

**City of Lufkin, Texas**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended September 30, 2009**

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

**CITY OF LUFKIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

**TABLE OF CONTENTS**

| <b>INTRODUCTORY SECTION</b>   | <b><u>PAGE</u></b> |
|---|--------------------|
| Letter of Transmittal .....   | 2                  |
| GFOA Certificate of Achievement.....  | 6                  |
| Organization Chart.....   | 7                  |
| List of Principal Officials .....   | 8                  |
| <br>  |                    |
| <b>FINANCIAL SECTION</b>  |                    |
| Independent Auditor’s Report.....   | 10                 |
| Management’s Discussion and Analysis .....  | 12                 |
| Basic Financial Statements:   |                    |
| Government-wide Financial Statements:   |                    |
| Statement of Net Assets.....  | 23                 |
| Statement of Activities .....   | 24                 |
| Fund Financial Statements:  |                    |
| Balance Sheet – Governmental Funds.....   | 25                 |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balances – Governmental Funds.....  | 26                 |
| Reconciliation of the Statement of Revenues, Expenditures and<br>Changes in Fund Balances of Governmental Funds to the<br>Statement of Activities ..... | 27                 |
| Statement of Revenues, Expenditures and Changes in<br>Fund Balances – Budget (GAAP Basis) and Actual –<br>General Fund.....                             | 28                 |
| Statement of Net Assets – Proprietary Funds .....   | 34                 |
| Statement of Revenues, Expenses, and Changes in<br>Fund Net Assets – Proprietary Funds .....  | 36                 |
| Statement of Cash Flows – Proprietary Funds.....  | 37                 |
| Notes to the Financial Statements.....  | 39                 |
| Required Supplementary Information:   |                    |
| Condition Rating of the City’s Street System and<br>Comparison of Needed-to-Actual Maintenance/Preservation .....                                       | 67                 |
| Schedule of Funding Progress for Texas Municipal Retirement System.....   | 68                 |
| Schedule of Funding Progress for Retiree Health Insurance Fund.....   | 69                 |
| Combining and Individual Fund Statements and Schedules:   |                    |
| Combining Balance Sheet – Nonmajor Governmental Funds .....   | 72                 |
| Combining Statement of Revenues, Expenditures, and Changes<br>in Fund Balances – Nonmajor Governmental Funds .....                                      | 73                 |
| Combining Balance Sheet – Nonmajor Special Revenue Funds .....  | 74                 |
| Combining Statement of Revenues, Expenditures, and Changes<br>in Fund Balances - Nonmajor Special Revenue Funds.....                                    | 78                 |
| Combining Balance Sheet – Nonmajor Capital Projects Funds.....  | 82                 |
| Combining Statement of Revenues, Expenditures, and Changes<br>in Fund Balances - Nonmajor Capital Projects Funds .....                                  | 84                 |
| Water & Sewer Utility Enterprise Fund – Schedule of<br>Operating Expenses by Department.....  | 86                 |
| Solid Waste Disposal Enterprise Fund – Schedule of<br>Operating Expenses by Department.....   | 87                 |

**CITY OF LUFKIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

**TABLE OF CONTENTS**

|  | <u><b>PAGE</b></u> |
|--|--------------------|
| Schedules of Revenues, Expenditures and Changes in               |                    |
| Fund Balances – Budget (GAAP Basis) and Actual:                  |                    |
| Debt Service Fund .....  | 88                 |
| Hotel/Motel Tax – Special Revenue Fund.....                      | 89                 |
| Zoo Building – Special Revenue Fund.....                         | 90                 |
| FEMA Funded Grants – Special Revenue Fund.....                   | 91                 |
| Court Security/Technology – Special Revenue Fund.....            | 92                 |
| Special Recreation – Special Revenue Fund.....                   | 93                 |
| Animal Control – Kurth Grant – Special Revenue Fund.....         | 94                 |
| Animal’s Attic Gift Shop – Special Revenue Fund.....             | 95                 |
| Combining Statement of Net Assets – Internal Service Funds ..... | 96                 |
| Combining Statement of Revenues, Expenses, and                   |                    |
| Changes in Fund Net Assets – Internal Service Funds.....         | 97                 |
| Combining Statement of Cash Flows – Internal Service Funds.....  | 98                 |

**STATISTICAL SECTION**

|  |     |
|--|-----|
| Net Assets by Component .....                                      | 101 |
| Changes in Net Assets.....   | 102 |
| Governmental Activities Tax Revenues by Source .....               | 104 |
| Fund Balances of Governmental Funds.....                           | 105 |
| Changes in Fund Balances of Governmental Funds.....                | 106 |
| General Governmental Tax Revenues by Source.....                   | 108 |
| Sales Tax Historical Information .....                             | 109 |
| Assessed Value and Estimated Actual Value of Taxable Property..... | 110 |
| Property Tax Rates – Direct and Overlapping Governments .....      | 111 |
| Principal Property Taxpayers.....                                  | 112 |
| Property Tax Levies and Collections.....                           | 113 |
| Ratios of Outstanding Debt by Type .....                           | 114 |
| Ratios of General Bonded Debt Outstanding.....                     | 115 |
| Direct and Overlapping Governmental Activities Debt.....           | 116 |
| Legal Debt Margin Information .....                                | 117 |
| Pledged-Revenue Coverage.....                                      | 118 |
| Demographic and Economic Statistics .....                          | 119 |
| Principal Employers .....  | 120 |
| Full-time Equivalent City Government Employees by Function .....   | 121 |
| Operating Indicators by Function.....                              | 122 |
| Capital Asset Statistics by Function.....                          | 123 |
| Water, Sewer and Sanitation Rates .....                            | 124 |
| Insurance Coverage.....  | 128 |

**CITY OF LUFKIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

**TABLE OF CONTENTS**

| <b>COMPLIANCE SECTION</b>  | <b><u>PAGE</u></b> |
|--|--------------------|
| Independent Auditor’s Report on Internal Control Over<br>Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed in<br>Accordance with <i>Government Auditing Standards</i> ..... | 136                |
| Independent Auditor’s Report on Compliance with Requirements<br>Applicable to Each Major Program and on Internal Control Over<br>Compliance in Accordance with OMB Circular A-133.....   | 138                |
| Schedule of Expenditures of Federal Awards.....  | 140                |
| Notes to Schedule of Expenditures of Federal Awards .....  | 141                |
| Schedule of Findings and Questioned Costs .....  | 142                |
| Summary Schedule of Prior Audit Findings .. ..   | 144                |

# **INTRODUCTORY SECTION**



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January 27, 2010

**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, 2009 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, 2009. 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 34.02 square miles and a population of 32,709 according to the 2000 census. Current projection of the City's population is 34,530. 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 2008 – 2009 fiscal year in the City of Lufkin was presented with both challenges and successes. Although the City began feeling the effects of the recession, the year-end sales tax revenues finished above the previous twelve month period. However, the unemployment rate reached a five year high, the city lost one large industrial employer in Citation Texas Foundry, suffered a number of sizeable industrial lay-offs and actually finished the year on a mild downward trend. Due to the diversity of our economy, mild growth within several industrial employers, the continued growth of our medical industry, and our status as a regional HUB buffered these losses.

The 2009 – 2010 fiscal year looks to be more positive. Recently Lufkin saw the ribbon cutting on a new 50,000 square foot expansion at Lockheed Martin creating over 100 high paying jobs, the Aspen Power Merchant Biomass Plant with a capital investment of approximately \$98 million and the addition of over 150 new jobs is well under construction. The U.S. Army Reserve and National Guard base housing 200 troops in Lufkin is scheduled to kick off construction in third quarter 2010, and a \$4 million EDA grant for pre-development of the City's 156 acre industrial rail park all bode well for a rebound year and set us up for exciting growth well into the future.

The planning and zoning activity is another tool used to monitor the local economy. The City of Lufkin Planning and Zoning office has experienced a steady level of activity during the previous year and we anticipate that activity to remain consistent this upcoming year. The significant change that has affected our area is the type of activity being submitted for review. Applications have changed markedly during the last two (2) years from larger scale activities (such as individually sited large chain restaurants) to simpler projects that reflect greater investment in existing assets (i.e. construction of buildings on existing commercial sites). The change is most visible in the number and size of applications for annexing, platting and zoning activity collectively during the course of the last fiscal year. The decrease is generally attributed, by the project owners, to concerns over the national economy and its potential impact on Lufkin in the near future.

Additionally, the simpler projects submitted in Lufkin tend to add size to structures with small changes to the number of employees or residents in new additions. Initial indicators for the current fiscal year are showing a continuation of that trend and a newer trend of the establishment of new businesses being done in existing structures with owners limiting the amount of capital put into modifications to structures.

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 2009, according to Texas Workforce statistics, is 8.7 percent compared to a 8.9 percent unemployment rate for Angelina County and 8.2 percent for the state. The national unemployment rate is 9.8%.

### **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.
- Develop and implement improvements for better mobility within the city.
  - Prepare recommendations and submit to Council.

- Implement improvements to the central business district that were approved in the TEA 21 grant award (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.
    - Denman Avenue Street Reconstruction.
    - White Oak Drive Bridge Replacement.
    - Groesbeck Avenue Bridge Replacement.
    - Zoo Maintenance Facility Replacement.
  - Identify water and wastewater improvements.
    - US 59 South Line extension and Lift Station abandonment.
    - Kit McConnico I/I Project K.
    - Central I/I Project H.
  - 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, 2009 the City of Lufkin has accumulated the following amounts in support of these policies:

| <u>FUND</u>                          | <u>POLICY<br/>AMOUNT</u> | <u>FUND<br/>TOTAL</u> |
|--------------------------------------|--------------------------|-----------------------|
| Governmental Funds: (fund balance)   |                          |                       |
| General Fund - 25%                   | \$ 7,379,552             | \$ 11,792,732         |
| Hotel/Motel Tax Fund - 12.5%         | 124,603                  | 374,962               |
| Recreation Fund - 12.5%              | 24,586                   | 46,226                |
| Proprietary Funds: (working capital) |                          |                       |
| Water/Wastewater Fund - 12.5%        | 1,907,115                | 5,601,993             |
| Solid Waste/Recycling Fund - 12.5%   | 750,025                  | 3,660,094             |

## 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 2009 the City purchased \$755,006 in new/replacement equipment and is planning to replace approximately \$704,012 of equipment in FY 2010.

The City completed the acquisition of water rights and additional water capacity for \$15 million. This acquisition increased the City's current pumping capacity of 17 million gallons per day to approximately 42 million gallons per day.

The City constructed two fueling stations during FY 2009 at a cost of \$332 thousand. This allows the City access to fuel at all times.

## 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, 2008. 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.

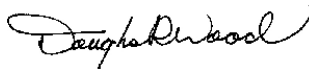
In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated November 18, 2008. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy 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, 2008

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.

