

**CITY OF LUFKIN, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The City of Lufkin, Texas (City) was incorporated in 1890 and operates under the provisions of the City Charter as amended. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, recreation, education, public improvements, planning and zoning and general administrative services. In addition, the City owns and operates a water and sewer system and a solid waste/recycling system.

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

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

The Lufkin Industrial Development Authority (Authority) was created by the Development Corporation Act of 1979 and the approval of the City Council and has been in operation since August 1979. The Authority was created to encourage industrial development in the City of Lufkin. As of September 30, 2010, there were no assets, liabilities, fund equities, revenues or expenditures of the Authority.

The Texas Housing Finance Corporation Act and the approval of the City Council created Lufkin Housing Finance Corporation. The Corporation was created to encourage safe, decent housing in the City. As of September 30, 2010 there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Housing Finance Corporation.

The Texas Health Facilities Development Act and the approval of the City Council created Lufkin Health Facilities Development Corporation. The Corporation's purpose is to encourage health care, research, and education and to assist with the maintenance of public health. As of September 30, 2010, there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Health Facilities Development Corporation.

During fiscal year 2004, the citizens of Lufkin voted to create a 4B Economic Development Corporation (EDC) effective October 1, 2004. The EDC is funded using one-eighth of one cent of the City's local sales tax rate of 1.5%. This equals 1/12 of the revenue from this revenue source. The City Council appoints the board members of the EDC. The City reports the EDC as a discretely presented component unit and does not issue separate financial statements.

The Lufkin Convention and Visitors Bureau was formed in 2010 with the primary objective to create maximum hotel occupancy within the City through a marketing program aimed at attracting and securing overnight visitors who will spend money in the Lufkin area.

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

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government and its component units.

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For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following fund type:

The *internal service funds* account for the activities of the employee health benefit plan and the purchase and amortization of the City's equipment. The activities include the accounting for premiums provided for and the payment of eligible claims and related costs. The purchase cost and amortization of equipment (rolling stock) is now accounted for in this fund type.

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

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

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

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

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

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and investments**

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

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

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consisting of all of the above and public funds and investment pools administered by banks domiciled in the State of Texas whose assets consist of all or a combination of the obligations stated.

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

**2. Receivables and payables**

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 80% of outstanding taxes at September 30, 2010.

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

The City is permitted by the City Charter (Article VI, Section 1) to levy taxes up to \$1.75 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2010, was .5338 per \$100 of assessed valuation. The adjusted total tax levy for fiscal year 2010 was \$9,899,401 and \$9,680,136 was collected for a current collection rate of 97.8%.

**3. Inventories and prepaid items**

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

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

**4. Restricted assets**

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

**5. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial, individual cost greater than or equal to \$5,000 for tangible personal property, \$50,000 for

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infrastructure and \$10,000 for improvements to buildings, machinery and equipment, and vehicles. Improvements to buildings must extend the useful life by ten years or be greater than ten percent of the original cost of the asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred during the current fiscal year was \$445,838. None of this amount was included as part of the cost of capital assets under construction in connection with water and sewer facilities construction projects.

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

<u>Assets</u>	<u>Years</u>
Buildings, improvements and fixed equipment	20-50
Vehicles and equipment	5-20

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

**6.       Compensated absences**

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

**7.       Long-term obligations**

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

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

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**8. Fund equity**

As of September 30, 2010 fund balances of the governmental funds are classified as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Council or the City's finance committee may assign amounts for specific purposes.

*Unassigned* – all other spendable amounts.

As of September 30, 2010, fund balances are composed of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>				
Inventories	\$ 212,405	\$ -	\$ -	\$ 212,405
Prepaid Items	5,581	-	-	5,581
<b>Restricted:</b>				
Law enforcement	-	-	179,015	179,015
Debt service	-	983,575	-	983,575
Capital projects	-	-	1,452,441	1,452,441
Other purposes	-	-	404,512	404,512
<b>Committed:</b>				
Financial operations	7,379,552	-	149,189	7,528,741
Zoo building	-	-	1,395,176	1,395,176
Insurance loss	-	-	103,478	103,478
<b>Assigned:</b>				
2011 budget deficit	1,037,704	-	-	1,037,704
Carryover funds	315,115	-	-	315,115
Other purposes	-	-	116,839	116,839
Unassigned	<u>2,297,304</u>	<u>-</u>	<u>-</u>	<u>2,297,304</u>
<b>Total fund balances</b>	<u><u>\$ 11,247,661</u></u>	<u><u>\$ 983,575</u></u>	<u><u>\$ 3,800,650</u></u>	<u><u>\$ 16,031,886</u></u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds,

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and finally unassigned funds, as needed, unless the City Council or the finance committee has provided otherwise in its commitment or assignment actions.

