

City of Lufkin, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2008

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

**CITY OF LUFKIN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

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INTRODUCTORY SECTION



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January 22, 2009

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

The comprehensive annual financial report of the City of Lufkin, Texas for the fiscal year ended September 30, 2008 is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the City of Lufkin issue annually a report on its financial position and activities in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

Alexander, Lankford & Hiers, Inc., Certified Public Accountants, have issued an unqualified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2008. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

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

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

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

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

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

Local economy

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

The 1990 census recorded Lufkin's population at 30,206 and Angelina County's population at 69,884. The 2000 census reflects Lufkin's current population at 32,709 and the county's population at 80,130. The unemployment rate for the City, as of September 2008, according to Texas Workforce statistics, is 4.6 percent compared to a 4.8 percent unemployment rate for Angelina County and 5.2 percent for the state. The national unemployment rate is 6.0%.

Long-term financial planning

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

- Improve drainage and correct problems within the City of Lufkin.
 - Complete drainage study of all watersheds within the city limits and extraterritorial jurisdiction.
 - Implement drainage study results:
 - Drainage detention system
 - Design and acquire property for three detention ponds by summer 2002 (complete).
- Develop and implement improvements for better mobility within the city.
 - Conduct inventory of all streets and classify by quality standards of the Street Improvement Plan (complete summer 2002).
 - Prepare recommendations and submit to Council.
 - Implement street improvements as approved by City Council in fiscal 2000.
 - Implement improvements to the central business district that were approved in the TEA 21 grant award (complete).
 - Implement plans and construct streets approved in the May 2001 street bond election (95% complete).
- Provide safe, secure environment to Lufkin citizens.
 - Maintain vehicular rotation schedule for public safety vehicles.
 - Replace fire rescue pumpers (complete) and maintain rotation schedule for ambulance replacements through capital improvement planning.
 - Expand community and neighborhood policing projects on an ongoing basis.
 - Coordinate with Angelina College in developing a fire academy for training new personnel (complete).
- Establish reliable, broad based communications for public safety and citizen information purposes.
 - Upgrade and replace the current police communications system (complete).
 - Complete the update of each City department's web site (complete). Develop Internet web based uses for citizen utilization to include online building permitting, inquiry and payment of utility accounts (complete), recreation class schedules, fine payments (complete).

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

Financial Policies

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

At September 30, 2008 the City of Lufkin has accumulated the following amounts in support of these policies:

<u>FUND</u>	<u>POLICY AMOUNT</u>	<u>FUND TOTAL</u>
Governmental Funds:		
General Fund - 25%	\$ 7,076,647	\$ 11,300,753
Hotel/Motel Tax Fund - 12.5%	104,286	834,292
Recreation Fund - 12.5%	23,323	186,580
Proprietary Funds:		
Water/Wastewater Fund - 12.5%	1,835,207	14,681,658
Solid Waste/Recycling Fund - 12.5%	783,363	6,266,900

Major initiatives

City management has completed comprehensive analysis of the rolling stock, developed a fleet services and replacement policy that has been adopted by City Council. This project resulted in developing a planned replacement of the vehicles and equipment used in our daily operation. High cost, long life equipment such as fire trucks and road equipment will be funded separately. During FY 2008 the City purchased \$2,520,000 in replacement equipment and is planning to replace approximately \$1.04 million of equipment in FY 2009.

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

A new fire station was constructed during FY 2008 and provides quicker and safer access to the major hospital/medical developments in the area and a safer response onto Loop 287. The new location allows a better response to residential, commercial and industrial areas of the City. The new station houses a new aerial platform truck acquired with a 90% Homeland Security Grant. The new fire station cost \$1,104,000 and the total cost of the new fire truck was \$640,000. In addition, a new fire pumper was purchased at a cost of \$313,337.

The Solid Waste/Recycling Fund is constructing a new warehouse and fleet maintenance facility at an estimated cost of \$1,754,000. At September 30, 2008 the facility was 95% complete.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lufkin, Texas for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2007. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated July 12, 2007. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device.

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

Respectively submitted,



Paul L. Parker
City Manager



Douglas R. Wood
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lufkin
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

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



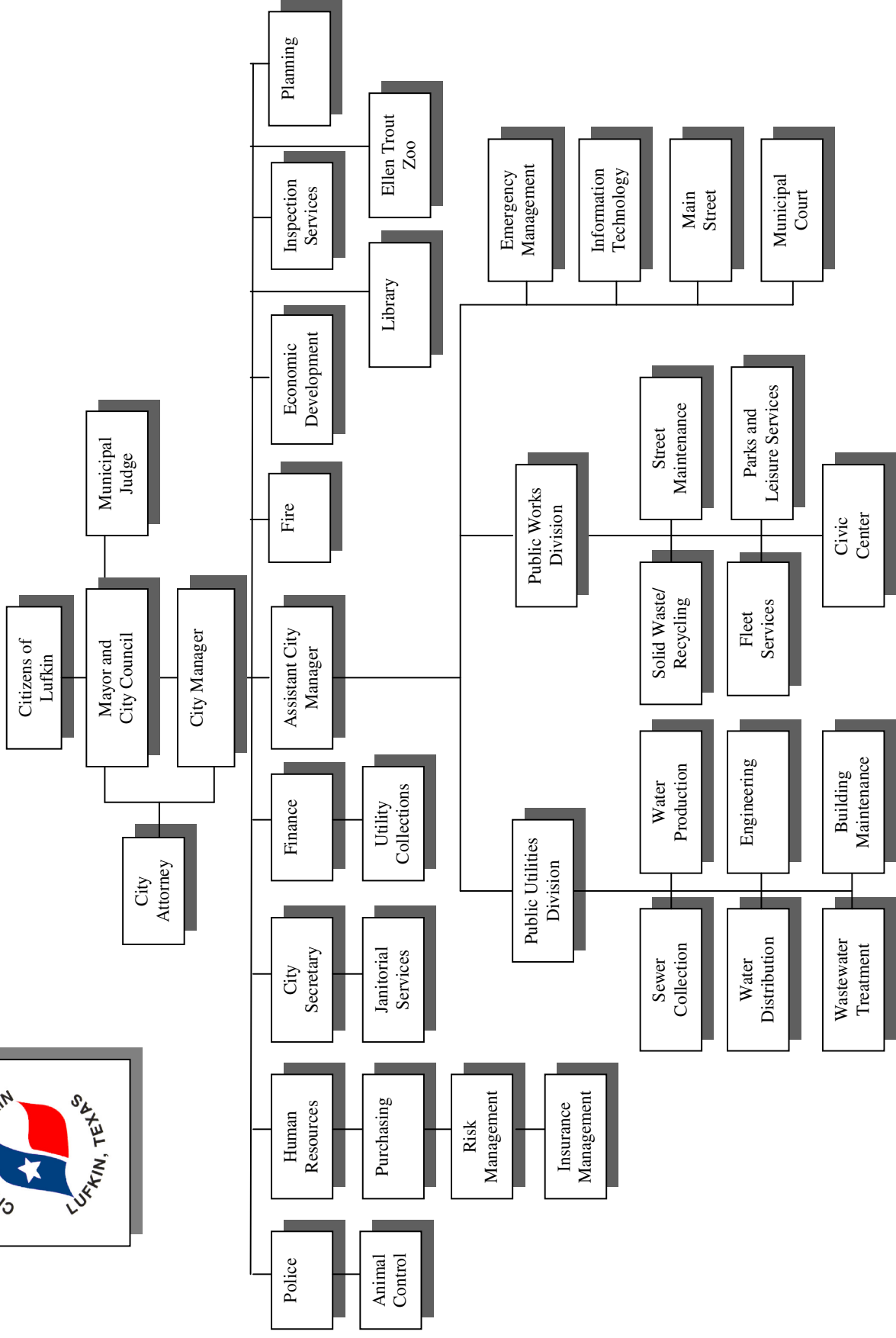
A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

**CITY OF LUFKIN, TEXAS
ORGANIZATION CHART**



**City of Lufkin, Texas
List of Principal Officials
September 30, 2008**

Governing Body

Honorable Jack Gorden, Jr., Mayor

City Council

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

Other Principal Officials

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

FINANCIAL SECTION

Wilbur E. Alexander, CPA
Ted A. Lankford, CPA
Glenda J. Hiers, CPA
Richard A. Rudel, CPA
Chris F. Wethington, CPA
Yvette Sidnell, CPA
Jennifer L. Webster, CPA
Selena Mitchell, CPA



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lufkin, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental and internal service funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of City of Lufkin, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service fund of City of Lufkin, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009 on our consideration of City of Lufkin, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 12 through 21 and 66 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Alexander, Lankford & Hiers, Inc.