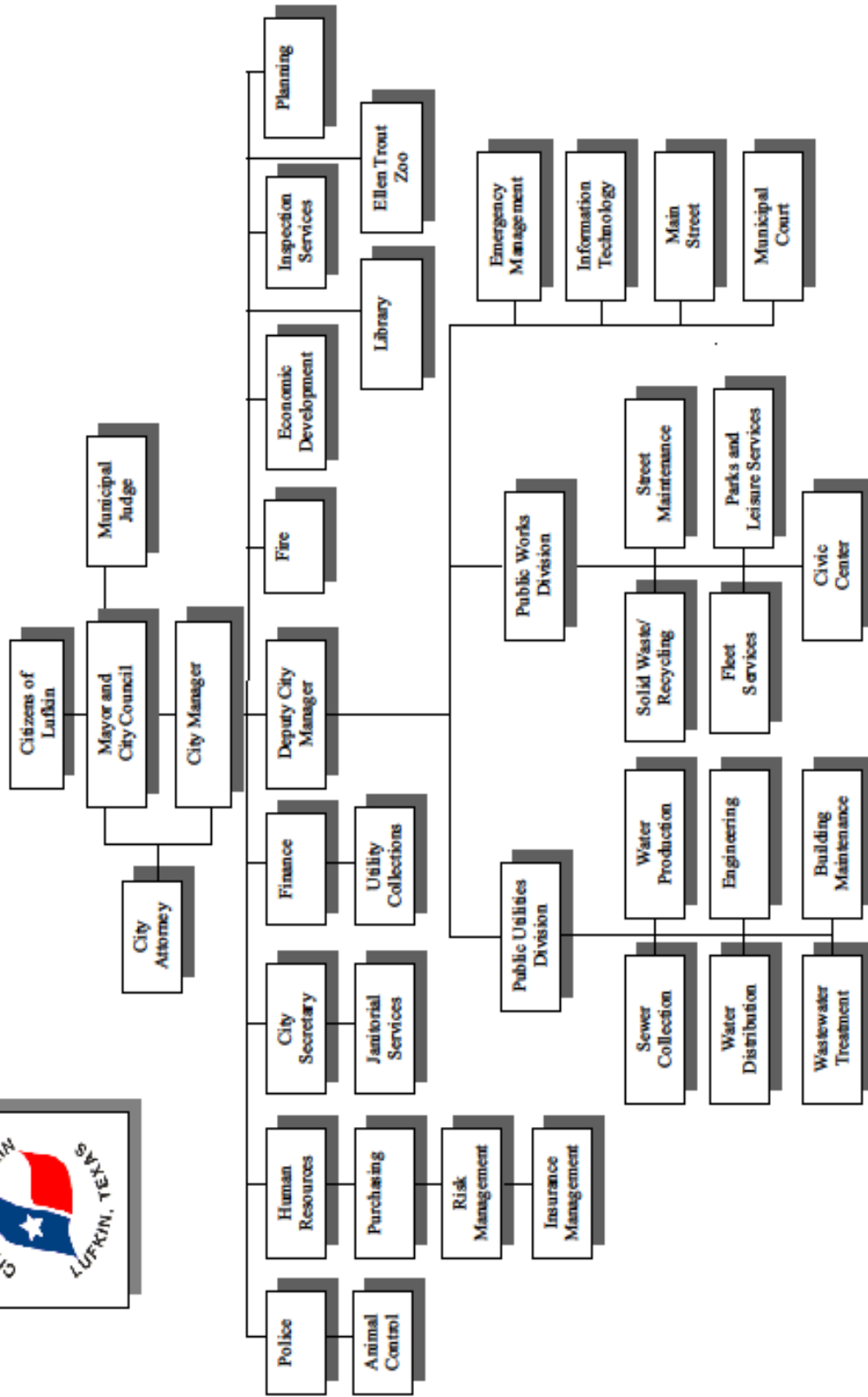


A stylized, handwritten signature in black ink, appearing to read "JEFFREY R. EMER".

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, 2009**

**Governing Body**

Honorable Jack Gorden, Jr., Mayor

**City Council**

|                        |            |
|------------------------|------------|
| R. L. Kuykendall ..... | Ward No. 1 |
| Robert Shankle .....   | 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.....     | Deputy City Manager         |
| Rodney Ivy.....       | Director of Human Resources |
| Scott Marcotte .....  | Police Chief                |
| Vacant .....          | Fire Chief                  |
| Douglas R. Wood ..... | Director of Finance         |
| Renee Thompson.....   | City Secretary              |

## **FINANCIAL SECTION**

Ted A. Lankford, CPA  
Glenda J. Hiers, CPA  
Richard A. Rudel, CPA  
Chris F. Wethington, CPA

# AL&H ALEXANDER LANKFORD & HIERS, INC.

Yvette Sidnell, CPA  
Jennifer L. Webster, CPA  
Selena Mitchell, CPA  
Kimber Rhodes, CPA

Wilbur E. Alexander, CPA  
(1940 - 2009)

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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, 2009, 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, 2009, 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, 2009, 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, 2009, 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 27, 2010 on our consideration of City of Lufkin, Texas' internal control over financial reporting and on 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 67 through 69 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  
Certified Public Accounts  
Lufkin, Texas  
January 27, 2010



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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, 2009. 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 \$127,887 (*net assets*). The unrestricted net assets component is a deficit of \$6,592. The unrestricted net assets decrease of \$17,484 from the prior year was primarily the result of a debt issue of \$17,400 for the acquisition of additional water rights which doubled the City's water pumping capacity.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,982, an increase of \$1,429 from the prior year. The increase is the result of the planned reduction of our debt service balance by \$609, the planned reduction of the general fund balance of \$491 by transferring funds to pay for various construction projects, increase in special revenue fund balances of \$230, an increase in construction fund balances of \$1,311 and the correction of a prior year error of \$984 for correcting how compensated absences were being recorded.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,793 or 39% of total general fund expenditures.
- The City's total debt increased by \$14,406(23.7%) during the fiscal year. The key factors in this increase were \$4,285 for the retirement of general obligation debt, \$740 for the retirement of revenue supported debt, note payments of \$274, with increases in net pension obligation of \$789, the issuance of \$17,400 in certificates of obligation, the issuance of \$1,215 in revenue bonds and an increase in compensated absences of \$301.

### 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 two 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 twenty 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- Hotel/Motel Tax, Zoo Building, FEMA Funded Grants, Court Security/Technology, Special Recreation, 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 pages 67-69 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 72-98 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 \$127,887 at the close of fiscal year 2009.

By far the largest portion of the City's net assets (94%) 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     |            |
|---|-------------------------|-----------|--------------------------|-----------|------------|------------|
|   | 2009                    | 2008      | 2009                     | 2008      | 2009       | 2008       |
| Current and other assets                        | \$ 24,753               | \$ 24,379 | \$ 20,071                | \$ 18,025 | \$ 44,824  | \$ 42,404  |
| Capital assets                                  | 93,297                  | 93,029    | 68,752                   | 56,724    | 162,049    | 149,753    |
| Total assets                                    | 118,050                 | 117,408   | 88,823                   | 74,749    | 206,873    | 192,157    |
| Long-term liabilities outstanding               | 62,164                  | 47,274    | 12,952                   | 12,217    | 75,116     | 59,491     |
| Other liabilities                               | 2,521                   | 4,797     | 1,349                    | 2,095     | 3,870      | 6,892      |
| Total liabilities                               | 64,685                  | 52,071    | 14,301                   | 14,312    | 78,986     | 66,383     |
| Net assets:                                     |                         |           |                          |           |            |            |
| Invested in capital assets, net of related debt | 63,259                  | 59,651    | 56,454                   | 44,884    | 119,713    | 104,535    |
| Restricted                                      | 3,857                   | 3,155     | 10,909                   | 7,192     | 14,766     | 10,347     |
| Unrestricted                                    | (13,751)                | 2,531     | 7,159                    | 8,361     | (6,592)    | 10,892     |
| Total net assets                                | \$ 53,365               | \$ 65,337 | \$ 74,522                | \$ 60,437 | \$ 127,887 | \$ 125,774 |

An additional portion of the City's net assets (11.5%) represents resources that are subject to external restrictions on how they may be used. The remaining negative balance of unrestricted net assets (\$6,592) is primarily the result of the issuance of \$17,400 in certificates of obligation bonds and the transfer of those funds to the business-type activities.

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

There was an increase of \$702 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this increase resulted from the increase in unspent debt proceeds in capital projects funds. There was an increase of \$3,717 in restricted net assets of the business-type activities due to the increase in unspent debt proceeds in construction funds.

The government's total net assets increased by \$2,113 during the current fiscal year. This increase is attributable to the additional investment in capital assets of \$3,608, an increase in restricted assets of \$702, increase in capital projects of \$1,311 and a decrease in debt service of \$609 for governmental activities, and an increase in investment in capital assets of \$11,570, an increase in restricted assets of \$3,717, an increase of \$834 for debt service, an increase of \$4,964 in the construction funds, and a decrease of \$2,081 for renewal and replacement of assets for business-type activities.

**Governmental activities.** Governmental activities decreased the City of Lufkin's net assets by \$11,972. Key elements of this decrease are as follows:

**City of Lufkin's Change in Net Assets**

|   | Governmental activities |                  | Business-type activities |                  | Totals            |                   |
|---|-------------------------|------------------|--------------------------|------------------|-------------------|-------------------|
|   | 2009                    | 2008             | 2009                     | 2008             | 2009              | 2008              |
| <b>Revenues:</b>  |                         |                  |                          |                  |                   |                   |
| Program revenues:   |                         |                  |                          |                  |                   |                   |
| Charges for services  | \$ 5,228                | \$ 4,825         | \$ 19,447                | \$ 19,932        | \$ 24,675         | \$ 24,757         |
| Operating grants and contributions                                | 1,125                   | 1,936            | 334                      | 48               | 1,459             | 1,984             |
| Capital grants and contributions                                  | 911                     | 2,308            | 24                       | -                | 935               | 2,308             |
| General revenues:   |                         |                  |                          |                  |                   |                   |
| Property taxes  | 9,981                   | 9,358            | -                        | -                | 9,981             | 9,358             |
| Other taxes   | 14,325                  | 14,059           | -                        | -                | 14,325            | 14,059            |
| Other   | 4,331                   | 3,439            | 399                      | 727              | 4,730             | 4,166             |
| Total revenues  | <u>35,901</u>           | <u>35,925</u>    | <u>20,204</u>            | <u>20,707</u>    | <u>56,105</u>     | <u>56,632</u>     |
| <b>Expenses:</b>  |                         |                  |                          |                  |                   |                   |
| General government  | 2,425                   | 3,572            | -                        | -                | 2,425             | 3,572             |
| Public safety   | 16,333                  | 17,327           | -                        | -                | 16,333            | 17,327            |
| Cultural and recreation   | 5,722                   | 4,960            | -                        | -                | 5,722             | 4,960             |
| Planning and community development                                | 382                     | 341              | -                        | -                | 382               | 341               |
| Public works  | 8,148                   | 4,454            | -                        | -                | 8,148             | 4,454             |
| Interest on long-term debt  | 2,256                   | 2,108            | -                        | -                | 2,256             | 2,108             |
| Water and Sewer   | -                       | -                | 12,854                   | 12,844           | 12,854            | 12,844            |
| Solid Waste Disposal  | -                       | -                | 5,872                    | 7,163            | 5,872             | 7,163             |
| Total expenses  | <u>35,266</u>           | <u>32,762</u>    | <u>18,726</u>            | <u>20,007</u>    | <u>53,992</u>     | <u>52,769</u>     |
| Increase in net assets before transfers and capital contributions | 635                     | 3,163            | 1,478                    | 700              | 2,113             | 3,863             |
| Transfers   | (12,607)                | 1,878            | 12,607                   | (1,878)          | -                 | -                 |
| Capital contributions   | -                       | 1,087            | -                        | 339              | -                 | 1,426             |
| Change in net assets  | <u>(11,972)</u>         | <u>6,128</u>     | <u>14,085</u>            | <u>(839)</u>     | <u>2,113</u>      | <u>5,289</u>      |
| Net assets, beginning   | <u>65,337</u>           | <u>59,209</u>    | <u>60,437</u>            | <u>61,276</u>    | <u>125,774</u>    | <u>120,485</u>    |
| Net assets, ending  | <u>\$ 53,365</u>        | <u>\$ 65,337</u> | <u>\$ 74,522</u>         | <u>\$ 60,437</u> | <u>\$ 127,887</u> | <u>\$ 125,774</u> |

Property taxes increased by \$623 (6.7%) during the year. This increase was the product of revenue from new construction and reassessment of property in Lufkin.