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. 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, 2010 the City of Lufkin has accumulated the following amounts in support of these policies:

FUND	POLICY AMOUNT	FUND TOTAL
Governmental Funds: (fund balance)		
General Fund - 25%	\$ 7,379,552	\$ 11,247,661
Hotel/Motel Tax Fund - 12.5%	124,603	360,796
Recreation Fund - 12.5%	24,586	42,042
Total Policy Reserves and Fund Balances	\$ 7,528,741	\$ 11,650,499

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$59,673,879 distinction are as follows:

Bonds payable	\$ (51,925,000)
Accrued interest payable	(290,161)
Notes payable	(588,397)
Compensated absences	(3,528,201)
Net pension obligation	(3,342,120)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$ (59,673,879)

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of health insurance to individual funds. The significant portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.” The details of the \$915,220 difference are as follows:

Cash and cash equivalents	\$ 532,198
Investments	719,540
Accounts payable	(332,756)
Accrued liabilities	(3,762)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets- governmental activities	\$ 915,220

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of equipment amortization and replacement to individual funds. The significant portion of

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the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.” The details of the \$6,177,395 difference are as follows:

Cash and cash equivalents	\$ 256,313
Investments	2,345,000
Capital assets	3,576,599
Accounts payable	<u>(517)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets- governmental activities	<u>\$ 6,177,395</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the \$999,877 difference are as follows:

Capital outlay	\$ 2,535,537
Depreciation expense	<u>(1,535,660)</u>
Net adjustment to increase net changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 999,877</u>

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary accounting**

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

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

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- The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control is the department level. During the year, City Council made budgetary amendments to the General Fund budget totaling \$239,203, the Hotel/Motel Fund for \$(1,821), Special Recreation Fund for \$(6,125), Zoo Building Fund for \$25,790, Court Security/Technology Fund for \$2,410, Animal Control – Kurth Grant Fund for \$11,220, and Animal’s Attic Gift Fund for \$20. Other budgetary transfers were made by the City Manager during the year.

**B. Excess expenditures over appropriations in individual departments**

Fund	Amount
Debt Service Fund	\$ (177)

These over-expenditures were covered by the available fund balance of the Debt Service Fund.

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

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

Fund Name	Deficit Amount	Remarks
Convention Center Fund	\$3,500	The City's funding for the Convention Center is part of the 2010 fiscal year budget.
2010 Capital Improvement Fund	574,876	The City's funding for the 2010 Capital Improvement will be from bond proceeds in the 2011 fiscal year.

**D. Compliance with debt ordinances**

Debt ordinances on all general obligation bonds require that income from tax revenues be segregated and deposited into the Debt Service Fund annually. The amount required is the next anticipated bond interest and principal payment, but such annual deposits shall never be less than 2% of the original bond principal. The City satisfactorily complied with the bond ordinance requirements during the year ended September 30, 2010 and had restricted debt service funds of \$983,575 at year end.

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

The assets available at September 30, 2010 compared to the balances required by the ordinances are as follows:

	<u>Balance Required</u>
Debt service required	\$ 913,153
Reserve account	1,252,029
Total balance required	2,165,182
Less assets available	2,860,268
Excess	\$ 695,086

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**IV. DETAIL NOTES ON ALL FUNDS**

**A. Deposits and investments**

As of September 30, 2010, the City of Lufkin had the following deposits and investments:

<u>Investment Type:</u>	<u>Amount</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Ratings</u>
Certificates of deposit	\$ 30,000,000	\$ 30,000,000		
Cash equivalents- Investment Pools:				
Federated government obligations #5	260,383	260,383	0.088	AAAm
TexPool	3,680,758	3,680,758	0.093	AAAm
TexStar	1,491,054	1,491,054	0.126	AAAm
Cash equivalents - Repurchase agreements	<u>690,000</u>	<u>690,000</u>	0.002	Not Rated
 Total deposits and investments	 <u>\$ 36,122,195</u>	 <u>\$ 36,122,195</u>		

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

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

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

Investments of the General Fund and Economic Development Corporation also include \$24,915 and \$1,389,957 in land, respectively.