ALEXANDER, LANKFORD & HIERS, INC
Certified Public Accounts
Lufkin, Texas
January 22, 2009



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Management's Discussion and Analysis

As management of the City of Lufkin, Texas, we offer readers of the City of Lufkin's financial statements this narrative overview and analysis of the financial activities of the City of Lufkin (City) for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$125,774 (*net assets*). Of this amount, \$10,892 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,553, a decrease of \$5,019 from the prior year. The decrease is the result of the expenditure of long-term debt for capital assets and retirement of debt from the debt service fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,156 or 37% of total general fund expenditures.
- The City's total debt decreased by \$1,885 (3.1%) during the fiscal year. The key factors in this decrease were \$4,055 for the retirement of general obligation debt, \$715 for the retirement of revenue supported debt, lease principal payments of \$86, with increases in net pension obligation of \$463, notes payable of \$1,146 and the issuance of \$1,075 in revenue bonds.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all

or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, culture and recreation, planning and community development, and public works. The business-type activities of the City include water and sewer service and solid waste/recycling service.

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$125,774 at the close of fiscal year 2008.

By far the largest portion of the City's net assets (83%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lufkin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lufkin's Combined Net Assets

	Governmental activities		Business-type activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 24,379	\$ 28,174	\$ 18,025	\$ 23,857	\$ 42,404	\$ 52,031
Capital assets	93,029	83,990	56,724	51,169	149,753	135,159
Total assets	<u>117,408</u>	<u>112,164</u>	<u>74,749</u>	<u>75,026</u>	<u>192,157</u>	<u>187,190</u>
Long-term liabilities outstanding	47,274	49,890	12,217	11,495	59,491	61,385
Other liabilities	4,797	3,064	2,095	2,255	6,892	5,319
Total liabilities	<u>52,071</u>	<u>52,954</u>	<u>14,312</u>	<u>13,750</u>	<u>66,383</u>	<u>66,704</u>
Net assets:						
Invested in capital assets, net of related debt	59,651	37,214	44,884	40,063	104,535	77,277
Restricted	3,155	7,344	7,192	8,515	10,347	15,859
Unrestricted	2,531	14,651	8,361	12,698	10,892	27,349
Total net assets	<u>\$ 65,337</u>	<u>\$ 59,209</u>	<u>\$ 60,437</u>	<u>\$ 61,276</u>	<u>\$ 125,774</u>	<u>\$ 120,485</u>

An additional portion of the City's net assets (8.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$10,892 may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was a decrease of \$4,189 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this decrease resulted from the decrease in unspent debt proceeds in capital projects funds. There was a decrease of \$1,323 in restricted net assets of the business-type activities due to the expenditure of capital project and renewal and replacement funds on various projects.

The government's total net assets increased by \$5,289 during the current fiscal year. This increase is attributable to the additional investment in capital assets of \$14,594; a decrease in restricted assets of \$782 for governmental activities debt services and an increase in restricted assets of \$70 for business-type activities debt services; a decrease in restricted assets of \$3,407 for construction of capital assets in the governmental-type activities and a decrease of \$519 for construction of capital assets in the business-type activities; and a decrease in restricted assets of \$874 for renewal and replacement of assets in the business-type activities.

Governmental activities. Governmental activities increased the City of Lufkin's net assets by \$6,128 accounting for 115.9% of the total growth in the net assets of the City. Key elements of this increase are as follows:

City of Lufkin's Change in Net Assets

Change in Net Assets-Schedule

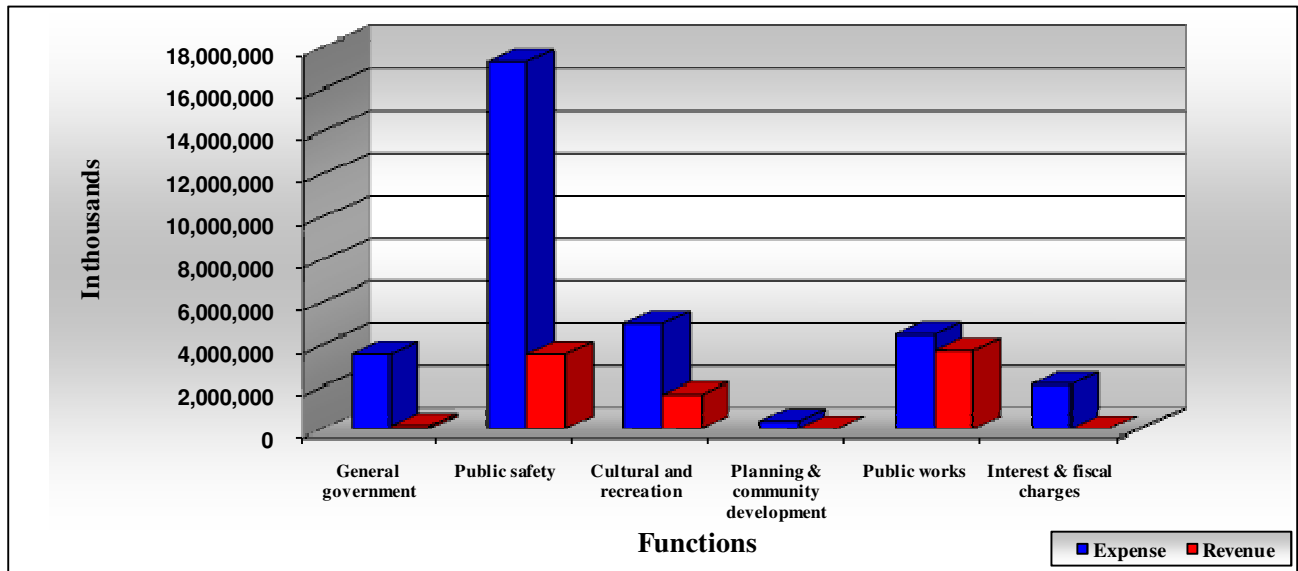
	Governmental activities		Business-type activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 4,825	\$ 4,047	\$ 19,932	\$ 18,991	\$ 24,757	\$ 23,038
Operating grants and contributions	1,936	292	48	-	1,984	292
Capital grants and contributions	2,308	18	-	1	2,308	19
General revenues:						
Property taxes	9,358	8,874	-	-	9,358	8,874
Other taxes	14,059	13,805	-	-	14,059	13,805
Other	3,439	3,386	727	1,148	4,166	4,534
Total revenues	<u>35,925</u>	<u>30,422</u>	<u>20,707</u>	<u>20,140</u>	<u>56,632</u>	<u>50,562</u>
Expenses:						
General government	3,572	2,457	-	-	3,572	2,457
Public safety	17,327	15,492	-	-	17,327	15,492
Cultural and recreation	4,960	4,757	-	-	4,960	4,757
Planning and community development	341	351	-	-	341	351
Public works	4,454	3,629	-	-	4,454	3,629
Interest on long-term debt	2,108	1,947	-	-	2,108	1,947
Water and Sewer	-	-	12,844	13,150	12,844	13,150
Solid Waste Disposal	-	-	7,163	6,051	7,163	6,051
Total expenses	<u>32,762</u>	<u>28,633</u>	<u>20,007</u>	<u>19,201</u>	<u>52,769</u>	<u>47,834</u>
Increase in net assets before transfers and capital contributions	3,163	1,789	700	939	3,863	2,728
Transfers	1,878	1,918	(1,878)	(1,918)	-	-
Capital contributions	1,087	(4,816)	339	4,816	1,426	-
Change in net assets	<u>6,128</u>	<u>(1,109)</u>	<u>(839)</u>	<u>3,837</u>	<u>5,289</u>	<u>2,728</u>
Net assets, beginning	59,209	60,318	61,276	57,439	120,485	117,757
Net assets, ending	<u>\$ 65,337</u>	<u>\$ 59,209</u>	<u>\$ 60,437</u>	<u>\$ 61,276</u>	<u>\$ 125,774</u>	<u>\$ 120,485</u>

Property taxes increased by \$484 (5.4%) during the year. This increase was the product of revenue from new construction and reassessment of property in Lufkin.