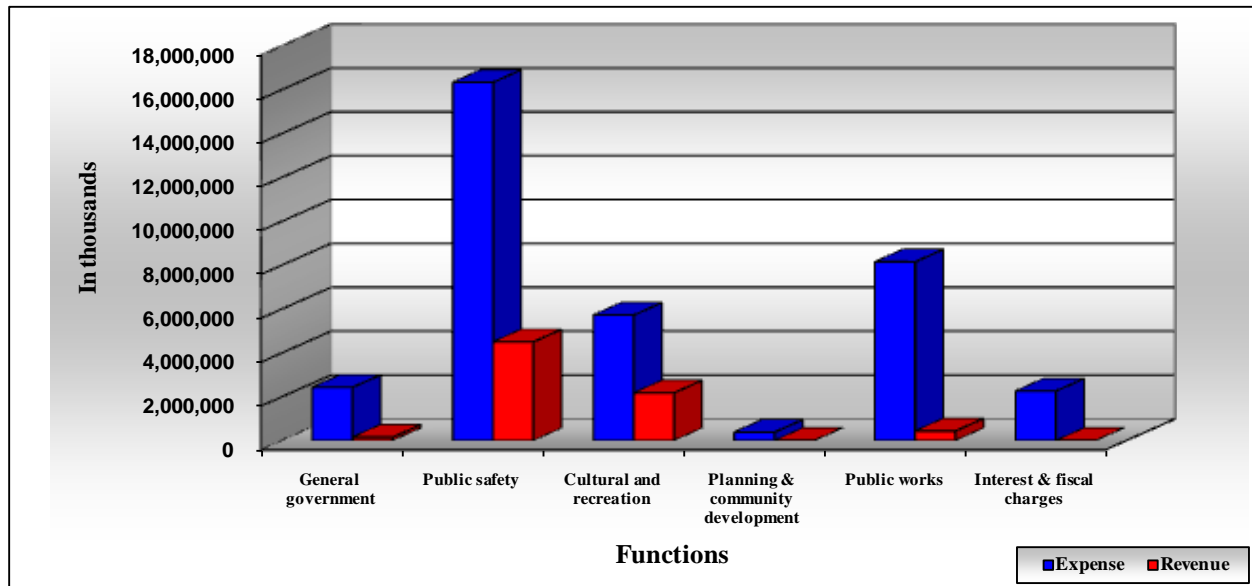
Operating grants for governmental activities decreased by \$811 (41.9%), due to FY 2008 reimbursement of costs associated with the two hurricanes (Gustav and Ike) that affected the City of Lufkin in August and September 2008 and the continuation of grants from the prior year.

Capital grants for governmental activities decreased by \$1,397 (60.1%) as the result of receiving a grant for the construction of a new street in Lufkin (Whitehouse Dr.) and for the purchase and demolition of housing prone to flooding in FY 2008.

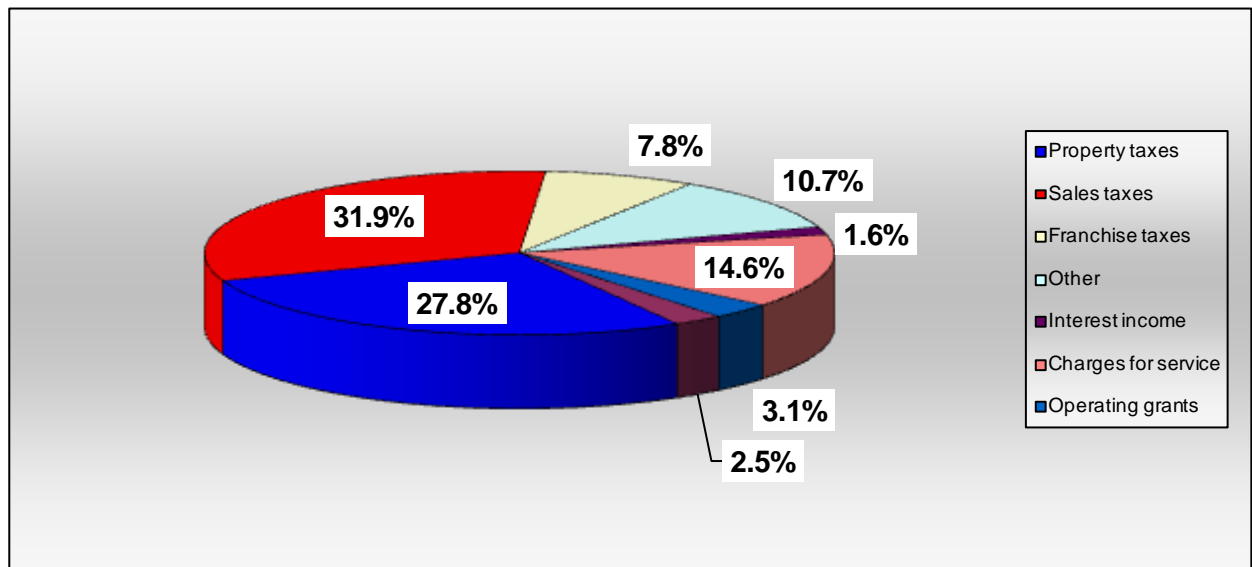
Transfers out for governmental activities increased by \$14,494 (1,296%) as the result of the issuance and transfer of \$17,400 of certificates of obligation debt to fund the acquisition of water rights and the transfer of \$2,918 in capital costs for the construction of a new public works facility.

Capital contributions decreased \$1,087 (100%) due to the annexation that occurred in FY 2008.

## Expenses and Program Revenues – Governmental Activities



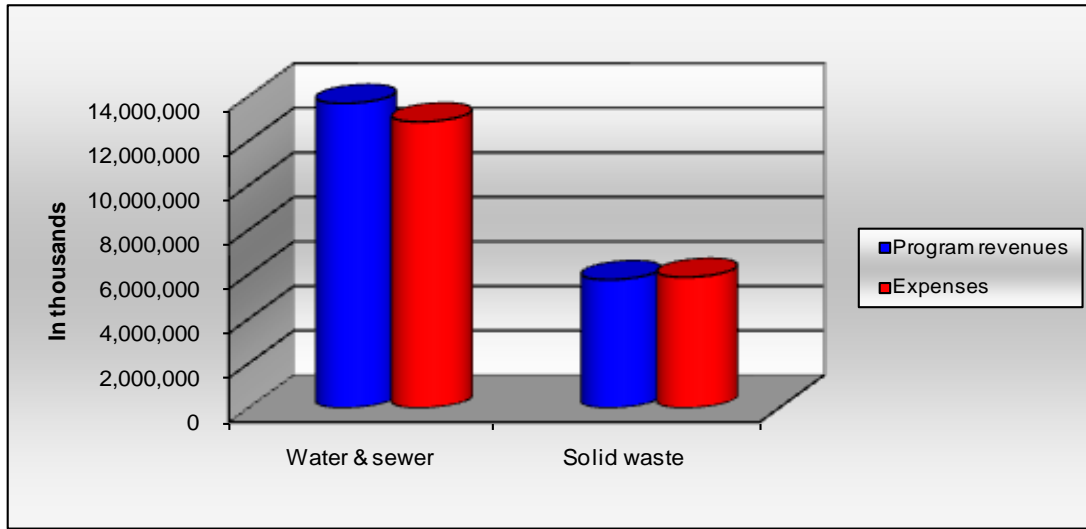
## Revenues by Source – Governmental Activities



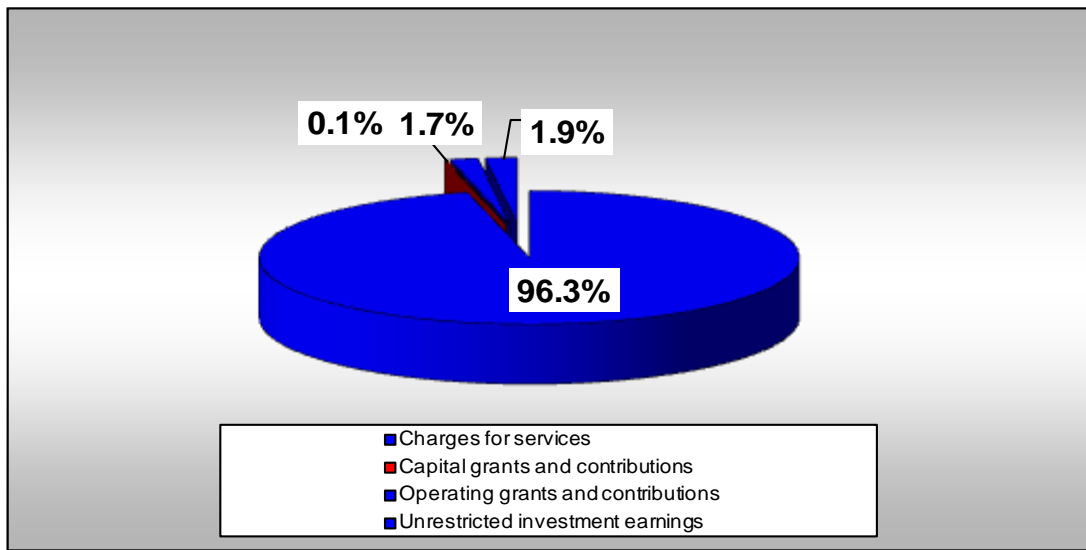
**Business-type activities.** Business-type activities increased the City’s net assets by \$14,085, accounting for (666.6%) of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Revenues exceeded expenses by \$1,478. Charges for services decreased by 2.4% from last year. Revenues decreased as a result of a decrease in charges for services caused by a decrease in water consumption. Expenses decreased by 6.4% as a result of the completion of the Solid Waste/Recycling replacement of disposal containers for household trash and recycling containers.
- Transfers to business-type activities from governmental activities increased by \$14,485, an increase of (771.3%) from the previous year. This increase is attributed to the transfer of proceeds for the issuance of \$17,400 in certificates of obligation to the Water and Sewer Fund and the transfer of \$2,714 from the Solid Waste/Recycling Fund to the General Fund for the construction of the public works facility.

**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 \$17,982, an increase of \$1,429 from the prior year.

Approximately 93.4% of this total amount, \$16,801 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 \$208 and 2) to pay debt service, \$973.

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 \$11,585, while total fund balance was \$11,793. 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 38.3% of total general fund expenditures, while total fund balance represents 39% of the same amount.

The fund balance of the City's general fund decreased by \$491 during the current fiscal year. The decrease was less than planned due to an increase in taxes, court fines and other charges for services and reductions in budgeted expenditures in non-departmental and a reduction in expenditures for the Fire Department of \$957 from FY 2008.

The debt service fund has a total fund balance of \$973, 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 \$609. This decrease resulted from a budgeted decrease in fund balance during FY 2009.

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

Unrestricted net assets of the Water and Sewer Utility Fund at the end of the current fiscal year amounted to \$3,069, and the Solid Waste Disposal Fund amounted to \$4,090. The total net assets increased for Water and Sewer Utility by \$16,625 while the Solid Waste Disposal Fund decreased by \$2,540. 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 \$2,762 in increased appropriations. The major adjustment was:

- \$2,639 in public works was for recording the completion of the public works facility funded from the Solid Waste/Recycling Renewal and Replacement account.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$675 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 \$162,049 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, water rights, 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, 2009 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, 2009 was \$3,930 as compared to \$4,116 for the previous year. Actual expenditures were \$3,683 for FY 2009, reflecting a slight decrease of \$96 from FY 2008. The decrease is attributable to reduction in the amount of streets maintained. In FY2009, street resurfacing decreased 7% from prior year resulting in a 10% increase of collector street miles in substandard condition and 10% increase 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 \$4,605.