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

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

*Custodial credit risk:* All deposits of the City of Lufkin funds shall be secured by pledged collateral with a market value equal to or greater than 100% of the deposits, less any amount insured by the FDIC. Collateral pledged by City depositories is held by an independent third-party custodian with pledge and release of collateral securities at the discretion of the City. Collateral securities market value is reviewed at least monthly to ensure it equals or exceeds the related City of Lufkin deposit. Of the City’s \$690,000 investment in repurchase agreements, \$704,407 of underlying securities are held by the investment’s counterparty, not in the name of the City.

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*Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5% of the City's investments are in repurchase agreements with Regions Bank (11.27%).

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

**B. Receivables**

Receivables as of September 30, 2010 for the government's individual major funds and nonmajor, and internal service funds in the aggregate, including the related allowances for uncollectible accounts are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Solid Waste Disposal Fund	Nonmajor and Internal Service Funds	Total
Receivables:						
Taxes	\$ 595,998	\$ 306,987	\$ -	\$ -	\$ -	\$ 902,985
Accounts	2,254,304	-	2,223,731	824,232	168,722	5,470,989
Other	8,439	124	103,667	588,396	311,277	1,011,903
Intergovernmental	971,584	-	8,622	1,978	26,675	1,008,859
Less allowance for uncollectibles	(1,854,609)	(270,149)	(418,806)	(139,712)	(151,200)	(2,834,476)
	<u>\$ 1,975,716</u>	<u>\$ 36,962</u>	<u>\$ 1,917,214</u>	<u>\$ 1,274,894</u>	<u>\$ 355,474</u>	<u>\$ 5,560,260</u>

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

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 71,520	\$ -
Delinquent property taxes receivable (debt service fund)	36,838	-
Municipal Court receivables (general fund)	502,117	-
Municipal Court receivables (special revenue fund)	16,987	-
Miscellaneous receivables (general fund)	82,777	-
Customer deposits (special revenue fund)	-	15,735
Ambulance receivables (general fund)	337,464	-
Total	<u>\$ 1,047,703</u>	<u>\$ 15,735</u>

**C. Interfund receivables, payables and transfers**

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

Due from and to other funds at September 30, 2010 consisted of the following:

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Due from	Due to	Amount	Purpose
General Fund	Nonmajor Governmental Funds	\$ 545,170	Short - term advances
	Total	<u>\$ 545,170</u>	

Transfers at September 30, 2010 consisted of the following:

Transfer out:	Transfer in:					Total
	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Internal Service Fund	Water & Sewer Utility Fund	
General Fund	\$ -	\$ -	\$ -	\$ 150,000	\$ -	\$ 150,000
Nonmajor Governmental	366,885	-	35,073	-	-	401,958
Water & Sewer Utility Fund	8,300	2,759,408	216,000	-	-	2,983,708
Solid Waste Disposal Fund	8,300	59,252	-	-	-	67,552
Total	<u>\$ 383,485</u>	<u>\$ 2,818,660</u>	<u>\$ 251,073</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 3,603,218</u>

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

**D. Restricted assets**

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

	Bond Reserve	Construction	Renewal and Replacement	Operations	Total
Cash and cash equivalents	\$ 356,549	\$ 1,440,963	\$ 258,106	\$ -	\$ 2,055,618
Investments	2,470,787	3,695,000	1,925,000	-	8,090,787
Customer deposits	-	-	-	247,043	247,043
Other receivables	32,932	56,062	14,673	-	103,667
Intergovernmental receivables	-	-	6,400	-	6,400
Total restricted assets	<u>\$ 2,860,268</u>	<u>\$ 5,192,025</u>	<u>\$ 2,204,179</u>	<u>\$ 247,043</u>	<u>\$10,503,515</u>

**E. Capital assets**

**1. Water rights in Sam Rayburn Reservoir**

In order to secure a firm supply of 28,000 acre-feet of water annually from the Sam Rayburn Reservoir for municipal and industrial use, the City entered into a contract with the Lower Neches Valley Authority. Under the terms of the contract, the City agreed to pay the Authority \$16,189 annually for a period of forty-six years beginning December 1, 1968, whether or not the City withdraws any amounts of water from the Sam Rayburn Reservoir. The City did not withdraw any water during the year ended September 30, 2010. The City of Lufkin paid the Authority \$157,882 in December 2003 to complete this contract.