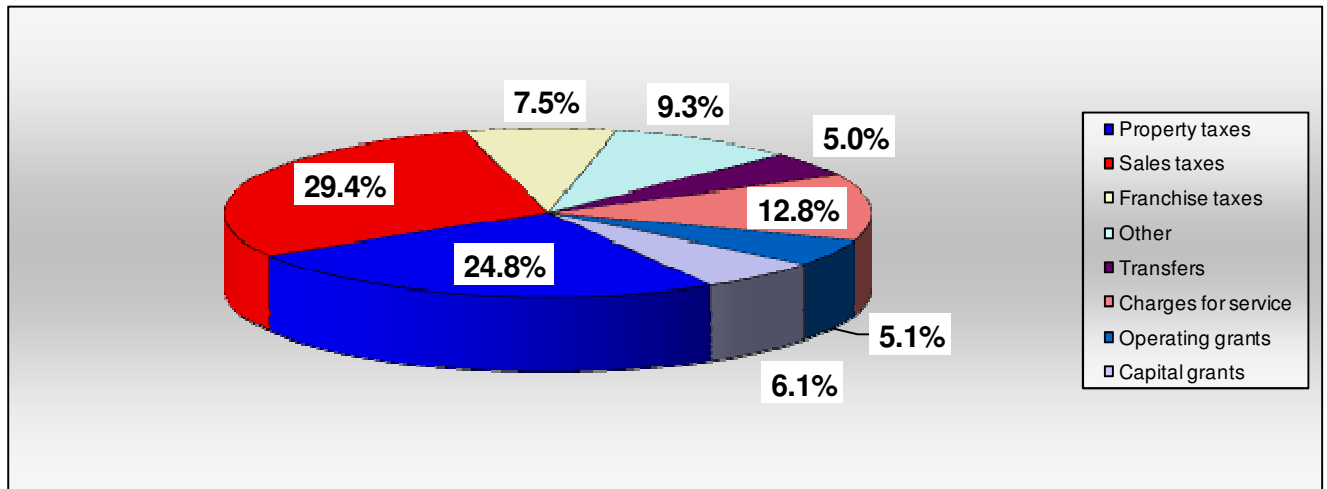
Operating grants for governmental activities increased by \$1,644 (563%), due to FY 2008 reimbursement of costs associated with the two hurricanes (Gustav and Ike) that affected the City of Lufkin in August and September 2008 and the continuation of grants from the prior year.

Capital grants for governmental activities increased by \$2,290 (12,722%) as the result of receiving a grant for the construction of a new street in Lufkin (Whitehouse Dr.) and for the purchase and demolishment of housing prone to flooding.

Expenses and Program Revenues – Governmental Activities



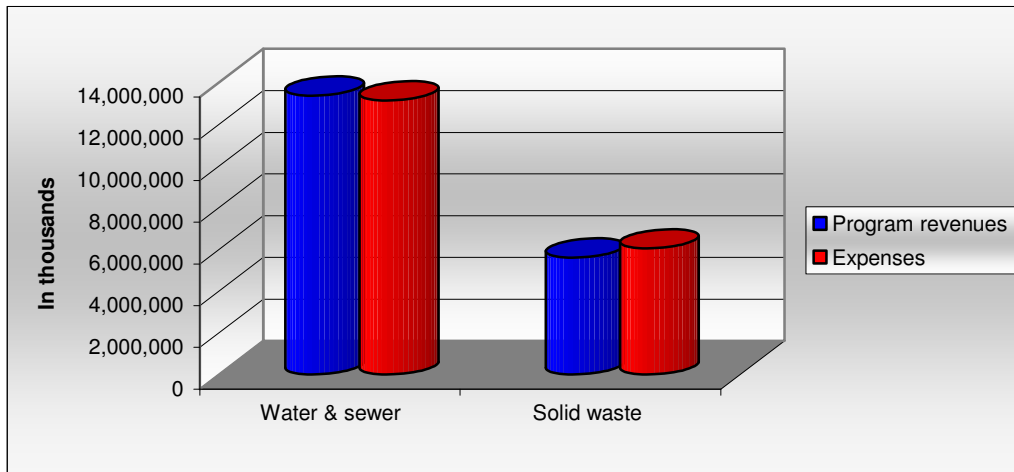
Revenues by Source– Governmental Activities



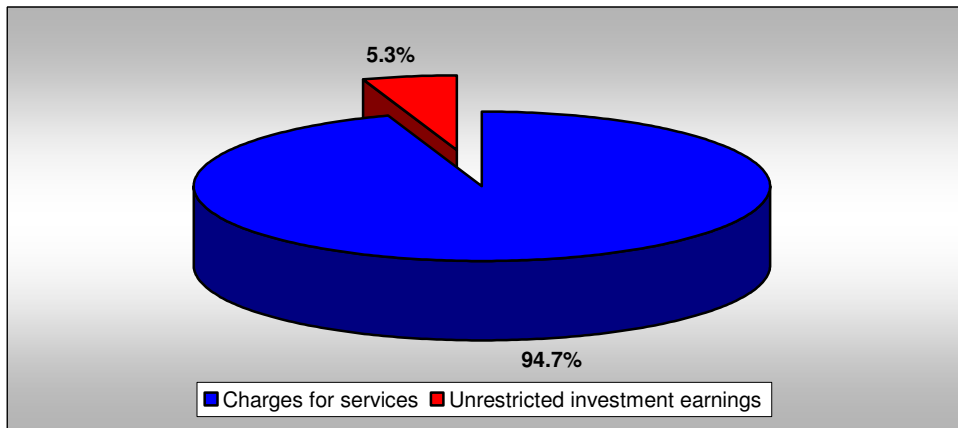
Business-type activities. Business-type activities decreased the City’s net assets by \$839, accounting for (15.9%) of the total growth in the government’s net assets. Key elements of this decrease are as follows:

- Charges for services exceeded expenses by \$700. Charges for services increased by 4.95% from last year. Revenues increased as a result of an increase in interest earnings. Expenses increased by 4.2% as a result of the continued maintenance upgrade of a portion of the meter reading system, and a 3% cost of living compensation increase.
- Capital contributions from governmental activities to the business-type activities totaled \$4,815 in FY 2007. There were no capital contributions in FY 2008. Transfers to governmental activities from business-type activities decreased by \$40, a decrease of (2.1%) from the previous year.

Expenses and Program Revenues – Business-type activities



Revenues by Source – Business-type activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lufkin's governmental funds reported combined ending fund balances of \$16,553, a decrease of \$5,019 from the prior year.

Approximately 90% of this total amount, \$14,826 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to inventory \$145 and 2) to pay debt service, \$1,582.

The general fund is the chief operating fund of the City of Lufkin. At the end of the current fiscal year, unreserved fund balance was \$11,156, while total fund balance was \$11,301. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Unreserved fund balance represents 37.0% of total general fund expenditures, while total fund balance represents 37.5% of the same amount.

The fund balance of the City's general fund decreased by \$162 during the current fiscal year. The decrease was less than planned due to an increase in building permits, municipal court fines, other charges for services and grant revenues and reductions in budgeted expenditures in public works.

The debt service fund has a total fund balance of \$1,582, all of which is reserved for the payment of debt service. The net decrease in fund balance in the debt service fund during the current year was \$782. This decrease resulted from the accelerated payments for outstanding debt paid during FY 2008.