### Condition Rating of the City's Street System

|                     | Percentage of Lane-miles in<br>Excellent to Very Good Condition |      |
|---------------------|---|------|
|                     | 2009  | 2008 |
|                     | Collector Streets   | 40%  |
| Residential Streets | 36%   | 33%  |

|                     | Percentage of Lane-miles in<br>Substandard Condition |      |
|---------------------|--|------|
|                     | 2009   | 2008 |
|                     | Collector Streets                                    | 23%  |
| Residential Streets | 30%  | 20%  |

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

- Completed construction of Whitehouse Dr. extension - \$4,554 – Total cost - \$4,554
- Completed construction on Zoo Education Building - \$1,369 - Total cost - \$1,369
- Completed reconstruction of Lotus Lane - \$3,114 – Total cost - \$3,114
- Completed Right-of-Way acquisition highway 59 - \$3,199 – Total cost - \$3,199
- Began renovation on Pines Theater - \$223 – Total cost - \$1,481
- Began girls softball restroom renovation - \$81 – Total cost - \$150

#### Business-type

- Completed construction of Service Center Complex – \$2,689 - Total cost - \$2,689
- Completed construction of Recycling Storage Facility – \$1,773 - Total cost - \$1,773
- Continued construction of Recycling Fuel Stations - \$332– Total cost - \$360
- Asbestos pipe replacement – completed, Project #12 & #13 - \$2,202 – Total cost - \$2,202
- Asbestos pipe replacement – completed, Project #15 - \$541 – Total cost - \$541
- Continued Wastewater Treatment Headworks Equipment installation – \$546 - Total cost - \$737
- Began Chlorine Contact Basin - \$4 – Total cost - \$760
- Continued Sam Rayburn water supply implementation - \$1,136 – Total cost - \$1,148
- Completed utility line relocation highway 59 - \$2,993 – Total cost - \$2,993
- Completed purchase Kurth Lake/ Water Wells - \$15,133 – Total cost - \$15,133
- Began SSCS US 69 annexed area - \$23 – Total cost - \$156

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

|                                   | Governmental activities |                  | Business-type activities |                  | Total             |                   |
|-----------------------------------|-------------------------|------------------|--------------------------|------------------|-------------------|-------------------|
|                                   | 2009                    | 2008             | 2009                     | 2008             | 2009              | 2008              |
| Land and water rights             | \$ 4,224                | \$ 3,279         | \$ 6,507                 | \$ 2,106         | \$ 10,731         | \$ 5,385          |
| Works of art                      | 278                     | 278              | -                        | -                | 278               | 278               |
| Buildings                         | 11,426                  | 8,597            | 3,715                    | 2,337            | 15,141            | 10,934            |
| Machinery and equipment           | 3,416                   | 3,093            | 2,756                    | 2,550            | 6,172             | 5,643             |
| Vehicles                          | 3,768                   | 4,019            | 163                      | 290              | 3,931             | 4,309             |
| Improvements other than buildings | 13,067                  | 12,439           | 53,446                   | 38,341           | 66,513            | 50,780            |
| Infrastructure                    | 56,432                  | 49,724           | -                        | -                | 56,432            | 49,724            |
| Construction in progress          | 686                     | 11,600           | 2,165                    | 11,100           | 2,851             | 22,700            |
| Total                             | <u>\$ 93,297</u>        | <u>\$ 93,029</u> | <u>\$ 68,752</u>         | <u>\$ 56,724</u> | <u>\$ 162,049</u> | <u>\$ 149,753</u> |

Additional information on the City of Lufkin's capital assets can be found in note IV. E. on pages 49 - 52 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$67,915. Of this amount \$55,750 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            |                  |
|--------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
|                          | 2009                    | 2008             | 2009                     | 2008             | 2009             | 2008             |
| General obligation bonds | \$ 55,750               | \$ 42,635        | \$ -                     | \$ -             | \$ 55,750        | \$ 42,635        |
| Revenue bonds            | -                       | -                | 12,165                   | 11,690           | 12,165           | 11,690           |
| Total                    | <u>\$ 55,750</u>        | <u>\$ 42,635</u> | <u>\$ 12,165</u>         | <u>\$ 11,690</u> | <u>\$ 67,915</u> | <u>\$ 54,325</u> |

The City's bonded debt increased by \$13,590 (25%) during the current year. The key factors in this increase were the issuance of \$1,215 in revenue bonds and general obligation bonds of \$17,400. Revenue bonds of \$740 and general obligation bonds of \$4,285 were retired during the year.

The City of Lufkin maintains an "A1" rating from Moody's and an "AA-" 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. G. on pages 53-58 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the City, according to Texas Workforce statistics, is 8.7%, an increase of 4.1% from last year. The 8.9% unemployment rate for Angelina County is an increase of 4.1% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 9.8 %.
- The state sales tax receipts for the current fiscal year totaled \$11,438, an increase of \$316 or (2.8%) 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 2010 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$10,740. The City has appropriated \$191 of this amount for spending in the 2010 fiscal year budget. It is intended that this use of available fund balance will support the decrease in the property tax rate millage rate from .5554 to .5338 for the 2010 fiscal year.

The Water and Sewer Utility rates increased 6% for all categories for the 2010 budget in support of the cost of the water rights and increased water pumping capacity acquired in FY 2009.

### **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, 2009**

|   | PRIMARY GOVERNMENT   |                      |                       | COMPONENT                     |
|---|----------------------|----------------------|-----------------------|-------------------------------|
|   | GOVERNMENTAL         | BUSINESS-TYPE        | TOTAL                 | UNIT                          |
|   | ACTIVITIES           | ACTIVITIES           |                       | ECONOMIC<br>DEVELOPMENT CORP. |
| <b>ASSETS</b>                                     |                      |                      |                       |                               |
| Cash and cash equivalents                         | \$ 2,974,171         | \$ 489,889           | \$ 3,464,060          | \$ 265,563                    |
| Investments                                       | 18,402,191           | 4,638,948            | 23,041,139            | 2,979,308                     |
| Receivables - net                                 | 1,585,951            | 2,329,088            | 3,915,039             | 87,854                        |
| Inventories                                       | 207,871              | 263,548              | 471,419               | -                             |
| Prepaid items                                     | 5,989                | -                    | 5,989                 | -                             |
| Deferred charges                                  | 594,395              | 333,919              | 928,314               | -                             |
| Restricted Assets:                                |                      |                      |                       |                               |
| Cash and cash equivalents                         | -                    | 1,931,947            | 1,931,947             | -                             |
| Investments-customer deposits                     | -                    | 244,513              | 244,513               | -                             |
| Investments                                       | -                    | 9,192,912            | 9,192,912             | -                             |
| Other receivable-net                              | -                    | 12,194               | 12,194                | -                             |
| Intergovernmental receivables                     | 981,818              | 12,418               | 994,236               | -                             |
| Notes receivable - net                            | -                    | 621,605              | 621,605               | -                             |
| Capital assets (net of accumulated depreciation): |                      |                      |                       |                               |
| Land  | 4,223,746            | 2,670,824            | 6,894,570             | -                             |
| Water rights                                      | -                    | 3,836,304            | 3,836,304             | -                             |
| Infrastructure                                    | 56,432,301           | -                    | 56,432,301            | -                             |
| Works of art                                      | 278,500              | -                    | 278,500               | -                             |
| Buildings   | 11,426,064           | 3,714,856            | 15,140,920            | -                             |
| Improvements other than buildings                 | 13,066,751           | 53,445,578           | 66,512,329            | -                             |
| Machinery and equipment                           | 3,416,039            | 2,755,581            | 6,171,620             | -                             |
| Vehicles  | 3,768,008            | 163,610              | 3,931,618             | -                             |
| Construction in progress                          | 685,901              | 2,165,511            | 2,851,412             | -                             |
| Total assets                                      | <u>118,049,696</u>   | <u>88,823,245</u>    | <u>206,872,941</u>    | <u>3,332,725</u>              |
| <b>LIABILITIES</b>                                |                      |                      |                       |                               |
| Accounts/claims payable                           | 1,015,616            | 762,773              | 1,778,389             | 20,873                        |
| Accrued interest                                  | 654,102              | -                    | 654,102               | -                             |
| Accrued liabilities                               | 828,285              | 154,717              | 983,002               | 10,861                        |
| Unearned revenues                                 | 23,042               | -                    | 23,042                | -                             |
| Payable from restricted assets                    | -                    | 431,741              | 431,741               | -                             |
| Noncurrent liabilities:                           |                      |                      |                       |                               |
| Due within one year                               | 5,173,288            | 1,050,948            | 6,224,236             | -                             |
| Due in more than one year                         | 56,990,856           | 11,900,496           | 68,891,352            | 4,479                         |
| Total liabilities                                 | <u>64,685,189</u>    | <u>14,300,675</u>    | <u>78,985,864</u>     | <u>36,213</u>                 |
| <b>NET ASSETS</b>                                 |                      |                      |                       |                               |
| Invested in capital assets, net of related debt   | 63,258,842           | 56,454,032           | 119,712,874           | -                             |
| Restricted for:                                   |                      |                      |                       |                               |
| Retirement of debt                                | 972,818              | 3,055,486            | 4,028,304             | -                             |
| Capital projects                                  | 2,883,810            | 6,025,943            | 8,909,753             | -                             |
| Renewal and replacement                           | -                    | 1,827,673            | 1,827,673             | -                             |
| Unrestricted                                      | (13,750,963)         | 7,159,436            | (6,591,527)           | 3,296,512                     |
| Total net assets                                  | <u>\$ 53,364,507</u> | <u>\$ 74,522,570</u> | <u>\$ 127,887,077</u> | <u>\$ 3,296,512</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, 2009**

| FUNCTIONS/PROGRAMS                   | NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS |                      |                                    |                                  |                         |                          |                |                           |      |              |
|--------------------------------------|---|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|----------------|---------------------------|------|--------------|
|                                      | PROGRAM REVENUES                                  |                      |                                    | PRIMARY GOVERNMENT               |                         |                          | COMPONENT UNIT |                           |      |              |
|                                      | EXPENSES  | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL          | ECONOMIC DEVELOPMENT CORP |      |              |
| Primary government:                  |   |                      |                                    |                                  |                         |                          |                |                           |      |              |
| Governmental activities:             |   |                      |                                    |                                  |                         |                          |                |                           |      |              |
| General government                   | \$ 2,425,346                                      | \$ 97,895            | \$ 56,593                          | \$ -                             | \$ (2,270,858)          | \$ -                     | \$ (2,270,858) | \$ -                      | \$ - | \$ -         |
| Public safety                        | 16,333,087  | 3,530,243            | 680,867                            | 288,000                          | (11,833,977)            | -                        | (11,833,977)   | -                         | -    | -            |
| Cultural and recreation              | 5,721,876   | 1,547,420            | 195,053                            | 431,137                          | (3,548,266)             | -                        | (3,548,266)    | -                         | -    | -            |
| Planning and community development   | 381,794   | -                    | -                                  | -                                | (381,794)               | -                        | (381,794)      | -                         | -    | -            |
| Public works                         | 8,147,847   | 52,106               | 192,115                            | 191,409                          | (7,712,217)             | -                        | (7,712,217)    | -                         | -    | -            |
| Interest and fiscal charges          | 2,255,560   | -                    | -                                  | -                                | (2,255,560)             | -                        | (2,255,560)    | -                         | -    | -            |
| Total governmental activities        | 35,265,510  | 5,227,664            | 1,124,628                          | 910,546                          | (28,002,672)            | -                        | (28,002,672)   | -                         | -    | -            |
| Business-type activities:            |   |                      |                                    |                                  |                         |                          |                |                           |      |              |
| Water and Sewer                      | 12,854,246  | 13,683,441           | 149,061                            | 23,714                           | -                       | 1,001,970                | 1,001,970      | -                         | -    | -            |
| Solid Waste Disposal                 | 5,871,745   | 5,763,348            | 185,108                            | -                                | -                       | 76,711                   | 76,711         | -                         | -    | -            |
| Total business-type activities       | 18,725,991  | 19,446,789           | 334,169                            | 23,714                           | -                       | 1,078,681                | 1,078,681      | -                         | -    | -            |
| Total primary government             | \$ 53,991,501                                     | \$ 24,674,453        | \$ 1,458,797                       | \$ 934,260                       | (28,002,672)            | 1,078,681                | (26,923,991)   | -                         | -    | -            |
| Component Unit:                      |   |                      |                                    |                                  |                         |                          |                |                           |      |              |
| Economic Development Corporation     | \$ 422,455  | \$ -                 | \$ -                               | \$ -                             | -                       | -                        | -              | -                         | -    | (422,455)    |
| General revenues:                    |   |                      |                                    |                                  |                         |                          |                |                           |      |              |
| Property taxes                       |   |                      |                                    |                                  | 9,980,988               | -                        | 9,980,988      | -                         | -    | -            |
| Sales taxes                          |   |                      |                                    |                                  | 11,438,413              | -                        | 11,438,413     | -                         | -    | 1,039,856    |
| Franchise taxes                      |   |                      |                                    |                                  | 2,795,191               | -                        | 2,795,191      | -                         | -    | -            |
| Mixed beverage tax                   |   |                      |                                    |                                  | 91,682                  | -                        | 91,682         | -                         | -    | -            |
| Other                                |   |                      |                                    |                                  | 3,752,801               | -                        | 3,752,801      | -                         | -    | 52,933       |
| Unrestricted investment earnings     |   |                      |                                    |                                  | 564,145                 | 383,528                  | 947,673        | -                         | -    | 35,065       |
| Gain on retirement of capital assets |   |                      |                                    |                                  | 13,660                  | 16,171                   | 29,831         | -                         | -    | -            |
| Transfers                            |   |                      |                                    |                                  | (12,607,254)            | 12,607,254               | -              | -                         | -    | -            |
| Total general revenues and transfers |   |                      |                                    |                                  | 16,029,626              | 13,006,953               | 29,036,579     | -                         | -    | 1,127,854    |
| Change in net assets                 |   |                      |                                    |                                  | (11,973,046)            | 14,085,634               | 2,112,588      | -                         | -    | 705,399      |
| Net assets - beginning               |   |                      |                                    |                                  | 65,337,553              | 60,436,936               | 125,774,489    | -                         | -    | 2,591,113    |
| Net assets - ending                  |   |                      |                                    |                                  | \$ 53,364,507           | \$ 74,522,570            | \$ 127,887,077 | \$ -                      | \$ - | \$ 3,296,512 |