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

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

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

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

Capitalized payments for water supply	\$ 741,681
Capitalized contract for water rights	
50 year contract	220,000
40 year contract	305,600
Water rights in Sam Rayburn Reservoir	\$ 1,267,281

**2. Water rights in Kurth Lake and groundwater**

During the year ended September 30, 2010, the City acquired Kurth Lake, water wells and other associated assets from Abitibi-Bowater Corporation for a purchase price of \$15,000,000. As a result of this acquisition, the City purchased the water rights to pump 19 million gallons per day from the Angelina River into Kurth Lake for \$1,810,770 and they purchased the water rights to 14 water wells to pump 8.3 million gallons from ground water for \$776,044.

**3. Infrastructure capital assets**

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

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

Capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 4,223,746	\$ -	\$ -	\$ 4,223,746
Infrastructure	56,432,301	283,736	-	56,716,037
Works of art	278,500	-	-	278,500
Construction in progress	685,901	2,184,962	1,176,392	1,694,471
Total capital assets not being depreciated	<u>61,620,448</u>	<u>2,468,698</u>	<u>1,176,392</u>	<u>62,912,754</u>
Capital assets being depreciated:				
Buildings	16,334,293	438,991	-	16,773,284
Improvements other than buildings	16,270,652	360,515	-	16,631,167
Machinery and equipment	10,140,533	960,962	26,082	11,075,413
Vehicles	8,002,496	925,179	368,725	8,558,950
Total capital assets being depreciated	<u>50,747,974</u>	<u>2,685,647</u>	<u>394,807</u>	<u>53,038,814</u>
Less accumulated depreciation for:				
Buildings	(4,908,229)	(336,309)	-	(5,244,538)
Improvements other than buildings	(3,203,901)	(544,687)	-	(3,748,588)
Machinery and equipment	(6,724,494)	(630,886)	26,082	(7,329,298)
Vehicles	(4,234,488)	(1,019,009)	355,615	(4,897,882)
Total accumulated depreciation	<u>(19,071,112)</u>	<u>(2,530,891)</u>	<u>381,697</u>	<u>(21,220,306)</u>
Total capital assets, being depreciated, net	<u>31,676,862</u>	<u>154,756</u>	<u>13,110</u>	<u>31,818,508</u>
Governmental activities capital assets, net	<u>\$ 93,297,310</u>	<u>\$ 2,623,454</u>	<u>\$ 1,189,502</u>	94,731,262
Governmental activities, capital related debt				<u>(27,094,440)</u>
Governmental activities, investment in capital assets net of related debt				<u>\$ 67,636,822</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 2,670,824	\$ -	\$ -	\$ 2,670,824
Water rights	3,836,304	17,791	-	3,854,095
Construction in progress	2,165,511	951,349	1,131,757	1,985,103
Total capital assets not being depreciated	<u>8,672,639</u>	<u>969,140</u>	<u>1,131,757</u>	<u>8,510,022</u>
Capital assets being depreciated:				
Buildings	5,550,633	-	-	5,550,633
Improvements other than buildings	74,402,445	9,646	-	74,412,091
Machinery and equipment	13,394,709	1,128,680	119,535	14,403,854
Vehicles	3,137,803	-	196,222	2,941,581
Total capital assets being depreciated	<u>96,485,590</u>	<u>1,138,326</u>	<u>315,757</u>	<u>97,308,159</u>
Less accumulated depreciation for:				
Buildings	(1,835,777)	(114,162)	-	(1,949,939)
Improvements other than buildings	(20,956,867)	(1,657,487)	-	(22,614,354)
Machinery and equipment	(10,639,128)	(418,735)	119,535	(10,938,328)
Vehicles	(2,974,193)	(73,075)	196,222	(2,851,046)
Total accumulated depreciation	<u>(36,405,965)</u>	<u>(2,263,459)</u>	<u>315,757</u>	<u>(38,353,667)</u>
Total capital assets, being depreciated, net	<u>60,079,625</u>	<u>(1,125,133)</u>	<u>-</u>	<u>58,954,492</u>
Business-type activities capital assets, net	<u>\$ 68,752,264</u>	<u>\$ (155,993)</u>	<u>\$ 1,131,757</u>	67,464,514
Business-type activities, capital related debt				<u>(11,628,047)</u>
Business-type activities, investment in capital assets net of related debt				<u>\$ 55,836,467</u>

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

	Total
Governmental activities:	
General government	\$ 165,868
Public safety	386,356
Cultural and recreation	571,764
Public works	411,672
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	995,231
Total governmental activities	<u>\$ 2,530,891</u>
Business-type activities:	
Water and Sewer	\$ 2,113,542
Solid Waste Disposal	149,917
Total business-type activities	<u>\$ 2,263,459</u>

**4. Construction and other commitments**

The government has active construction projects as of September 30, 2010. The projects include utility construction in areas with newly developed housing, widening and