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

Unrestricted net assets of the Water and Sewer Utility Fund at the end of the current fiscal year amounted to \$4,177, and the Solid Waste Disposal Fund amounted to \$4,184. The increase for Water and Sewer Utility totaled \$356 while the Solid Waste Disposal Fund decreased by \$1,195. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences in the original and the final amended expenditure budget amounted to \$3,269 in increased appropriations. The major adjustments were:

- \$1,306 increase in general government of which \$867 was for updated lighting and energy management system, \$334 was ORCA payment, \$66 was prior year FEMA revenue write-down and \$37 was various increases.
- \$794 increase in public safety miscellaneous costs for fuel, police radios and Hurricane Ike debris cleanup and removal.
- \$191 decrease in cultural and recreation for changes funding the library board reading materials.
- \$1,360 increase in public works primarily for cost of annexed streets.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$354 being added to fund balance. This will allow the City to continue with some projects (maintenance and repair items) that have been in progress for several years.

Capital Asset and Debt Administration

Capital assets. The City of Lufkin's investment in capital assets for its governmental and business-type activities amounts to \$149,752 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, and bridges.

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

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

The City's policy is to achieve an average rating of 56 for all streets. The average rating for the City's streets at September 30, 2008 was 65; this rating remained flat from the previous year. The City's streets are constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural

precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. The City's budget for street maintenance for the fiscal year ended September 30, 2008 was \$5,214 as compared to \$3,609 for the previous year. Actual expenditures were \$4,884 for FY 2008, reflecting an increase of \$1,528 from FY 2007. Of the increase, \$1,086 was costs of annexed streets and \$378 was costs of street maintenance materials. In FY2008, street resurfacing increased 67% from prior year resulting in a 4% decrease of collector street miles in substandard condition and 3% decrease of residential street miles in substandard condition. 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 2009 is a minimum of \$3,657.

Condition Rating of the City's Street System

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

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

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

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

Governmental

- Continued construction of Whitehouse Dr. extension - \$3,208 – Total cost - \$4,325
- Began construction on Zoo Education Building - \$1,369 - Total Cost \$1,763
- Continued reconstruction of Lotus Lane - \$1,374 – Total cost - \$2,656
- Completed construction of a new fire station – \$361 - Total cost - \$1,104
- Continued Right-of-Way acquisition highway 59 - \$421 – Total cost - \$3,050
- Began renovation on Pines Theater - \$11 – Total cost - \$513

Business-type

- Continued construction of Service Center Complex – \$1,957 - Total cost - \$2,688
- Continued construction of Recycling Storage Facility – \$1,681 - Total cost -\$1,754
- Began construction of Recycling Fuel Stations - \$5 – Total cost - \$5
- Asbestos pipe replacement – continued, Project #12 & #13 - \$425 – Total cost \$1,701
- Asbestos pipe replacement – completed, Project #15 - \$2 – Total cost \$1,178
- Continued Wastewater Treatment Headworks Equipment installation – \$195 -Total cost \$464
- Continued Sam Rayburn water supply implementation - \$188 – Total cost \$1,117
- Continued utility line relocation highway 59 - \$1,605 – total cost - \$2,993

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

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land and storage space	\$ 3,279	\$ 3,143	\$ 2,106	\$ 2,011	\$ 5,385	\$ 5,154
Works of art	278	278	-	-	278	278
Buildings	8,597	8,045	2,337	2,419	10,934	10,464
Machinery and equipment	3,093	2,873	2,550	2,349	5,643	5,222
Vehicles	4,019	2,373	290	672	4,309	3,045
Improvements other than buildings	12,438	12,929	38,341	37,542	50,779	50,471
Infrastructure	49,724	48,540	-	-	49,724	48,540
Construction in progress	11,600	5,809	11,100	6,176	22,700	11,985
Total	<u>\$ 93,028</u>	<u>\$ 83,990</u>	<u>\$ 56,724</u>	<u>\$ 51,169</u>	<u>\$ 149,752</u>	<u>\$ 135,159</u>

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

Long-term debt. At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$54,325. Of this amount \$42,635 is backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenues (i.e., revenue bonds).

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

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 42,635	\$ 46,690	\$ -	\$ -	\$ 42,635	\$ 46,690
Revenue bonds	-	-	11,690	11,330	11,690	11,330
Total	<u>\$ 42,635</u>	<u>\$ 46,690</u>	<u>\$ 11,690</u>	<u>\$ 11,330</u>	<u>\$ 54,325</u>	<u>\$ 58,020</u>

The City's bonded debt decreased by \$3,695 (6.4%) during the current year. The key factors in this decrease were the issuance of \$1,075 in revenue bonds. General obligation bonds of \$4,055 and revenue bonds in the amount of \$715 were retired during the year.

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

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

Additional information on the City's long-term debt can be found in note IV.H. on pages 54-59.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City, according to Texas Workforce statistics, is 4.6%, an increase of 0.3% from last year. The 4.8% unemployment rate for Angelina County is an increase of .6% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 6.0 %.
- The state sales tax receipts for the current fiscal year totaled \$11,122, an increase of \$147 or (1.3%) from the previous year indicating a moderate increase in the retail economy.

- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the City of Lufkin's budget for the 2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$11,156. The City has appropriated \$55 of this amount for spending in the 2009 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2009 fiscal year.

The Water and Sewer Utility rates remained the same for the 2009 budget.

Requests for information

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

BASIC FINANCIAL STATEMENTS

CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2008

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNIT
	ACTIVITIES	ACTIVITIES		ECONOMIC
				DEVELOPMENT CORP.
ASSETS				
Cash and cash equivalents	\$ 5,109,062	\$ 1,075,899	\$ 6,184,961	\$ 813,323
Investments	13,873,712	4,838,500	18,712,212	1,830,736
Receivables - net	1,705,810	2,228,928	3,934,738	124,995
Inventories	145,169	191,846	337,015	-
Prepaid items	685	-	685	-
Deferred charges	667,766	361,232	1,028,998	-
Restricted Assets:				
Cash and cash equivalents	-	2,953,101	2,953,101	-
Cash and cash equivalents-customer deposits	-	255,458	255,458	-
Investments	-	4,927,493	4,927,493	-
Intergovernmental receivables	-	38,875	38,875	-
Internal balances	-	326,502	326,502	-
Accounts receivable	-	22,792	22,792	-
Intergovernmental receivables	2,877,704	58,848	2,936,552	-
Notes receivable - net	-	745,926	745,926	-
Capital assets (net of accumulated depreciation):				
Land	3,278,900	870,849	4,149,749	-
Storage space in Sam Rayburn Reservoir	-	1,235,340	1,235,340	-
Infrastructure	49,724,111	-	49,724,111	-
Works of art	278,500	-	278,500	-
Buildings	8,596,972	2,337,117	10,934,089	-
Improvements other than buildings	12,438,323	38,341,388	50,779,711	-
Machinery and equipment	3,093,220	2,549,451	5,642,671	-
Vehicles	4,018,413	289,445	4,307,858	-
Construction in progress	11,600,491	11,099,930	22,700,421	-
Total assets	<u>117,408,838</u>	<u>74,748,920</u>	<u>192,157,758</u>	<u>2,769,054</u>
LIABILITIES				
Accounts/claims payable	2,714,595	946,219	3,660,814	3,829
Accrued interest	269,409	-	269,409	963
Accrued liabilities	1,789,966	147,189	1,937,155	39,816
Internal balances	-	326,502	326,502	-
Unearned revenues	23,660	-	23,660	-
Payable from restricted assets	-	444,152	444,152	-
Noncurrent liabilities:				
Due within one year	4,543,088	1,009,351	5,552,439	133,333
Due in more than one year	42,730,567	11,438,571	54,169,138	-
Total liabilities	<u>52,071,285</u>	<u>14,311,984</u>	<u>66,383,269</u>	<u>177,941</u>
NET ASSETS				
Invested in capital assets, net of related debt	59,651,296	44,884,403	104,535,699	-
Restricted for:				
Retirement of debt	1,581,913	2,220,837	3,802,750	-
Capital projects	1,572,913	1,061,813	2,634,726	-
Renewal and replacement	-	3,908,597	3,908,597	-
Unrestricted	2,531,431	8,361,286	10,892,717	2,591,113
Total net assets	<u>\$ 65,337,553</u>	<u>\$ 60,436,936</u>	<u>\$ 125,774,489</u>	<u>\$ 2,591,113</u>