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

**CITY OF LUFKIN, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2009**

|                                     | GENERAL<br>FUND      | DEBT<br>SERVICE<br>FUND | TOTAL<br>NONMAJOR<br>GOVERN-<br>MENTAL<br>FUNDS | TOTAL<br>GOVERN-<br>MENTAL<br>FUNDS |
|-------------------------------------|----------------------|-------------------------|---|-------------------------------------|
| <b>ASSETS</b>                       |                      |                         |   |                                     |
| Cash and cash equivalents           | \$ 609,045           | \$ 947,729              | \$ 887,245                                      | \$ 2,444,019                        |
| Investments                         | 11,154,616           | 25,000                  | 4,447,575                                       | 15,627,191                          |
| Receivables:                        |                      |                         |   |                                     |
| Taxes                               | 543,611              | 271,195                 | -   | 814,806                             |
| Accounts                            | 2,368,614            | -                       | 160,160   | 2,528,774                           |
| Other                               | 78,518               | 252                     | 192,626   | 271,396                             |
| Allowance for uncollectibles        | (1,680,897)          | (216,956)               | (146,146)                                       | (2,043,999)                         |
| Intergovernmental receivables       | 978,307              | -                       | 3,511   | 981,818                             |
| Inventories                         | 207,871              | -                       | -   | 207,871                             |
| Prepaid items                       | 5,989                | -                       | -   | 5,989                               |
| Total assets                        | <u>\$ 14,265,674</u> | <u>\$ 1,027,220</u>     | <u>\$ 5,544,971</u>                             | <u>\$ 20,837,865</u>                |
| <b>LIABILITIES</b>                  |                      |                         |   |                                     |
| Accounts/claims payable             | \$ 442,696           | \$ 163                  | \$ 270,636                                      | \$ 713,495                          |
| Accrued liabilities                 | 797,516              | -                       | 24,166  | 821,682                             |
| Deferred revenues                   | 1,232,730            | 54,239                  | 33,653  | 1,320,622                           |
| Total liabilities                   | <u>2,472,942</u>     | <u>54,402</u>           | <u>328,455</u>                                  | <u>2,855,799</u>                    |
| <b>FUND BALANCES</b>                |                      |                         |   |                                     |
| Reserved:                           |                      |                         |   |                                     |
| For inventory                       | 207,871              | -                       | -   | 207,871                             |
| Debt service                        | -                    | 972,818                 | -   | 972,818                             |
| Unreserved, reported in:            |                      |                         |   |                                     |
| General fund                        | 11,584,861           | -                       | -   | 11,584,861                          |
| Special revenue funds               | -                    | -                       | 2,332,706                                       | 2,332,706                           |
| Capital projects funds              | -                    | -                       | 2,883,810                                       | 2,883,810                           |
| Total fund balances                 | <u>11,792,732</u>    | <u>972,818</u>          | <u>5,216,516</u>                                | <u>17,982,066</u>                   |
| Total liabilities and fund balances | <u>\$ 14,265,674</u> | <u>\$ 1,027,220</u>     | <u>\$ 5,544,971</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.   | 90,154,786           |
| Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.   | 1,134,619            |
| Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.  | 594,395              |
| Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.  | 162,961              |
| 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. | 608,236              |
| 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.     | 5,545,690            |
| Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.  | (62,818,246)         |
| Net assets of governmental activities  | <u>\$ 53,364,507</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, 2009**

|  | GENERAL<br>FUND      | DEBT<br>SERVICE<br>FUND | TOTAL<br>NONMAJOR<br>GOVERN-<br>MENTAL<br>FUNDS | TOTAL<br>GOVERN-<br>MENTAL<br>FUNDS |
|--|----------------------|-------------------------|---|-------------------------------------|
| <b>Revenues</b>  |                      |                         |   |                                     |
| Taxes:   |                      |                         |   |                                     |
| Property   | \$ 6,360,649         | \$ 3,612,191            | \$ -  | \$ 9,972,840                        |
| Sales  | 11,438,413           | -                       | -   | 11,438,413                          |
| Franchise  | 2,795,191            | -                       | -   | 2,795,191                           |
| Other  | 91,683               | -                       | 791,725   | 883,408                             |
| Licenses and permits   | 343,487              | -                       | -   | 343,487                             |
| Fines and forfeitures  | 1,232,625            | -                       | -   | 1,232,625                           |
| Charges for services   | 2,470,406            | -                       | 611,808   | 3,082,214                           |
| Interest income  | 353,021              | 77,163                  | 50,796  | 480,980                             |
| Intergovernmental  | 3,798,416            | -                       | 1,304,250                                       | 5,102,666                           |
| Other revenues   | 551,113              | -                       | 189,350   | 740,463                             |
| Total revenues   | <u>29,435,004</u>    | <u>3,689,354</u>        | <u>2,947,929</u>                                | <u>36,072,287</u>                   |
| <b>Expenditures</b>  |                      |                         |   |                                     |
| Current:   |                      |                         |   |                                     |
| General government   | 3,395,084            | -                       | 144,120   | 3,539,204                           |
| Public safety  | 15,447,630           | -                       | 381,483   | 15,829,113                          |
| Cultural and recreation                                      | 3,516,249            | -                       | 1,248,387                                       | 4,764,636                           |
| Planning and community<br>development                        | 314,143              | -                       | -   | 314,143                             |
| Public works   | 7,395,618            | -                       | 242,469   | 7,638,087                           |
| Debt service:  |                      |                         |   |                                     |
| Principal  | 124,321              | 4,285,000               | -   | 4,409,321                           |
| Interest and fiscal charges                                  | 35,431               | 1,835,436               | -   | 1,870,867                           |
| Capital outlay   | -                    | -                       | 1,421,489                                       | 1,421,489                           |
| Total expenditures   | <u>30,228,476</u>    | <u>6,120,436</u>        | <u>3,437,948</u>                                | <u>39,786,860</u>                   |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(793,472)</u>     | <u>(2,431,082)</u>      | <u>(490,019)</u>                                | <u>(3,714,573)</u>                  |
| Other Financing Sources (Uses)                               |                      |                         |   |                                     |
| Transfers in   | 2,918,206            | 1,821,987               | 2,656,283                                       | 7,396,476                           |
| Transfers out  | (2,616,459)          | -                       | (18,024,445)                                    | (20,640,904)                        |
| Certificates of obligation issued                            | -                    | -                       | 17,400,000                                      | 17,400,000                          |
| Total other financing<br>sources (uses)                      | <u>301,747</u>       | <u>1,821,987</u>        | <u>2,031,838</u>                                | <u>4,155,572</u>                    |
| Net change in fund balances                                  | <u>(491,725)</u>     | <u>(609,095)</u>        | <u>1,541,819</u>                                | <u>440,999</u>                      |
| Fund balances - beginning                                    | 11,300,753           | 1,581,913               | 3,670,210                                       | 16,552,876                          |
| Prior period adjustment                                      | 983,704              | -                       | 4,487   | 988,191                             |
| Fund balances - beginning, as restated                       | <u>12,284,457</u>    | <u>-</u>                | <u>3,674,697</u>                                | <u>17,541,067</u>                   |
| Fund balances - ending                                       | <u>\$ 11,792,732</u> | <u>\$ 972,818</u>       | <u>\$ 5,216,516</u>                             | <u>\$ 17,982,066</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, 2009**

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

|   |                        |
|---|------------------------|
| Net change in fund balances – total governmental funds  | \$ 440,999             |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.   | (50,137)               |
| Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.   | 1,599,478              |
| 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.  | 396,976                |
| 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>(14,360,362)</u>    |
| Change in net assets of governmental activities   | <u>\$ (11,973,046)</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, 2009**