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construction of existing streets, the replacement of asbestos and old water lines, and various culture and recreation improvements. At year end the government's commitments with contractors are as follows:

<u>Construction</u>			
Pines Theater Renovation	\$ 249,503	\$ 1,063,497	General Fund
Zoo Circle Drive	47,682	424,978	General Fund
Denman Ave Street Reconstruction	-	338,560	General Fund
Convention Center	42,466	391,500	Dept of Housing and Urban Development
Fuller Springs Drive	105,088	2,479,762	2010 CIP Program
Sayers Street Reconstruction	50,740	1,829,870	2010 CIP Program
Lost Arrow Trail	62,283	11,819	General Fund
Industrial Park Improvements	340,207	3,659,793	Department of Commerce Economic Development Administration
Aspen Power Access Road	26,675	741,325	Texas Capital Fund Grant
Water Line to Diboll	74,636	1,241,364	2010 CIP Program
SSCS US 69 - Annexed Area	140,273	16,177	2009 Water/Sewer CIP Program
US 59S Lift Station & Line	167,233	1,065,237	2009 Water/Sewer CIP Program
Digester Rebuild	-	655,000	2009 Water/Sewer CIP Program
Central I/I Pjt H- Waggoner	207,839	598,361	2009 Water/Sewer CIP Program
Central I/I Pjt I - Raguet	-	1,425,860	2009 Water/Sewer CIP Program
Kit McConnico I/I Pjt J	-	174,440	2009 Water/Sewer CIP Program
Kit McConnico I/I Pjt K	-	1,028,730	2009 Water/Sewer CIP Program
ML King/Raguet Sewer Line Replacement	299,920	24,000	Water/Sewer Renewal and Replacement Fund
Sam Rayburn- Step 1 Implementation	1,136,339	11,461	Water/Sewer Renewal and Replacement Fund
Chlorine Cylinder Crane	-	6,000	Water/Sewer Renewal and Replacement Fund
Rehabilitation 2 2mil Gallon Tanks	15,400	502,100	Water/Sewer Renewal and Replacement Fund
Abitibi Well Field Electric Improvement	530,365	-	Water/Sewer Renewal and Replacement Fund
Upgrade WP#1 Electrical	50,341	-	Water/Sewer Renewal and Replacement Fund
Abitibi Electric-Nacogdoches	-	437,000	Water/Sewer Renewal and Replacement Fund
N. Loop 287 @HWY 59 Relocation	33,500	275,500	Water/Sewer Renewal and Replacement Fund
Paint Clarifiers #1, #2, & #3	93,312	41,687	Water/Sewer Renewal and Replacement Fund
Sub total - construction	<u>3,673,802</u>	<u>18,444,021</u>	
<u>Other</u>			
I and I Study	<u>584,836</u>	<u>-</u>	Water and Sewer Operating Fund
Sub total - other	<u>584,836</u>	<u>-</u>	
Total construction and other commitments	<u>\$ 4,258,638</u>	<u>\$ 18,444,021</u>	

**F. Current liabilities**

**1. Accounts/claims payable and accrued liabilities**

Accounts/claims payable in the governmental activities is composed of amounts due vendors of \$1,176,052 and retainage of \$12,467. The governmental accrued liabilities are composed of accrued salaries and benefits of \$723,827 and other accrued liabilities of \$188,716. The business-type activities accounts/claims payable are composed of amounts due vendors, \$247,263 and retainage of \$7,000. The business-type accrued liabilities are composed of accrued salaries and benefits of \$91,651 and other accrued liabilities of \$78,869.

**2. Compensated absences**

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

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The City's obligations are attributable to employees' services already rendered, compensated absence rights vest or are accumulated, payment of the compensated absences compensation is probable, and the compensated absences can be reasonably estimated. A liability for compensated absences is reported in the governmental funds only if they have matured.