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

CITY OF LUFKIN, TEXAS
STATEMENT OF ACTIVITIES
For the Year ended September 30, 2008

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			COMPONENT UNIT ECONOMIC DEVELOPMENT CORP.
	EXPENSES	OPERATING GRANTS AND CONTRIBUTIONS		CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES		TOTAL	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		GOVERNMENTAL BUSINESS-TYPE ACTIVITIES	ACTIVITIES		
Primary government:								
Governmental activities:								
General government	\$ 3,572,054	\$ 103,825	\$ 22,488	\$ -	\$ (3,445,741)	\$ -	\$ (3,445,741)	\$ -
Public safety	17,326,603	3,222,124	310,685	33,809	(13,759,985)	-	(13,759,985)	-
Cultural and recreation	4,960,326	1,446,285	15,000	170,858	(3,328,183)	-	(3,328,183)	-
Planning and community development	341,561	2,200	-	-	(339,361)	-	(339,361)	-
Public works	4,453,939	50,875	1,587,806	2,103,819	(711,439)	-	(711,439)	-
Interest and fiscal charges	2,107,566	-	-	-	(2,107,566)	-	(2,107,566)	-
Total governmental activities	32,762,049	4,825,309	1,935,979	2,308,486	(23,692,275)	-	(23,692,275)	-
Business-type activities:								
Water and Sewer	12,844,009	14,114,370	27,231	-	-	1,297,592	1,297,592	-
Solid Waste Disposal	7,163,170	5,817,523	21,401	-	-	(1,324,246)	(1,324,246)	-
Total business-type activities	20,007,179	19,931,893	48,632	-	-	(26,654)	(26,654)	-
Total primary government Component Unit:	\$ 52,769,228	\$ 24,757,202	\$ 1,984,611	\$ 2,308,486	(23,692,275)	(26,654)	(23,718,929)	-
Economic Development Corporation	\$ 402,413	\$ -	\$ -	\$ -	-	-	(402,413)	-
General revenues:								
Property taxes					9,357,539	-	9,357,539	-
Sales taxes					11,121,838	-	11,121,838	1,011,360
Franchise taxes					2,851,165	-	2,851,165	-
Mixed beverage tax					86,355	-	86,355	-
Other					2,339,309	-	2,339,309	15,000
Unrestricted investment earnings					1,099,830	656,703	1,756,533	31,968
Gain on retirement of capital assets					-	69,717	69,717	-
Capital contributions					1,086,745	339,019	1,425,764	-
Transfers					1,877,782	(1,877,782)	-	-
Total general revenues and transfers					29,820,563	(812,343)	29,008,220	1,058,328
Change in net assets					6,128,288	(838,997)	5,289,291	655,915
Net assets - beginning					59,209,265	61,275,933	120,485,198	1,935,198
Net assets - ending					\$ 65,337,553	\$ 60,436,936	\$ 125,774,489	\$ 2,591,113

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

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

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 1,915,071	\$ 195,877	\$ 2,425,034	\$ 4,535,982
Investments	10,132,257	1,378,984	1,305,347	12,816,588
Receivables:				
Taxes	525,405	248,662	-	774,067
Accounts	2,376,732	-	164,369	2,541,101
Other	62,110	7,414	239,148	308,672
Allowance for uncollectibles	(1,622,220)	(198,930)	(146,146)	(1,967,296)
Due from other funds	327,590	-	-	327,590
Intergovernmental receivables	1,817,719	-	1,059,985	2,877,704
Inventories	145,169	-	-	145,169
Prepaid items	685	-	-	685
Total assets	<u>\$ 15,680,518</u>	<u>\$ 1,632,007</u>	<u>\$ 5,047,737</u>	<u>\$ 22,360,262</u>
LIABILITIES				
Accounts/claims payable	\$ 1,386,291	\$ 362	\$ 931,800	\$ 2,318,453
Due to other funds	-	-	327,590	327,590
Accrued compensated absences	983,704	-	4,487	988,191
Accrued liabilities	725,788	-	75,987	801,775
Deferred revenues	1,283,982	49,732	37,663	1,371,377
Total liabilities	<u>4,379,765</u>	<u>50,094</u>	<u>1,377,527</u>	<u>5,807,386</u>
FUND BALANCES				
Reserved:				
For inventory	145,170	-	-	145,170
Debt service	-	1,581,913	-	1,581,913
Unreserved, reported in:				
General fund	11,155,583	-	-	11,155,583
Special revenue funds	-	-	2,097,297	2,097,297
Capital projects funds	-	-	1,572,913	1,572,913
Total fund balances	<u>11,300,753</u>	<u>1,581,913</u>	<u>3,670,210</u>	<u>16,552,876</u>
Total liabilities and fund balances	<u>\$ 15,680,518</u>	<u>\$ 1,632,007</u>	<u>\$ 5,047,737</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.				89,757,810
Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.				1,192,904
Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.				667,766
Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.				154,813
An internal service fund is used to charge the cost of health insurance to individual funds. The funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				94,086
An internal service fund is used for equipment acquisition and replacement. The governmental funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				4,460,362
Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.				(47,543,064)
Net assets of governmental activities				<u>\$ 65,337,553</u>

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

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

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Revenues				
Taxes:				
Property	\$ 5,965,794	\$ 3,394,093	\$ -	\$ 9,359,887
Sales	11,121,838	-	-	11,121,838
Franchise	2,851,165	-	-	2,851,165
Other	86,355	-	783,894	870,249
Licenses and permits	387,065	-	-	387,065
Fines and forfeitures	1,017,794	-	-	1,017,794
Charges for services	2,186,118	-	523,584	2,709,702
Interest income	481,957	116,708	197,506	796,171
Intergovernmental	3,937,505	-	3,161,067	7,098,572
Other revenues	526,989	-	945,050	1,472,039
Total revenues	<u>28,562,580</u>	<u>3,510,801</u>	<u>5,611,101</u>	<u>37,684,482</u>
Expenditures				
Current:				
General government	4,591,309	-	94,443	4,685,752
Public safety	16,198,766	-	1,157,757	17,356,523
Cultural and recreation	3,203,837	-	1,276,374	4,480,211
Planning and community development	324,014	-	-	324,014
Public works	5,762,847	-	126,400	5,889,247
Debt service:				
Principal	85,704	4,055,000	-	4,140,704
Interest and fiscal charges	2,744	1,999,261	-	2,002,005
Capital outlay	-	-	7,177,388	7,177,388
Total expenditures	<u>30,169,221</u>	<u>6,054,261</u>	<u>9,832,362</u>	<u>46,055,844</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,606,641)</u>	<u>(2,543,460)</u>	<u>(4,221,261)</u>	<u>(8,371,362)</u>
Other Financing Sources (Uses)				
Transfers in	396,738	1,761,574	1,577,132	3,735,444
Transfers out	(784,707)	-	(1,431,054)	(2,215,761)
Donation-annexation	1,086,745	-	-	1,086,745
Note proceeds	745,926	-	-	745,926
Total other financing sources (uses)	<u>1,444,702</u>	<u>1,761,574</u>	<u>146,078</u>	<u>3,352,354</u>
Net change in fund balances	(161,939)	(781,886)	(4,075,183)	(5,019,008)
Fund balances - beginning	<u>11,462,692</u>	<u>2,363,799</u>	<u>7,745,393</u>	<u>21,571,884</u>
Fund balances - ending	<u>\$ 11,300,753</u>	<u>\$ 1,581,913</u>	<u>\$ 3,670,210</u>	<u>\$ 16,552,876</u>

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

CITY OF LUFKIN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

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

Net change in fund balances – total governmental funds	\$ (5,019,008)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	246,313
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	1,260,289
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	7,129,807
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>2,510,887</u>
Change in net assets of governmental activities	<u><u>\$ 6,128,288</u></u>