|                                       | BUDGETED AMOUNTS  |                   | ACTUAL<br>AMOUNTS | VARIANCE WITH<br>FINAL BUDGET -<br>POSITIVE<br>(NEGATIVE) |
|---------------------------------------|-------------------|-------------------|-------------------|---|
|                                       | ORIGINAL          | FINAL             |                   |   |
| Revenues                              |                   |                   |                   |   |
| Taxes:                                |                   |                   |                   |   |
| Ad valorem                            | \$ 6,315,803      | \$ 6,161,153      | \$ 6,360,649      | \$ 199,496  |
| Sales                                 | 11,506,958        | 11,458,333        | 11,438,413        | (19,920)  |
| Franchise                             | 2,732,155         | 2,812,603         | 2,795,191         | (17,412)  |
| Other                                 | 77,460            | 83,700            | 91,683            | 7,983   |
| Total taxes                           | <u>20,632,376</u> | <u>20,515,789</u> | <u>20,685,936</u> | <u>170,147</u>  |
| Licenses and Permits:                 |                   |                   |                   |   |
| Building permits and inspections      | 180,000           | 240,000           | 232,490           | (7,510)   |
| Plumbing permits and inspections      | 16,000            | 30,000            | 25,950            | (4,050)   |
| Electric permits and inspections      | 22,600            | 38,000            | 39,369            | 1,369   |
| Heat and vent permits                 | 17,000            | 25,000            | 26,852            | 1,852   |
| Other permits                         | 15,471            | 17,450            | 17,837            | 387   |
| Licenses                              | 1,600             | 1,200             | 989               | (211)   |
| Total licenses and permits            | <u>252,671</u>    | <u>351,650</u>    | <u>343,487</u>    | <u>(8,163)</u>  |
| Fines and Forfeitures:                |                   |                   |                   |   |
| Municipal court fines and forfeitures | 796,200           | 1,053,400         | 982,295           | (71,105)  |
| Red light fines and costs             | 170,000           | 280,000           | 248,810           | (31,190)  |
| Parking fines                         | 3,500             | 1,700             | 1,520             | (180)   |
| Total fines and forfeitures           | <u>969,700</u>    | <u>1,335,100</u>  | <u>1,232,625</u>  | <u>(102,475)</u>  |
| Charges for Services:                 |                   |                   |                   |   |
| Emergency medical services            | 1,882,100         | 2,084,500         | 2,171,181         | 86,681  |
| Emergency medical service - County    | 225,000           | 225,000           | 225,000           | -   |
| Mowing lots                           | 3,000             | 5,000             | 5,360             | 360   |
| False alarm fees                      | 27,000            | 18,000            | 14,580            | (3,420)   |
| Other                                 | 33,900            | 43,950            | 54,285            | 10,335  |
| Total charges for services            | <u>2,171,000</u>  | <u>2,376,450</u>  | <u>2,470,406</u>  | <u>93,956</u>   |
| Interest Income                       | <u>157,500</u>    | <u>200,000</u>    | <u>353,021</u>    | <u>153,021</u>  |
| Intergovernmental:                    |                   |                   |                   |   |
| Grant revenues                        | -                 | 618,573           | 737,031           | 118,458   |
| General and administrative services   | 3,061,385         | 3,061,385         | 3,061,385         | -   |
| Total intergovernmental               | <u>3,061,385</u>  | <u>3,679,958</u>  | <u>3,798,416</u>  | <u>118,458</u>  |
| Other Revenues:                       |                   |                   |                   |   |
| Parks                                 | 16,000            | 17,000            | 14,157            | (2,843)   |
| Library                               | 26,000            | 25,000            | 25,956            | 956   |
| Animal shelter collections            | 57,800            | 77,500            | 72,865            | (4,635)   |
| Zone change fees                      | 2,000             | 2,600             | 2,700             | 100   |
| Zoo admission fees                    | 105,000           | 105,000           | 103,774           | (1,226)   |
| Rent on city property                 | 32,000            | 48,630            | 50,990            | 2,360   |
| Salvage and auction                   | -                 | 52,245            | 66,136            | 13,891  |
| Miscellaneous                         | 47,800            | 121,800           | 124,756           | 2,956   |
| Salary reimbursements                 | 100,585           | 100,585           | 89,779            | (10,806)  |
| Total other revenues                  | <u>387,185</u>    | <u>550,360</u>    | <u>551,113</u>    | <u>753</u>  |
| Total revenues                        | <u>27,631,817</u> | <u>29,009,307</u> | <u>29,435,004</u> | <u>425,697</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, 2009**

|                          | BUDGETED AMOUNTS |                | ACTUAL<br>AMOUNTS | VARIANCE WITH<br>FINAL BUDGET -<br>POSITIVE<br>(NEGATIVE) |
|--------------------------|------------------|----------------|-------------------|---|
|                          | ORIGINAL         | FINAL          |                   |   |
| Expenditures             |                  |                |                   |   |
| Current:                 |                  |                |                   |   |
| General government:      |                  |                |                   |   |
| General:                 |                  |                |                   |   |
| Payroll costs            | 118,144          | 117,884        | 118,680           | (796)   |
| Supplies                 | 22,078           | 23,440         | 24,575            | (1,135)   |
| Maintenance              | 300              | 300            | -                 | 300   |
| Miscellaneous services   | 99,660           | 97,500         | 92,330            | 5,170   |
| Sundry charges           | 125,712          | 125,712        | 125,081           | 631   |
| Total general            | <u>365,894</u>   | <u>364,836</u> | <u>360,666</u>    | <u>4,170</u>  |
| City manager:            |                  |                |                   |   |
| Payroll costs            | 277,582          | 277,582        | 270,585           | 6,997   |
| Supplies                 | 16,100           | 16,800         | 13,049            | 3,751   |
| Maintenance              | 1,700            | -              | -                 | -   |
| Miscellaneous services   | 28,000           | 27,000         | 23,367            | 3,633   |
| Total city manager       | <u>323,382</u>   | <u>321,382</u> | <u>307,001</u>    | <u>14,381</u>   |
| Finance:                 |                  |                |                   |   |
| Payroll costs            | 452,579          | 452,279        | 443,151           | 9,128   |
| Supplies                 | 32,850           | 32,850         | 30,756            | 2,094   |
| Maintenance              | 7,140            | 5,620          | 4,649             | 971   |
| Miscellaneous services   | 81,438           | 81,968         | 76,771            | 5,197   |
| Total finance            | <u>574,007</u>   | <u>572,717</u> | <u>555,327</u>    | <u>17,390</u>   |
| Legal:                   |                  |                |                   |   |
| Miscellaneous services   | 156,000          | 163,096        | 163,857           | (761)   |
| Total legal              | <u>156,000</u>   | <u>163,096</u> | <u>163,857</u>    | <u>(761)</u>  |
| Tax:                     |                  |                |                   |   |
| Miscellaneous services   | 208,725          | 208,725        | 198,088           | 10,637  |
| Total tax                | <u>208,725</u>   | <u>208,725</u> | <u>198,088</u>    | <u>10,637</u>   |
| Human resources:         |                  |                |                   |   |
| Payroll costs            | 236,299          | 220,588        | 206,715           | 13,873  |
| Supplies                 | 13,050           | 13,050         | 8,207             | 4,843   |
| Maintenance              | 750              | 750            | -                 | 750   |
| Miscellaneous services   | 54,290           | 54,290         | 51,739            | 2,551   |
| Sundry charges           | 23,300           | 23,300         | 19,431            | 3,869   |
| Total human resources    | <u>327,689</u>   | <u>311,978</u> | <u>286,092</u>    | <u>25,886</u>   |
| Municipal building:      |                  |                |                   |   |
| Payroll costs            | 67,164           | 68,514         | 68,726            | (212)   |
| Supplies                 | 26,000           | 28,600         | 27,569            | 1,031   |
| Maintenance              | 58,500           | 57,000         | 42,058            | 14,942  |
| Miscellaneous services   | 234,644          | 179,644        | 151,232           | 28,412  |
| Total municipal building | <u>386,308</u>   | <u>333,758</u> | <u>289,585</u>    | <u>44,173</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, 2009**

|                              | BUDGETED AMOUNTS |                  | ACTUAL<br>AMOUNTS | VARIANCE WITH<br>FINAL BUDGET -<br>POSITIVE<br>(NEGATIVE) |
|------------------------------|------------------|------------------|-------------------|---|
|                              | ORIGINAL         | FINAL            |                   |   |
| Information technology:      |                  |                  |                   |   |
| Payroll costs                | 303,264          | 303,264          | 303,888           | (624)   |
| Supplies                     | 110,251          | 146,631          | 144,471           | 2,160   |
| Maintenance                  | 348,875          | 318,975          | 385,335           | (66,360)  |
| Miscellaneous services       | 218,255          | 216,705          | 192,280           | 24,425  |
| Capital outlay               | 144,480          | 139,550          | 36,940            | 102,610   |
| Total information technology | <u>1,125,125</u> | <u>1,125,125</u> | <u>1,062,914</u>  | <u>62,211</u>   |
| Non-departmental:            |                  |                  |                   |   |
| Payroll costs                | 25,000           | 15,000           | 14,636            | 364   |
| Maintenance                  | -                | 16,576           | 16,576            | -   |
| Miscellaneous services       | 144,768          | 144,889          | 140,342           | 4,547   |
| Total non-departmental       | <u>169,768</u>   | <u>176,465</u>   | <u>171,554</u>    | <u>4,911</u>  |
| Total general government     | <u>3,636,898</u> | <u>3,578,082</u> | <u>3,395,084</u>  | <u>182,998</u>  |
| Public safety:               |                  |                  |                   |   |
| Municipal court:             |                  |                  |                   |   |
| Payroll costs                | 275,939          | 269,080          | 274,697           | (5,617)   |
| Supplies                     | 12,535           | 12,550           | 12,085            | 465   |
| Maintenance                  | 1,000            | 500              | 29                | 471   |
| Miscellaneous services       | 41,480           | 42,600           | 14,894            | 27,706  |
| Total municipal court        | <u>330,954</u>   | <u>324,730</u>   | <u>301,705</u>    | <u>23,025</u>   |
| Police:                      |                  |                  |                   |   |
| Payroll costs                | 6,499,731        | 6,560,969        | 6,626,998         | (66,029)  |
| Supplies                     | 519,990          | 364,880          | 347,544           | 17,336  |
| Maintenance                  | 79,292           | 76,292           | 66,110            | 10,182  |
| Miscellaneous services       | 538,200          | 531,700          | 488,180           | 43,520  |
| Sundry charges               | 1,000            | 1,000            | 285               | 715   |
| Capital outlay               | 105,000          | 229,000          | 192,483           | 36,517  |
| Total police                 | <u>7,743,213</u> | <u>7,763,841</u> | <u>7,721,600</u>  | <u>42,241</u>   |
| Fire:                        |                  |                  |                   |   |
| Payroll costs                | 5,572,086        | 5,525,560        | 5,547,368         | (21,808)  |
| Supplies                     | 351,100          | 326,637          | 313,965           | 12,672  |
| Maintenance                  | 127,325          | 170,142          | 163,450           | 6,692   |
| Miscellaneous services       | 332,266          | 344,034          | 324,429           | 19,605  |
| Sundry charges               | 200              | 200              | -                 | 200   |
| Capital outlay               | -                | 10,978           | 10,978            | -   |
| Total fire                   | <u>6,382,977</u> | <u>6,377,551</u> | <u>6,360,190</u>  | <u>17,361</u>   |
| Inspection:                  |                  |                  |                   |   |
| Payroll costs                | 422,415          | 422,988          | 427,196           | (4,208)   |
| Supplies                     | 26,100           | 23,150           | 18,979            | 4,171   |
| Maintenance                  | 3,800            | 3,800            | 1,202             | 2,598   |
| Miscellaneous services       | 50,785           | 51,685           | 49,553            | 2,132   |
| Sundry charges               | 100              | 100              | -                 | 100   |
| Total inspection             | <u>503,200</u>   | <u>501,723</u>   | <u>496,930</u>    | <u>4,793</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, 2009**

