,271,120</u>
Total assets	<u>489,958</u>	<u>4,460,632</u>	<u>4,950,590</u>
LIABILITIES			
Current liabilities:			
Accounts/claims payable	389,363	270	389,633
Accrued liabilities	6,509	-	6,509
Total current liabilities	<u>395,872</u>	<u>270</u>	<u>396,142</u>
Total liabilities	<u>395,872</u>	<u>270</u>	<u>396,142</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	3,271,120	3,271,120
Unrestricted	94,086	1,189,242	1,283,328
Total net assets	<u>\$ 94,086</u>	<u>\$ 4,460,362</u>	<u>\$ 4,554,448</u>

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

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
For The Year Ended September 30, 2008

	<u>GROUP HEALTH INSURANCE</u>	<u>EQUIPMENT ACQUISITION AND REPLACEMENT</u>	<u>TOTAL</u>
Operating Revenues:			
Employee premiums	\$ 711,050	\$ -	\$ 711,050
Employer premiums	2,265,000	-	2,265,000
Equipment rental	-	1,600,436	1,600,436
Miscellaneous	282,926	1,005	283,931
Total operating revenues	<u>3,258,976</u>	<u>1,601,441</u>	<u>4,860,417</u>
Operating Expenses:			
Insurance claims and related expenses	3,465,228	-	3,465,228
Public works	-	7,729	7,729
Depreciation and amortization	-	610,925	610,925
Total operating expenses	<u>3,465,228</u>	<u>618,654</u>	<u>4,083,882</u>
Operating income (loss)	<u>(206,252)</u>	<u>982,787</u>	<u>776,535</u>
Nonoperating Revenues (Expenses):			
Interest income	62,879	62,776	125,655
Total nonoperating revenues (expenses)	<u>62,879</u>	<u>62,776</u>	<u>125,655</u>
Income (loss) before transfers	(143,373)	1,045,563	902,190
Transfers in	177,000	181,099	358,099
Transfers out	-	-	-
Change in net assets	<u>33,627</u>	<u>1,226,662</u>	<u>1,260,289</u>
Total net assets - beginning	60,459	3,233,700	3,294,159
Total net assets - ending	<u>\$ 94,086</u>	<u>\$ 4,460,362</u>	<u>\$ 4,554,448</u>

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

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For The Year Ended September 30, 2008

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
Cash Flows From Operating Activities:			
Receipts from customers and users	\$ 945,479	\$ -	\$ 945,479
Receipts from interfund services provided	2,265,000	1,601,441	3,866,441
Payments to suppliers	<u>(3,426,036)</u>	<u>(7,826)</u>	<u>(3,433,862)</u>
Net cash provided by (used by) operating activities	<u>(215,557)</u>	<u>1,593,615</u>	<u>1,378,058</u>
Cash Flows From Noncapital Financing Activities:			
Transfer from other funds	<u>177,000</u>	<u>181,099</u>	<u>358,099</u>
Net cash provided by noncapital and financing activities	<u>177,000</u>	<u>181,099</u>	<u>358,099</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	<u>-</u>	<u>(2,520,000)</u>	<u>(2,520,000)</u>
Net cash used by capital and related financing activities	<u>-</u>	<u>(2,520,000)</u>	<u>(2,520,000)</u>
Cash Flows From Investing Activities:			
Proceeds from sale and maturities of investments	848,130	1,896,999	2,745,129
Purchase of investments	(740,200)	(1,396,000)	(2,136,200)
Interest and dividends received	64,106	62,550	126,656
Net cash provided by investing activities	<u>172,036</u>	<u>563,549</u>	<u>735,585</u>
Net increase (decrease) in cash and cash equivalents	133,479	(181,737)	(48,258)
Cash and cash equivalents - beginning	57,982	563,356	621,338
Cash and cash equivalents - ending	<u>\$ 191,461</u>	<u>\$ 381,619</u>	<u>\$ 573,080</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:			
Operating income (loss)	<u>\$ (206,252)</u>	<u>\$ 982,787</u>	<u>\$ 776,535</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	610,925	610,925
(Increase) in accounts receivable	(48,497)	-	(48,497)
Increase (decrease) in accounts/claims payable	38,902	(97)	38,805
Increase in accrued liabilities	290	-	290
Total adjustments	<u>(9,305)</u>	<u>610,828</u>	<u>601,523</u>
Net cash provided by (used by) operating activities	<u>\$ (215,557)</u>	<u>\$ 1,593,615</u>	<u>\$ 1,378,058</u>

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