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

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes:				
Ad valorem	\$ 6,020,587	\$ 6,020,587	\$ 5,965,794	\$ (54,793)
Sales	10,610,420	11,226,307	11,121,838	(104,469)
Franchise	2,870,037	2,802,034	2,851,165	49,131
Other	74,600	74,600	86,355	11,755
Total taxes	<u>19,575,644</u>	<u>20,123,528</u>	<u>20,025,152</u>	<u>(98,376)</u>
Licenses and Permits:				
Building permits and inspections	210,000	210,000	306,581	96,581
Plumbing permits and inspections	16,000	16,000	12,927	(3,073)
Electric permits and inspections	22,000	22,000	18,398	(3,602)
Heat and vent permits	13,000	13,000	35,376	22,376
Other permits	15,250	15,250	12,586	(2,664)
Licenses	1,200	1,200	1,197	(3)
Total licenses and permits	<u>277,450</u>	<u>277,450</u>	<u>387,065</u>	<u>109,615</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	913,600	763,600	877,837	114,237
Red light fines and costs	-	150,000	136,862	(13,138)
Parking fines	5,000	5,000	3,095	(1,905)
Total fines and forfeitures	<u>918,600</u>	<u>918,600</u>	<u>1,017,794</u>	<u>99,194</u>
Charges for Services:				
Emergency medical services	2,325,850	1,832,100	1,887,052	54,952
Emergency medical service - County	175,560	200,000	200,000	-
Mowing lots	3,000	3,000	4,332	1,332
False alarm fees	18,000	18,000	19,925	1,925
Other	29,650	29,650	74,809	45,159
Total charges for services	<u>2,552,060</u>	<u>2,082,750</u>	<u>2,186,118</u>	<u>103,368</u>
Interest Income	<u>300,000</u>	<u>300,000</u>	<u>481,957</u>	<u>181,957</u>
Intergovernmental:				
Grant revenues	4,600	789,029	1,070,398	281,369
General and administrative services	2,971,462	2,867,107	2,867,107	-
Total intergovernmental	<u>2,976,062</u>	<u>3,656,136</u>	<u>3,937,505</u>	<u>281,369</u>
Other Revenues:				
Parks	16,000	16,000	13,662	(2,338)
Library	26,100	26,100	27,407	1,307
Animal shelter collections	67,400	67,400	75,374	7,974
Zone change fees	4,000	4,000	2,200	(1,800)
Zoo admission fees	85,000	85,000	97,707	12,707
Rent on city property	39,060	39,060	28,335	(10,725)
Salvage and auction	-	64,891	65,180	289
Miscellaneous	16,600	16,600	52,832	36,232
Salary reimbursements	135,675	135,675	164,292	28,617
Total other revenues	<u>389,835</u>	<u>454,726</u>	<u>526,989</u>	<u>72,263</u>
Total revenues	<u>26,989,651</u>	<u>27,813,190</u>	<u>28,562,580</u>	<u>749,390</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
Current:				
General government:				
General:				
Payroll costs	111,462	115,880	116,558	(678)
Supplies	21,265	21,154	20,338	816
Maintenance	300	300	-	300
Miscellaneous services	112,952	92,480	86,951	5,529
Sundry charges	108,712	106,712	100,775	5,937
Total general	<u>354,691</u>	<u>336,526</u>	<u>324,622</u>	<u>11,904</u>
City manager:				
Payroll costs	241,521	262,259	267,730	(5,471)
Supplies	14,000	16,000	17,144	(1,144)
Maintenance	4,700	1,700	-	1,700
Miscellaneous services	28,000	26,000	19,806	6,194
Total city manager	<u>288,221</u>	<u>305,959</u>	<u>304,680</u>	<u>1,279</u>
Finance:				
Payroll costs	430,399	449,112	442,860	6,252
Supplies	19,412	20,416	21,206	(790)
Maintenance	7,044	5,540	4,735	805
Miscellaneous services	79,490	79,490	74,898	4,592
Sundry charges	-	100	100	-
Total finance	<u>536,345</u>	<u>554,658</u>	<u>543,799</u>	<u>10,859</u>
Legal:				
Miscellaneous services	156,000	156,000	156,000	-
Total legal	<u>156,000</u>	<u>156,000</u>	<u>156,000</u>	-
Tax:				
Miscellaneous services	169,000	208,725	206,971	1,754
Total tax	<u>169,000</u>	<u>208,725</u>	<u>206,971</u>	<u>1,754</u>
Human resources:				
Payroll costs	221,869	225,646	238,078	(12,432)
Supplies	14,550	12,750	11,887	863
Maintenance	1,350	750	148	602
Miscellaneous services	53,710	51,610	54,377	(2,767)
Sundry charges	23,300	22,500	20,836	1,664
Total human resources	<u>314,779</u>	<u>313,256</u>	<u>325,326</u>	<u>(12,070)</u>
Municipal building:				
Payroll costs	63,962	66,051	65,833	218
Supplies	23,100	26,436	26,960	(524)
Maintenance	58,500	61,500	55,481	6,019
Miscellaneous services	248,900	235,900	214,365	21,535
Total municipal building	<u>394,462</u>	<u>389,887</u>	<u>362,639</u>	<u>27,248</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Information technology:				
Payroll costs	292,860	298,392	300,433	(2,041)
Supplies	126,175	121,175	119,798	1,377
Maintenance	334,075	343,075	339,560	3,515
Miscellaneous services	150,600	171,000	169,256	1,744
Capital outlay	40,000	40,000	38,614	1,386
Total information technology	<u>943,710</u>	<u>973,642</u>	<u>967,661</u>	<u>5,981</u>
Non-departmental:				
Payroll costs	71,280	25,000	17,180	7,820
Maintenance	-	867,047	847,845	19,202
Miscellaneous services	155,734	160,294	135,001	25,293
Sundry charges	-	399,585	399,585	-
Total non-departmental	<u>227,014</u>	<u>1,451,926</u>	<u>1,399,611</u>	<u>52,315</u>
Total general government	<u>3,384,222</u>	<u>4,690,579</u>	<u>4,591,309</u>	<u>99,270</u>
Public safety:				
Municipal court:				
Payroll costs	256,400	258,151	258,633	(482)
Supplies	17,100	15,400	15,631	(231)
Maintenance	1,000	1,000	201	799
Miscellaneous services	42,300	42,300	10,615	31,685
Total municipal court	<u>316,800</u>	<u>316,851</u>	<u>285,080</u>	<u>31,771</u>
Police:				
Payroll costs	6,357,994	6,392,647	6,511,982	(119,335)
Supplies	358,182	462,811	481,336	(18,525)
Maintenance	89,040	73,700	58,335	15,365
Miscellaneous services	524,195	529,830	465,115	64,715
Sundry charges	1,000	1,000	167	833
Capital outlay	81,010	48,692	52,861	(4,169)
Total police	<u>7,411,421</u>	<u>7,508,680</u>	<u>7,569,796</u>	<u>(61,116)</u>
Fire:				
Payroll costs	5,579,995	5,563,132	5,560,051	3,081
Supplies	334,250	383,339	415,481	(32,142)
Maintenance	123,372	110,375	90,717	19,658
Miscellaneous services	357,386	1,003,100	1,247,322	(244,222)
Sundry charges	200	200	48	152
Capital outlay	44,000	48,502	41,175	7,327
Total fire	<u>6,439,203</u>	<u>7,108,648</u>	<u>7,354,794</u>	<u>(246,146)</u>
Inspection:				
Payroll costs	418,248	439,391	431,581	7,810
Supplies	22,950	22,450	23,799	(1,349)
Maintenance	2,250	2,500	2,295	205
Miscellaneous services	50,711	50,411	43,200	7,211
Sundry charges	100	100	55	45
Total inspection	<u>494,259</u>	<u>514,852</u>	<u>500,930</u>	<u>13,922</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Animal control:				
Payroll costs	335,110	347,685	354,666	(6,981)
Supplies	60,800	58,075	54,996	3,079
Maintenance	12,900	13,100	10,284	2,816
Miscellaneous services	70,864	67,979	68,220	(241)
Total animal control	<u>479,674</u>	<u>486,839</u>	<u>488,166</u>	<u>(1,327)</u>
Total public safety	<u>15,141,357</u>	<u>15,935,870</u>	<u>16,198,766</u>	<u>(262,896)</u>
Cultural and recreation:				
Parks:				
Payroll costs	815,788	805,284	792,449	12,835
Supplies	132,755	140,255	110,430	29,825
Maintenance	132,200	132,200	107,949	24,251
Miscellaneous services	496,581	459,019	418,625	40,394
Sundry charges	-	62	62	-
Capital outlay	45,000	44,597	42,656	1,941
Total parks	<u>1,622,324</u>	<u>1,581,417</u>	<u>1,472,171</u>	<u>109,246</u>
Zoo:				
Payroll costs	919,966	891,932	897,402	(5,470)
Supplies	144,100	143,831	152,372	(8,541)
Maintenance	4,510	6,300	7,193	(893)
Miscellaneous services	147,182	139,070	129,178	9,892
Capital outlay	20,500	20,500	-	20,500
Total zoo	<u>1,236,258</u>	<u>1,201,633</u>	<u>1,186,145</u>	<u>15,488</u>
Library:				
Payroll costs	391,413	396,017	391,775	4,242
Supplies	17,532	16,683	15,029	1,654
Maintenance	37,948	38,896	35,584	3,312
Miscellaneous services	104,968	86,828	80,383	6,445
Sundry charges	125,000	22,750	22,750	-
Total library	<u>676,861</u>	<u>561,174</u>	<u>545,521</u>	<u>15,653</u>
Total cultural and recreation	<u>3,535,443</u>	<u>3,344,224</u>	<u>3,203,837</u>	<u>140,387</u>
Planning and community development:				
Main street				
Payroll costs	98,537	100,019	98,731	1,288
Supplies	5,020	6,627	6,727	(100)
Miscellaneous services	14,488	12,988	7,230	5,758
Total main street	<u>118,045</u>	<u>119,634</u>	<u>112,688</u>	<u>6,946</u>
Planning and Zoning:				
Payroll costs	199,371	202,384	189,338	13,046
Supplies	7,000	5,950	3,540	2,410
Maintenance	100	1,100	1,000	100
Miscellaneous services	27,324	22,424	17,448	4,976
Total planning and zoning	<u>233,795</u>	<u>231,858</u>	<u>211,326</u>	<u>20,532</u>
Total planning and community development	<u>351,840</u>	<u>351,492</u>	<u>324,014</u>	<u>27,478</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Public Works				
Engineering:				
Payroll costs	405,824	411,846	429,780	(17,934)
Supplies	15,050	18,300	16,897	1,403
Maintenance	21,000	21,000	17,680	3,320
Miscellaneous services	82,416	82,666	75,324	7,342
Total engineering	<u>524,290</u>	<u>533,812</u>	<u>539,681</u>	<u>(5,869)</u>
Street:				
Payroll costs	1,347,185	1,333,649	1,379,861	(46,212)
Supplies	227,205	283,531	285,749	(2,218)
Maintenance	1,278,775	1,522,609	1,165,367	357,242
Miscellaneous services	978,870	976,075	954,514	21,561
Capital outlay	-	1,098,258	1,098,257	1
Total street	<u>3,832,035</u>	<u>5,214,122</u>	<u>4,883,748</u>	<u>330,374</u>
Fleet management:				
Payroll costs	299,054	272,663	274,571	(1,908)
Supplies	28,338	30,967	30,730	237
Maintenance	14,530	7,150	6,313	837
Miscellaneous services	46,619	48,919	22,433	26,486
Capital outlay	8,500	5,371	5,371	-
Total fleet management	<u>397,041</u>	<u>365,070</u>	<u>339,418</u>	<u>25,652</u>
Total public works	<u>4,753,366</u>	<u>6,113,004</u>	<u>5,762,847</u>	<u>350,157</u>
Debt Service:				
Capital leases:				
Principal	85,705	85,705	85,704	1
Interest	2,743	2,743	2,744	(1)
Total debt service	<u>88,448</u>	<u>88,448</u>	<u>88,448</u>	<u>-</u>
Total expenditures	<u>27,254,676</u>	<u>30,523,617</u>	<u>30,169,221</u>	<u>354,396</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(265,025)</u>	<u>(2,710,427)</u>	<u>(1,606,641)</u>	<u>1,103,786</u>
Other Financing Sources (Uses)				
Transfers out	(190,000)	(737,435)	(784,707)	(47,272)
Transfers in	172,038	392,405	396,738	4,333
Donation- annexation	-	1,086,745	1,086,745	-
Note proceeds	-	752,579	745,926	(6,653)
Total other financing sources (uses)	<u>(17,962)</u>	<u>1,494,294</u>	<u>1,444,702</u>	<u>(49,592)</u>
Net change in fund balances	(282,987)	(1,216,133)	(161,939)	1,054,194
Fund balances - beginning	11,462,692	11,462,692	11,462,692	-
Fund balances - ending	<u>\$ 11,179,705</u>	<u>\$ 10,246,559</u>	<u>\$ 11,300,753</u>	<u>\$ 1,054,194</u>