At September 30, 2010, the City's liability for compensated absences consisted of the following:

	Governmental Activities	Business-type Activities	Total
Current	\$ -	\$ 145,798	\$ 145,798
Noncurrent	3,528,201	171,153	3,699,354
	\$ 3,528,201	\$ 316,951	\$ 3,845,152

**G. Long-term debt**

**1. General obligation bonds payable**

General obligation bonds payable at September 30, 2010 are comprised of the following individual issues:

<p>\$4,650,000 Series 1998 Tax and Waterworks and Sewer System Revenue Certificates of Obligation due in annual installments of \$25,000 to \$350,000 from September 30, 1999 through September 30, 2020; interest at 4.00% to 6.00%; \$2,335,215 governmental activities capital related debt.</p>	\$ 2,975,000
<p>\$4,400,000 Series 1999 Tax and Waterworks Revenue Certificates of Obligation due in annual installments of \$125,000 to \$350,000 from August 15, 2001 through August 15, 2020; interest at 5.00% to 6.00%; \$450,000 governmental activities capital related debt.</p>	450,000
<p>\$8,705,000 Series 2002 General Obligation Refunding Bonds due in annual installments of \$45,000 to \$730,000 from February 15, 2003 through August 15, 2012; interest at 3.00% to 4.00 %; \$1,178,150 governmental activities capital related debt.</p>	1,430,000
<p>\$2,200,000 Series 2002 General Obligation Bonds due in annual installments of \$25,000 to \$175,000 from August 15, 2003 through August 15, 2022; interest at 4.40% to 5.125%; \$1,600,000 governmental activities capital related debt.</p>	1,600,000
<p>\$9,450,000 Series 2002 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$150,000 to \$725,000 from August 15, 2003 to August 15, 2022; interest at 4.50% to 5.00%; \$4,314,285 governmental activities capital related debt.</p>	5,400,000

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\$1,700,000 Series 2003 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$50,000 to \$125,000 from August 15, 2005 to August 15, 2024; interest at 4.65% to 5.00%; \$1,350,000 governmental activities capital related debt. 1,350,000

\$3,750,000 Series 2003 General Obligation Bonds due in annual installments of \$125,000 to \$275,000 from August 15, 2005 through August 15, 2024; interest at 4.75% to 5.25%; \$2,950,000 governmental activities capital related debt. 2,950,000

\$8,200,000 Series 2004 Tax and Waterworks and Sewer System Certificates of Obligations due in annual installments of \$250,000 to \$625,000 from August 15, 2006 through August 15, 2025; interest at 3.50% to 4.375%; \$5,003,465 governmental activities capital related debt. 6,825,000

\$9,475,000 Series 2006 General Obligation Refunding Bonds due in semi-annual installments of \$0 to \$570,000 from February 15, 2007 through August 15, 2022; interest at 3.63% to 5.50%; \$3,620,340 governmental activities capital related debt. 6,445,000

\$1,740,000 Series 2007 General Obligation Bonds due in annual installments of \$55,000 to \$125,000 from August 15, 2008 through August 15, 2027; interest at 4.15% to 5.125%; 1,565,000 governmental activities capital related debt. 1,565,000

\$5,870,000 Series 2007 Tax and Waterworks and Sewer System Revenue Certificates of Obligations due in annual installments of \$150,000 to \$280,000 from August 15, 2008 through August 15, 2027; interest at 4.125% to 4.50%; \$2,727,985 governmental activities capital related debt. 3,535,000

\$17,400,000 Series 2009 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation due in annual installments of \$600,000 to \$1,100,000 from February 15, 2103 through February 15, 2034; interest at 2.50% to 5.00%; \$0 governmental activities capital related debt. 17,400,000

Total general obligation bonds \$ 51,925,000

The City expended \$2,736,575 for interest on general obligation bonds for the year ended September 30, 2010.

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

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Year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 2,935,000	\$ 2,237,820	\$ 5,172,820
2012	3,060,000	2,111,381	5,171,381
2013	2,940,000	1,974,325	4,914,325
2014	3,065,000	1,858,199	4,923,199
2015	3,165,000	1,735,403	4,900,403
2016-2020	15,935,000	6,761,025	22,696,025
2021-2025	11,985,000	3,516,807	15,501,807
2026-2030	5,590,000	1,443,156	7,033,156
2031-2035	3,250,000	335,000	3,585,000
<b>Total</b>	<b><u>\$ 51,925,000</u></b>	<b><u>\$ 21,973,116</u></b>	<b><u>\$ 73,898,116</u></b>

**2. Revenue bonds payable**

Revenue bonds payable at September 30, 2010 are comprised of the following individual issues:

\$16,000,000 Series 2000 Waterworks and Sewer System Revenue Bonds due in annual installments of \$570,000 to \$990,000 from November 1, 2000 to November 1, 2021; interest at 2.95% to 4.10%; \$10,145,000 business-type activities capital related debt.	\$ 10,145,000
\$1,500,000 Series 2003 Waterworks and Sewer System Revenue Bonds due in annual installments of \$45,000 to \$115,000 from November 1, 2005 to November 1, 2024; interest at 4.70% to 5.00%; \$1,255,000 business-type activities capital related debt.	<u>1,255,000</u>
<b>Total revenue bonds</b>	<b><u>\$ 11,400,000</u></b>

The City expended \$479,671 for interest on revenue bonds for the year ended September 30, 2010.