|  | BUDGETED AMOUNTS  |                   | ACTUAL<br>AMOUNTS | VARIANCE WITH<br>FINAL BUDGET -<br>POSITIVE<br>(NEGATIVE) |
|--|-------------------|-------------------|-------------------|---|
|  | ORIGINAL          | FINAL             |                   |   |
| <b>Animal control:</b>                     |                   |                   |                   |   |
| Payroll costs                              | 404,073           | 391,829           | 389,323           | 2,506   |
| Supplies                                   | 63,615            | 54,015            | 48,642            | 5,373   |
| Maintenance                                | 12,450            | 13,150            | 6,866             | 6,284   |
| Miscellaneous services                     | 75,499            | 82,529            | 88,323            | (5,794)   |
| Capital outlay                             | 54,000            | 34,050            | 34,051            | (1)   |
| Total animal control                       | <u>609,637</u>    | <u>575,573</u>    | <u>567,205</u>    | <u>8,368</u>  |
| Total public safety                        | <u>15,569,981</u> | <u>15,543,418</u> | <u>15,447,630</u> | <u>95,788</u>   |
| <b>Cultural and recreation:</b>            |                   |                   |                   |   |
| <b>Parks:</b>                              |                   |                   |                   |   |
| Payroll costs                              | 830,983           | 860,712           | 807,637           | 53,075  |
| Supplies                                   | 142,471           | 136,646           | 109,973           | 26,673  |
| Maintenance                                | 124,000           | 149,051           | 145,313           | 3,738   |
| Miscellaneous services                     | 479,517           | 537,753           | 501,659           | 36,094  |
| Capital outlay                             | 38,850            | 113,580           | 101,126           | 12,454  |
| Total parks                                | <u>1,615,821</u>  | <u>1,797,742</u>  | <u>1,665,708</u>  | <u>132,034</u>  |
| <b>Zoo:</b>                                |                   |                   |                   |   |
| Payroll costs                              | 993,434           | 997,953           | 972,933           | 25,020  |
| Supplies                                   | 161,447           | 182,423           | 170,940           | 11,483  |
| Maintenance                                | 3,600             | 3,630             | 3,747             | (117)   |
| Miscellaneous services                     | 153,527           | 156,916           | 150,703           | 6,213   |
| Capital outlay                             | -                 | 21,080            | 31,368            | (10,288)  |
| Total zoo                                  | <u>1,312,008</u>  | <u>1,362,002</u>  | <u>1,329,691</u>  | <u>32,311</u>   |
| <b>Library:</b>                            |                   |                   |                   |   |
| Payroll costs                              | 416,000           | 409,067           | 404,357           | 4,710   |
| Supplies                                   | 19,818            | 19,180            | 16,539            | 2,641   |
| Maintenance                                | 39,487            | 39,243            | 22,025            | 17,218  |
| Miscellaneous services                     | 83,825            | 90,625            | 77,929            | 12,696  |
| Total library                              | <u>559,130</u>    | <u>558,115</u>    | <u>520,850</u>    | <u>37,265</u>   |
| Total cultural and recreation              | <u>3,486,959</u>  | <u>3,717,859</u>  | <u>3,516,249</u>  | <u>201,610</u>  |
| <b>Planning and community development:</b> |                   |                   |                   |   |
| <b>Main street</b>                         |                   |                   |                   |   |
| Payroll costs                              | 102,471           | 102,471           | 102,644           | (173)   |
| Supplies                                   | 6,081             | 7,111             | 4,970             | 2,141   |
| Miscellaneous services                     | 13,390            | 12,980            | 13,145            | (165)   |
| Total main street                          | <u>121,942</u>    | <u>122,562</u>    | <u>120,759</u>    | <u>1,803</u>  |
| <b>Planning and Zoning:</b>                |                   |                   |                   |   |
| Payroll costs                              | 201,612           | 174,143           | 171,262           | 2,881   |
| Supplies                                   | 6,550             | 6,350             | 5,488             | 862   |
| Maintenance                                | 1,100             | 1,100             | 76                | 1,024   |
| Miscellaneous services                     | 20,665            | 20,665            | 16,558            | 4,107   |
| Total planning and zoning                  | <u>229,927</u>    | <u>202,258</u>    | <u>193,384</u>    | <u>8,874</u>  |
| Total planning and community development   | <u>351,869</u>    | <u>324,820</u>    | <u>314,143</u>    | <u>10,677</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, 2009**

|  | BUDGETED AMOUNTS    |                     | ACTUAL<br>AMOUNTS    | VARIANCE WITH<br>FINAL BUDGET -<br>POSITIVE<br>(NEGATIVE) |
|--|---------------------|---------------------|----------------------|---|
|  | ORIGINAL            | FINAL               |                      |   |
| Public Works   |                     |                     |                      |   |
| Engineering:   |                     |                     |                      |   |
| Payroll costs  | 448,696             | 448,444             | 447,884              | 560   |
| Supplies   | 19,966              | 12,816              | 10,087               | 2,729   |
| Maintenance  | 22,996              | 23,996              | 16,687               | 7,309   |
| Miscellaneous services                                       | 89,731              | 93,231              | 87,751               | 5,480   |
| Total engineering  | <u>581,389</u>      | <u>578,487</u>      | <u>562,409</u>       | <u>16,078</u>   |
| Street:  |                     |                     |                      |   |
| Payroll costs  | 1,420,952           | 1,413,256           | 1,398,490            | 14,766  |
| Supplies   | 306,330             | 284,353             | 241,451              | 42,902  |
| Maintenance  | 1,279,375           | 1,255,267           | 1,131,552            | 123,715   |
| Miscellaneous services                                       | 974,354             | 976,974             | 974,608              | 2,366   |
| Capital outlay   | 13,000              | 2,703,550           | 2,703,523            | 27  |
| Total street   | <u>3,994,011</u>    | <u>6,633,400</u>    | <u>6,449,624</u>     | <u>183,776</u>  |
| Fleet management:  |                     |                     |                      |   |
| Payroll costs  | 304,269             | 307,200             | 307,331              | (131)   |
| Supplies   | 30,050              | 26,100              | 46,905               | (20,805)  |
| Maintenance  | 11,700              | 8,900               | 7,237                | 1,663   |
| Miscellaneous services                                       | 18,819              | 25,239              | 22,112               | 3,127   |
| Total fleet management                                       | <u>364,838</u>      | <u>367,439</u>      | <u>383,585</u>       | <u>(16,146)</u>   |
| Total public works   | <u>4,940,238</u>    | <u>7,579,326</u>    | <u>7,395,618</u>     | <u>183,708</u>  |
| Debt Service:  |                     |                     |                      |   |
| Notes payable:   |                     |                     |                      |   |
| Principal  | 124,321             | 124,321             | 124,321              | -   |
| Interest   | 31,320              | 35,432              | 35,431               | 1   |
| Total debt service   | <u>155,641</u>      | <u>159,753</u>      | <u>159,752</u>       | <u>1</u>  |
| Total expenditures   | <u>28,141,586</u>   | <u>30,903,258</u>   | <u>30,228,476</u>    | <u>674,782</u>  |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(509,769)</u>    | <u>(1,893,951)</u>  | <u>(793,472)</u>     | <u>1,100,479</u>  |
| Other Financing Sources (Uses)                               |                     |                     |                      |   |
| Transfers out  | (165,000)           | (2,616,459)         | (2,616,459)          | -   |
| Transfers in   | 200,000             | 2,917,807           | 2,918,206            | 399   |
| Total other financing sources (uses)                         | <u>35,000</u>       | <u>301,348</u>      | <u>301,747</u>       | <u>399</u>  |
| Net change in fund balances                                  | <u>(474,769)</u>    | <u>(1,592,603)</u>  | <u>(491,725)</u>     | <u>1,100,878</u>  |
| Fund balances - beginning                                    | 11,300,753          | 11,300,753          | 11,300,753           | -   |
| Prior period adjustment                                      | -                   | -                   | 983,704              | 983,704   |
| Fund balances - beginning, as restated                       | <u>11,300,753</u>   | <u>11,300,753</u>   | <u>12,284,457</u>    | <u>983,704</u>  |
| Fund balances - ending                                       | <u>\$10,825,984</u> | <u>\$ 9,708,150</u> | <u>\$ 11,792,732</u> | <u>\$ 2,084,582</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, 2009**

|  | <u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u> |  |                     | GOVERNMENTAL<br>ACTIVITIES-<br>INTERNAL<br>SERVICE FUNDS |
|--|--|--|---------------------|--|
|  | <u>WATER AND<br/>SEWER<br/>UTILITY FUND</u>        | <u>SOLID WASTE<br/>DISPOSAL<br/>FUND</u> | <u>TOTALS</u>       |  |
| <b>ASSETS</b>  |  |  |                     |  |
| <b>Current assets:</b>                                       |  |  |                     |  |
| Cash and cash equivalents                                    | \$ 221,880   | \$ 268,009                               | \$ 489,889          | \$ 530,152   |
| Investments  | 1,798,209  | 2,840,739                                | 4,638,948           | 2,775,000  |
| <b>Restricted assets:</b>                                    |  |  |                     |  |
| Cash and cash equivalents                                    | 289,102  | -  | 289,102             | -  |
| Investments- customer<br>deposits                            | 244,513  | -  | 244,513             | -  |
| Investments  | 2,936,520  | -  | 2,936,520           | -  |
| Other receivables (net of allowance<br>for uncollectibles)   | 17,749   | -  | 17,749              | -  |
| Accounts receivable (net of allowance<br>for uncollectibles) | 1,659,079  | 652,260                                  | 2,311,339           | 14,974   |
| Intergovernmental receivables                                | 8,862  | 3,556                                    | 12,418              | -  |
| Note receivable (net of allowance for<br>uncollectibles)     | -  | 124,321                                  | 124,321             | -  |
| Inventories  | 247,057  | 16,491                                   | 263,548             | -  |
| Deferred charges   | 333,919  | -  | 333,919             | -  |
| Total current assets   | <u>7,756,890</u>                                   | <u>3,905,376</u>                         | <u>11,662,266</u>   | <u>3,320,126</u>   |
| <b>Noncurrent assets:</b>                                    |  |  |                     |  |
| <b>Restricted Assets:</b>                                    |  |  |                     |  |
| Cash and cash equivalents                                    | 1,642,845  | -  | 1,642,845           | -  |
| Investments  | 6,256,392  | -  | 6,256,392           | -  |
| Other receivable (net of allowance for<br>uncollectibles)    | 12,194   | -  | 12,194              | -  |
| Note receivable (net of allowance for<br>uncollectibles)     | -  | 497,284                                  | 497,284             | -  |
| Total restricted noncurrent assets                           | <u>7,911,431</u>                                   | <u>497,284</u>                           | <u>8,408,715</u>    | <u>-</u>   |
| <b>Capital assets:</b>                                       |  |  |                     |  |
| Land   | 2,509,460  | 161,364                                  | 2,670,824           | -  |
| Water rights   | 3,836,304  | -  | 3,836,304           | -  |
| Buildings  | 3,258,788  | 2,291,845                                | 5,550,633           | -  |
| Machinery and equipment                                      | 12,625,823   | 768,886                                  | 13,394,709          | 853,624  |
| Vehicles   | 1,188,993  | 1,948,810                                | 3,137,803           | 3,847,821  |
| Improvements   | 73,667,982   | 734,464                                  | 74,402,446          | -  |
| Construction in progress                                     | 1,833,351  | 332,160                                  | 2,165,511           | -  |
| Less accumulated depreciation                                | <u>(33,393,311)</u>                                | <u>(3,012,655)</u>                       | <u>(36,405,966)</u> | <u>(1,558,921)</u>                                       |
| Total capital assets (net of accumulated<br>depreciation)    | <u>65,527,390</u>                                  | <u>3,224,874</u>                         | <u>68,752,264</u>   | <u>3,142,524</u>   |
| Total noncurrent assets                                      | <u>73,438,821</u>                                  | <u>3,722,158</u>                         | <u>77,160,979</u>   | <u>3,142,524</u>   |
| <b>Total assets</b>  | <u>81,195,711</u>                                  | <u>7,627,534</u>                         | <u>88,823,245</u>   | <u>6,462,650</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</u>                                   | <u>SOLID WASTE</u>  |                      | <u>ACTIVITIES-</u>   |
|   | <u>SEWER</u>                                       | <u>DISPOSAL</u>     |                      | <u>INTERNAL</u>      |
|   | <u>UTILITY FUND</u>                                | <u>FUND</u>         | <u>TOTALS</u>        | <u>SERVICE FUNDS</u> |
| <b>LIABILITIES</b>                                  |  |                     |                      |                      |
| Current liabilities:                                |  |                     |                      |                      |
| Accounts/claims payable                             | 588,580  | 174,193             | 762,773              | 302,121              |
| Accrued compensated absences                        | 110,039  | 26,280              | 136,319              | -                    |
| Accrued liabilities                                 | 109,908  | 44,809              | 154,717              | 6,603                |
| Current liabilities payable from restricted assets: |  |                     |                      |                      |
| Accrued interest payable                            | 187,228  | -                   | 187,228              | -                    |
| Customer deposits                                   | 244,513  | -                   | 244,513              | -                    |
| Notes payable - current maturities                  | 149,629  | -                   | 149,629              | -                    |
| Bonds payable - current maturities                  | 765,000  | -                   | 765,000              | -                    |
| <br>Total current liabilities                       | <br><u>2,154,897</u>                               | <br><u>245,282</u>  | <br><u>2,400,179</u> | <br><u>308,724</u>   |
| Noncurrent liabilities:                             |  |                     |                      |                      |
| Accrued compensated absences                        | 128,812  | 30,764              | 159,576              | -                    |
| Notes payable                                       | 228,047  | -                   | 228,047              | -                    |
| Net pension obligation                              | 76,500   | 36,373              | 112,873              | -                    |
| Revenue bonds payable                               | 11,400,000   | -                   | 11,400,000           | -                    |
| Total noncurrent liabilities                        | <u>11,833,359</u>                                  | <u>67,137</u>       | <u>11,900,496</u>    | <u>-</u>             |
| Total liabilities                                   | <u>13,988,256</u>                                  | <u>312,419</u>      | <u>14,300,675</u>    | <u>308,724</u>       |
| <b>NET ASSETS</b>                                   |  |                     |                      |                      |
| Invested in capital assets, net of related debt     | 53,229,158   | 3,224,874           | 56,454,032           | 3,142,524            |
| Restricted for retirement of debt                   | 3,055,486  | -                   | 3,055,486            | -                    |
| Restricted for construction                         | 6,025,943  | -                   | 6,025,943            | -                    |
| Restricted for renewal and replacement              | 1,827,673  | -                   | 1,827,673            | -                    |
| Unrestricted  | 3,069,195  | 4,090,241           | 7,159,436            | 3,011,402            |
| Total net assets                                    | <u>\$ 67,207,455</u>                               | <u>\$ 7,315,115</u> | <u>\$ 74,522,570</u> | <u>\$ 6,153,926</u>  |