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



CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2008

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 550,487	\$ 525,412	\$ 1,075,899	\$ 573,080
Investments	2,203,979	2,634,521	4,838,500	1,057,124
Restricted assets:				
Cash and cash equivalents	1,543,256	-	1,543,256	-
Cash and cash equivalents-customer deposits	255,458	-	255,458	-
Investments	1,600,312	-	1,600,312	-
Other receivables (net of allowance for uncollectibles)	3,066	-	3,066	-
Intergovernmental receivables	38,875	-	38,875	-
Internal balances	326,502	-	326,502	-
Accounts receivable (net of allowance for uncollectibles)	1,567,422	661,506	2,228,928	49,266
Intergovernmental receivables	37,447	21,401	58,848	-
Note receivable (net of allowance for uncollectibles)	-	124,321	124,321	-
Inventories	171,751	20,095	191,846	-
Deferred charges	361,232	-	361,232	-
Total current assets	<u>8,659,787</u>	<u>3,987,256</u>	<u>12,647,043</u>	<u>1,679,470</u>
Noncurrent assets:				
Restricted Assets:				
Cash and cash equivalents	1,409,845	-	1,409,845	-
Investments	3,327,181	-	3,327,181	-
Other receivable (net of allowance for uncollectibles)	19,726	-	19,726	-
Note receivable (net of allowance for uncollectibles)	-	621,605	621,605	-
Total restricted noncurrent assets	<u>4,756,752</u>	<u>621,605</u>	<u>5,378,357</u>	<u>-</u>
Capital assets:				
Land	709,485	161,364	870,849	-
Storage space in Sam Rayburn Reservoir	1,235,340	-	1,235,340	-
Buildings	3,051,842	1,032,846	4,084,688	-
Machinery and equipment	12,212,435	741,621	12,954,056	822,973
Vehicles	1,296,831	2,291,860	3,588,691	3,205,526
Improvements	57,839,146	255,796	58,094,942	-
Construction in progress	6,652,003	4,447,927	11,099,930	-
Less accumulated depreciation	<u>(31,944,835)</u>	<u>(3,260,141)</u>	<u>(35,204,976)</u>	<u>(757,379)</u>
Total capital assets (net of accumulated depreciation)	<u>51,052,247</u>	<u>5,671,273</u>	<u>56,723,520</u>	<u>3,271,120</u>
Total noncurrent assets	<u>55,808,999</u>	<u>6,292,878</u>	<u>62,101,877</u>	<u>3,271,120</u>
Total assets	<u>64,468,786</u>	<u>10,280,134</u>	<u>74,748,920</u>	<u>4,950,590</u>