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

Year ending September 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 795,000	\$ 428,933	\$ 1,223,933
2012	820,000	400,512	1,220,512
2013	855,000	370,255	1,225,255
2014	880,000	338,230	1,218,230
2015	915,000	304,821	1,219,821
2016-2020	5,175,000	948,551	6,123,551
2021-2025	1,960,000	107,368	2,067,368
<b>Total</b>	<b><u>\$ 11,400,000</u></b>	<b><u>\$ 2,898,670</u></b>	<b><u>\$ 14,298,670</u></b>

**3. Notes payable**

The City contracted for the review and improvements in energy efficiency of the City's facilities and for the purchase of heart monitors. To fund these projects, \$745,926 and

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\$91,113 was borrowed from the Solid Waste Fund at an interest rate of 4.75% with a payback over 6 years, and interest ranging from 2.50% to 4.00% with a payback over 4 years.

The City paid \$28,766 interest on notes payable for governmental activities for the year ended September 30, 2010.

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

Year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 147,100	\$ 25,899	\$ 172,999
2012	147,099	19,538	166,637
2013	147,099	13,177	160,276
2014	147,099	6,816	153,915
	\$ 588,397	\$ 65,430	\$ 653,827

The City has acquired storage space in Sam Rayburn Reservoir by issuing notes payable. The space purchased is pledged as collateral for the notes payable. The amount of the notes payable for storage space at September 30, 2010 was \$116,937.

The City expended \$3,893 for interest on notes payable for business-type activities for the year ended September 30, 2010.

The City entered into an agreement with The Office of Rural Community Affairs (ORCA) to reimburse them for a grant for the construction of roads, water and sewer lines and a detention pond in support of the construction of low to moderate income housing. The City's agent did not fulfill the requirements of the grant. The grant in the amount of \$400,000 is being repaid in 36 payments without any interest costs. The amount of the note payable to ORCA at September 30, 2010 was \$111,111.

Year ending September 30,	Business-type Activities		
	Principal	Interest	Total
2011	\$ 127,829	\$ 3,030	\$ 130,859
2012	17,151	2,597	19,748
2013	17,596	2,152	19,748
2014	18,052	1,696	19,748
2015	18,520	1,228	19,748
2016-2019	28,899	1,897	30,796
	\$ 228,047	\$ 12,600	\$ 240,647

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**4. Change in long-term liabilities**

**Primary government**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<u>Governmental activities</u>					
Bonds payable					
General obligation bonds	\$ 55,750,000	\$ -	\$ 3,825,000	\$ 51,925,000	\$ 2,935,000
Notes payable	621,605	91,113	124,321	588,397	147,100
Compensated absences	3,453,410	1,530,538	1,455,747	3,528,201	1,250,475
Net pension obligations	2,339,129	1,002,991	-	3,342,120	-
Total governmental activities long-term liabilities	<u>\$ 62,164,144</u>	<u>\$ 2,624,642</u>	<u>\$ 5,405,068</u>	<u>\$ 59,383,718</u>	<u>\$ 4,332,575</u>
<u>Business-type activities</u>					
Bonds payable					
Revenue bonds	\$ 12,165,000	\$ -	\$ 765,000	\$ 11,400,000	\$ 795,000
Notes payable	377,677	-	149,630	228,047	127,829
Compensated absences	295,895	185,752	164,696	316,951	145,798
Net pension obligations	112,872	233,533	-	346,405	-
Total business-type long-term liabilities	<u>\$ 12,951,444</u>	<u>\$ 419,285</u>	<u>\$ 1,079,326</u>	<u>\$ 12,291,403</u>	<u>\$ 1,068,627</u>

**Component units**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Net pension obligations	\$ 4,479	\$ 11,003	\$ -	\$ 15,482	\$ -
Total component unit long-term liabilities	<u>\$ 4,479</u>	<u>\$ 11,003</u>	<u>\$ -</u>	<u>\$ 15,482</u>	<u>\$ -</u>