**CITY OF LUFKIN, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For The Year Ended September 30, 2009**

|   | <u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u> |                                 |                      | GOVERNMENTAL                             |
|---|--|---------------------------------|----------------------|--|
|   | WATER AND<br>SEWER<br>UTILITY FUND                 | SOLID WASTE<br>DISPOSAL<br>FUND | TOTALS               | ACTIVITIES-<br>INTERNAL<br>SERVICE FUNDS |
| Operating Revenues:                                 |  |                                 |                      |  |
| Water sales   | \$ 7,338,991                                       | \$ -                            | \$ 7,338,991         | \$ -                                     |
| Sewer service charges                               | 6,115,674  | -                               | 6,115,674            | -  |
| Sanitation collections                              | -  | 5,535,422                       | 5,535,422            | -  |
| Provision for bad debts                             | (269,787)  | (40,654)                        | (310,441)            | -  |
| Service revenue                                     | 311,851  | -                               | 311,851              | -  |
| General and administrative                          | 104,913  | -                               | 104,913              | -  |
| Employee premiums                                   | -  | -                               | -                    | 728,107                                  |
| Employer premiums                                   | -  | -                               | -                    | 2,265,000                                |
| Equipment rental                                    | -  | -                               | -                    | 1,671,224                                |
| Miscellaneous                                       | 81,799   | 268,580                         | 350,379              | 2,161                                    |
| Total operating revenues                            | <u>13,683,441</u>                                  | <u>5,763,348</u>                | <u>19,446,789</u>    | <u>4,666,492</u>                         |
| Operating Expenses:                                 |  |                                 |                      |  |
| Assistant city manager                              | -  | 326,438                         | 326,438              | -  |
| Utility collections                                 | 693,632  | -                               | 693,632              | -  |
| Water utilities                                     | 1,416,956  | -                               | 1,416,956            | -  |
| Sewer utilities                                     | 1,892,309  | -                               | 1,892,309            | -  |
| Wastewater treatment plant                          | 2,171,923  | -                               | 2,171,923            | -  |
| Water production                                    | 2,094,339  | -                               | 2,094,339            | -  |
| Sanitation department                               | -  | 3,757,647                       | 3,757,647            | -  |
| Recycling department                                | -  | 426,069                         | 426,069              | -  |
| Insurance claims and related expenses               | -  | -                               | -                    | 2,917,411                                |
| Depreciation and amortization                       | 1,857,675  | 95,564                          | 1,953,239            | 883,602                                  |
| General and administrative                          | 1,920,929  | 1,245,369                       | 3,166,298            | -  |
| Non-departmental                                    | 365,773  | 20,658                          | 386,431              | -  |
| Total operating expenses                            | <u>12,413,536</u>                                  | <u>5,871,745</u>                | <u>18,285,281</u>    | <u>3,801,013</u>                         |
| Operating income (loss)                             | <u>1,269,905</u>                                   | <u>(108,397)</u>                | <u>1,161,508</u>     | <u>865,479</u>                           |
| Nonoperating Revenues (Expenses):                   |  |                                 |                      |  |
| Intergovernmental                                   | 149,061  | 185,108                         | 334,169              | -  |
| Interest income                                     | 259,754  | 123,774                         | 383,528              | 83,165                                   |
| Interest expense                                    | (435,121)  | -                               | (435,121)            | -  |
| Bond fees and issuance costs                        | (5,589)  | -                               | (5,589)              | -  |
| Gain (loss) on sale of assets                       | (200,028)  | 216,199                         | 16,171               | 13,660                                   |
| Total nonoperating revenues (expenses)              | <u>(231,923)</u>                                   | <u>525,081</u>                  | <u>293,158</u>       | <u>96,825</u>                            |
| Income (loss) before contributions<br>and transfers | 1,037,982  | 416,684                         | 1,454,666            | 962,304                                  |
| Capital contributions                               | 23,714   | -                               | 23,714               | -  |
| Transfers in  | 17,400,000   | -                               | 17,400,000           | 637,174                                  |
| Transfers out                                       | (1,836,125)  | (2,956,621)                     | (4,792,746)          | -  |
| Change in net assets                                | 16,625,571   | (2,539,937)                     | 14,085,634           | 1,599,478                                |
| Total net assets - beginning                        | 50,581,884   | 9,855,052                       | 60,436,936           | 4,554,448                                |
| Total net assets - ending                           | <u>\$ 67,207,455</u>                               | <u>\$ 7,315,115</u>             | <u>\$ 74,522,570</u> | <u>\$ 6,153,926</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, 2009**

|   | <u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u> |                                 |                     | GOVERNMENTAL<br>ACTIVITIES-<br>INTERNAL<br>SERVICE FUNDS |
|---|--|---------------------------------|---------------------|--|
|   | WATER AND<br>SEWER<br>UTILITY FUND                 | SOLID WASTE<br>DISPOSAL<br>FUND | TOTALS              |  |
| <b>Cash Flows From Operating Activities:</b>                            |  |                                 |                     |  |
| Receipts from customers and users                                       | \$ 13,580,437                                      | \$ 5,766,674                    | \$ 19,347,111       | \$ 729,100   |
| Receipts from interfund services provided                               | -  | -                               | -                   | 3,937,635  |
| Payments to suppliers   | (6,663,636)  | (3,568,003)                     | (10,231,639)        | (2,956,575)  |
| Payments to employees   | (3,167,285)  | (1,464,519)                     | (4,631,804)         | -  |
| Payments for interfund services used                                    | (685,359)  | (851,121)                       | (1,536,480)         | -  |
| Net cash provided by (used by) operating activities                     | <u>3,064,157</u>                                   | <u>(116,969)</u>                | <u>2,947,188</u>    | <u>1,710,160</u>   |
| <b>Cash Flows From Noncapital Financing Activities:</b>                 |  |                                 |                     |  |
| Transfer from other funds   | 17,400,000   | -                               | 17,400,000          | 637,174  |
| Transfer to other funds   | (1,836,125)  | (2,956,621)                     | (4,792,746)         | -  |
| Intergovernmental grants  | 216,521  | 202,953                         | 419,474             | -  |
| Net cash provided by (used by) noncapital financing activities          | <u>15,780,396</u>                                  | <u>(2,753,668)</u>              | <u>13,026,728</u>   | <u>637,174</u>   |
| <b>Cash Flows From Capital and Related Financing Activities:</b>        |  |                                 |                     |  |
| Capital debt issued   | 1,215,000  | -                               | 1,215,000           | -  |
| Capital contributions   | 23,714   | -                               | 23,714              | -  |
| Purchase of capital assets  | (15,504,461)                                       | (27,265)                        | (15,531,726)        | (755,006)  |
| Acquisition and construction of capital assets                          | (1,021,958)  | (311,038)                       | (1,332,996)         | -  |
| Principal paid on capital debt  | (889,218)  | -                               | (889,218)           | -  |
| Interest and fees paid on capital debt                                  | (442,176)  | -                               | (442,176)           | -  |
| Proceeds from sale of capital assets                                    | 20,886   | 2,905,337                       | 2,926,223           | 13,660   |
| Net cash provided by (used by) capital and related financing activities | <u>(16,598,213)</u>                                | <u>2,567,034</u>                | <u>(14,031,179)</u> | <u>(741,346)</u>   |
| <b>Cash Flows From Investing Activities:</b>                            |  |                                 |                     |  |
| Proceeds from sale and maturities of investments                        | 14,112,852   | 2,438,202                       | 16,551,054          | 1,882,124  |
| Purchase of investments   | (18,206,554)                                       | (2,650,651)                     | (20,857,205)        | (3,600,000)  |
| Collections on note receivable  | -  | 124,321                         | 124,321             | -  |
| Interest and dividends received   | 242,143  | 134,328                         | 376,471             | 68,960   |
| Net cash provided by (used by) investing activities                     | <u>(3,851,559)</u>                                 | <u>46,200</u>                   | <u>(3,805,359)</u>  | <u>(1,648,916)</u>                                       |
| Net (decrease) in cash and cash equivalents                             | (1,605,219)  | (257,403)                       | (1,862,622)         | (42,928)   |
| Cash and cash equivalents - beginning                                   | 3,759,046  | 525,412                         | 4,284,458           | 573,080  |
| Cash and cash equivalents - ending                                      | <u>\$ 2,153,827</u>                                | <u>\$ 268,009</u>               | <u>\$ 2,421,836</u> | <u>\$ 530,152</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, 2009**

|  | <u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u> |                                 |                     | GOVERNMENTAL<br>ACTIVITIES-<br>INTERNAL<br>SERVICE FUNDS |
|--|--|---------------------------------|---------------------|--|
|  | WATER AND<br>SEWER<br>UTILITY FUND                 | SOLID WASTE<br>DISPOSAL<br>FUND | TOTALS              |  |
| Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:        |  |                                 |                     |  |
| Operating income (loss)  | \$ 1,269,905                                       | \$ (108,397)                    | \$ 1,161,508        | \$ 865,479   |
| Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities: |  |                                 |                     |  |
| Depreciation and amortization  | 1,857,675  | 95,564                          | 1,953,239           | 883,602  |
| (Increase) decrease in accounts receivable-net   | (91,657)   | 4,923                           | (86,734)            | 48,497   |
| Decrease in due from other funds   | 326,502  | -                               | 326,502             | -  |
| (Increase) decrease in inventories   | (75,306)   | 3,604                           | (71,702)            | -  |
| (Decrease) in accounts/claims payable  | (24,826)   | (158,620)                       | (183,446)           | (87,512)   |
| Increase in accrued compensated absences   | 54,650   | 10,217                          | 64,867              | -  |
| (Decrease) in customer deposits  | (10,945)   | -                               | (10,945)            | -  |
| Increase (decrease) in accrued liabilities   | 8,161  | (633)                           | 7,528               | 94   |
| (Decrease) in due to other funds   | (326,502)  | -                               | (326,502)           | -  |
| Increase in net pension obligation   | 76,500   | 36,373                          | 112,873             | -  |
| Total adjustments  | <u>1,794,252</u>                                   | <u>(8,572)</u>                  | <u>1,785,680</u>    | <u>844,681</u>   |
| Net cash provided by (used by) operating activities  | <u>\$ 3,064,157</u>                                | <u>\$ (116,969)</u>             | <u>\$ 2,947,188</u> | <u>\$ 1,710,160</u>                                      |

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