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

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>ACTIVITIES-INTERNAL SERVICE FUNDS</u>
LIABILITIES				
Current liabilities:				
Accounts/claims payable	613,406	332,813	946,219	389,633
Accrued compensated absences	95,784	24,350	120,134	-
Accrued liabilities	101,747	45,442	147,189	6,509
Due to other funds	326,502	-	326,502	-
Current liabilities payable from restricted assets:				
Accrued interest payable	188,694	-	188,694	-
Customer deposits	255,458	-	255,458	-
Notes payable - current maturities	149,217	-	149,217	-
Bonds payable - current maturities	740,000	-	740,000	-
Total current liabilities	2,470,808	402,605	2,873,413	396,142
Noncurrent liabilities:				
Accrued compensated absences	88,417	22,477	110,894	-
Notes payable	377,677	-	377,677	-
Revenue bonds payable	10,950,000	-	10,950,000	-
Total noncurrent liabilities	11,416,094	22,477	11,438,571	-
Total liabilities	13,886,902	425,082	14,311,984	396,142
NET ASSETS				
Invested in capital assets, net of related debt	39,213,130	5,671,273	44,884,403	3,271,120
Restricted for retirement of debt	2,220,837	-	2,220,837	-
Restricted for construction	1,061,813	-	1,061,813	-
Restricted for renewal and replacement	3,908,597	-	3,908,597	-
Unrestricted	4,177,507	4,183,779	8,361,286	1,283,328
Total net assets	\$ 50,581,884	\$ 9,855,052	\$ 60,436,936	\$ 4,554,448

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

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Operating Revenues:				
Water sales	\$ 7,405,577	\$ -	\$ 7,405,577	\$ -
Sewer service charges	6,281,286	-	6,281,286	-
Sanitation collections	-	5,455,565	5,455,565	-
Provision for bad debts	(77,278)	(48,321)	(125,599)	-
Service revenue	334,964	-	334,964	-
General and administrative	104,355	-	104,355	-
Employee premiums	-	-	-	711,050
Employer premiums	-	-	-	2,265,000
Equipment rental	-	-	-	1,600,436
Miscellaneous	65,466	410,279	475,745	283,931
Total operating revenues	<u>14,114,370</u>	<u>5,817,523</u>	<u>19,931,893</u>	<u>4,860,417</u>
Operating Expenses:				
Assistant city manager	-	197,914	197,914	-
Utility collections	1,102,350	-	1,102,350	-
Water utilities	1,448,137	-	1,448,137	-
Sewer utilities	1,938,383	-	1,938,383	-
Wastewater treatment plant	2,057,126	-	2,057,126	-
Water production	2,397,504	-	2,397,504	-
Sanitation department	-	4,816,622	4,816,622	-
Recycling department	-	491,964	491,964	-
Public works	-	-	-	7,729
Insurance claims and related expenses	-	-	-	3,465,228
Depreciation and amortization	1,538,870	270,020	1,808,890	610,925
General and administrative	1,793,541	1,177,921	2,971,462	-
Non-departmental	354,027	208,729	562,756	-
Total operating expenses	<u>12,629,938</u>	<u>7,163,170</u>	<u>19,793,108</u>	<u>4,083,882</u>
Operating income (loss)	<u>1,484,432</u>	<u>(1,345,647)</u>	<u>138,785</u>	<u>776,535</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	27,231	21,401	48,632	-
Interest income	433,267	223,436	656,703	125,655
Interest expense	(426,089)	-	(426,089)	-
Bond fees and issuance costs	(4,335)	-	(4,335)	-
Gain on sale of assets	216,353	69,717	286,070	-
Total nonoperating revenues (expenses)	<u>246,427</u>	<u>314,554</u>	<u>560,981</u>	<u>125,655</u>
Income (loss) before contributions and transfers	1,730,859	(1,031,093)	699,766	902,190
Capital contributions	339,019	-	339,019	-
Transfers in	-	-	-	358,099
Transfers out	(1,714,260)	(163,522)	(1,877,782)	-
Change in net assets	<u>355,618</u>	<u>(1,194,615)</u>	<u>(838,997)</u>	<u>1,260,289</u>
Total net assets - beginning	<u>50,226,266</u>	<u>11,049,667</u>	<u>61,275,933</u>	<u>3,294,159</u>
Total net assets - ending	<u>\$ 50,581,884</u>	<u>\$ 9,855,052</u>	<u>\$ 60,436,936</u>	<u>\$ 4,554,448</u>

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

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

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 14,084,982	\$ 5,817,522	\$ 19,902,504	\$ 945,479
Receipts from interfund services provided	-	-	-	3,866,441
Payments to suppliers	(7,698,426)	(4,487,994)	(12,186,420)	(3,433,862)
Payments to employees	(3,137,822)	(1,472,648)	(4,610,470)	-
Payments for interfund services used	(708,713)	(785,678)	(1,494,391)	-
Net cash provided by (used by) operating activities	<u>2,540,021</u>	<u>(928,798)</u>	<u>1,611,223</u>	<u>1,378,058</u>
Cash Flows From Noncapital Financing Activities:				
Transfer from other funds	-	-	-	358,099
Transfer to other funds	(1,714,260)	(163,522)	(1,877,782)	-
Intergovernmental grants	27,231	21,401	48,632	-
Net cash provided by (used by) noncapital and financing activities	<u>(1,687,029)</u>	<u>(142,121)</u>	<u>(1,829,150)</u>	<u>358,099</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from capital debt	1,475,000	-	1,475,000	-
Capital contributions	339,019	-	339,019	-
Purchase of capital assets	(608,486)	-	(608,486)	(2,520,000)
Acquisition and construction of capital assets	(3,212,112)	(3,735,753)	(6,947,865)	-
Principal paid on capital debt	(752,706)	-	(752,706)	-
Interest and fees paid on capital debt	(404,102)	-	(404,102)	-
Proceeds from sale of capital assets	365,201	141,024	506,225	-
Net cash used by capital and related financing activities	<u>(2,798,186)</u>	<u>(3,594,729)</u>	<u>(6,392,915)</u>	<u>(2,520,000)</u>
Cash Flows From Investing Activities:				
Proceeds from sale and maturities of investments	7,121,239	6,172,120	13,293,359	2,745,129
Note receivable - advance	-	(745,926)	(745,926)	-
Purchase of investments	(7,651,771)	(3,143,277)	(10,795,048)	(2,136,200)
Collections on note receivable	-	85,704	85,704	-
Interest and dividends received	432,900	242,912	675,812	126,656
Net cash provided by (used by) investing activities	<u>(97,632)</u>	<u>2,611,533</u>	<u>2,513,901</u>	<u>735,585</u>
Net (decrease) in cash and cash equivalents	(2,042,826)	(2,054,115)	(4,096,941)	(48,258)
Cash and cash equivalents - beginning	5,801,872	2,579,527	8,381,399	621,338
Cash and cash equivalents - ending	<u>\$ 3,759,046</u>	<u>\$ 525,412</u>	<u>\$ 4,284,458</u>	<u>\$ 573,080</u>

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

(Continued)

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

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ 1,484,432	\$ (1,345,647)	\$ 138,785	\$ 776,535
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation and amortization	1,538,870	270,020	1,808,890	610,925
(Increase) decrease in accounts receivable-net	58,354	13,328	71,682	(48,497)
(Increase) decrease in intergovernmental receivables	(76,322)	153,381	77,059	-
(Increase) in due from other funds	(326,502)	-	(326,502)	-
(Increase) decrease in inventories	18,163	(3,036)	15,127	-
Decrease in prepaid items	12,569	-	12,569	-
Increase (decrease) in accounts/claims payable	(498,925)	(33,416)	(532,341)	38,805
Increase in accrued compensated absences	3,443	5,268	8,711	-
(Decrease) in customer deposits	(11,418)	-	(11,418)	-
Increase in accrued liabilities	10,855	11,304	22,159	290
Increase in due to other funds	326,502	-	326,502	-
Total adjustments	<u>1,055,589</u>	<u>416,849</u>	<u>1,472,438</u>	<u>601,523</u>
Net cash provided by (used by) operating activities	<u>\$ 2,540,021</u>	<u>\$ (928,798)</u>	<u>\$ 1,611,223</u>	<u>\$ 1,378,058</u>

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