**5. Bond issuance costs**

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

**6. Advance and current refundings**

On December 1, 2006, the City issued \$9,475,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for providing resources for all future debt service payments of \$9,100,000 in refunded debt. The refunded debt consisted of \$1,725,000 Series 1995 Waterworks and Sewer System Revenue Bonds, \$1,925,000 Series 1997 Waterworks and Sewer System Revenue Bonds, \$1,675,000 Series 1996 General Obligation Bonds, \$2,350,000 Series 1999 Tax and Waterworks Revenue Certificates of Obligation and \$1,425,000 Series 2002 Tax and Waterworks and Sewer System Certificates of Obligation. The amount refunded for the Series 1999 Tax and Waterworks Revenue Certificates of Obligation and Series 2002 Tax and Waterworks and Sewer System Certificates of Obligation was only a partial amount of the amount

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outstanding. As a result, the refunded bonds are considered defeased and the liabilities have been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$269,325. This amount is being amortized over the life of the new debt, which is the same life as the refunded debt. This advance refunding was undertaken to reduce total debt service payments of the next 15 years by \$552,550 and resulted in an economic gain of \$394,095. Defeased debt outstanding at September 30, 2010 was \$1,425,000.

**7. Net Pension Obligations**

Net pension obligations at September 30, 2010 are comprised of the following:

Retirement plan - TMRS	\$ 988,974
Retirement plan - Firemen's retirement fund	2,145,154
OPEB- Retiree health insurance	<u>569,879</u>
Total net pension obligations	<u><u>\$ 3,704,007</u></u>

Net pension obligations at September 30, 2010 are recorded as follows:

Governmental activities	\$ 3,342,120
Business-type activities	346,405
Component units	<u>15,482</u>
Total net pension obligations	<u><u>\$ 3,704,007</u></u>

**I. Other information**

**1. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases workers' compensation insurance coverage from Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustaining through member premiums. The Fund reinsures through commercial companies for claims in excess of \$750,000 per occurrence. The City pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the City is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. However, members would be contingently liable for their share of liabilities in the event the assets of the Fund were exhausted. The Fund was solvent as of the most recent audited financial statements.

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

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

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

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

The Plan provides coverage of up to \$75,000 for each individual. The City has reinsurance agreements for the plan years. Such agreements generally provide for a stop loss per individual. At September 30, 2010, the individual stop loss amount was \$75,000.

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

The City accounts for the transactions of the plan in the Group Health Insurance Fund, an Internal Service Fund. At September 30, 2010, the City had recorded a liability of \$278,086 for claims incurred but not paid at that date. This liability was based on an estimate of claims incurred but not reported provided by our outside claims administrator.

For the Year Ended September 30,	Claims Payable October 1,	Claims Incurred	Claims Paid	Claims Payable September 30,
2001	\$ 104,019	\$ 2,238,578	\$ 2,191,589	\$ 151,008
2002	151,008	2,483,652	2,515,088	119,572
2003	119,572	2,205,658	2,108,908	216,322
2004	216,322	3,256,626	3,091,483	381,465
2005	381,465	3,521,799	3,329,361	573,903
2006	573,903	2,477,494	2,747,857	303,540
2007	303,540	2,767,632	2,720,711	350,461
2008	350,461	2,903,818	2,864,916	389,363
2009	389,363	2,333,207	2,473,586	248,984
2010	248,984	2,360,264	2,331,162	278,086

**2. Contingent liabilities**

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

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

Effective January 1, 2009, the City of Lufkin elected to contribute the phase in rate which was less than the full retirement cost for Texas Municipal Retirement System (TMRS.) The 2009 phase in rate and full rate were 14.78% and 19.43%, respectively. Effective January 1, 2010, the phase in rate and full rate were 16.39% and 20.98%, respectively. At September 30, 2010 the City has an estimated net pension obligation for TMRS of \$988,974.

The City of Lufkin entered into an agreement with The Board of Trustees of The Firemen's Relief and Retirement Fund (Fund) of Lufkin during FY 2004 stating that the City of Lufkin did not desire to opt out of the mandate stipulated by the Texas Legislature under Proposition XV requiring Cities to be responsible for insuring that the benefits payable under the fund are not reduced. The agreement allows the City of Lufkin to make provisions to the plan that will help to

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guarantee the financial soundness of it. Should the Fund become insolvent, the City of Lufkin will be responsible for the costs of the Fund. At September 30, 2010, the City has an estimated net pension obligation for the Fund of \$2,145,154.

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund (the Fund) that provides health care coverage for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2010, the City has an estimated net pension obligation for other post employment benefits of \$569,879.

**3. Retirement plan**

The City provides pension benefits for all of its full time employees (except fire fighters) through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the 12-31-09 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 87814-9153, by calling (800) 924-8677 or on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

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

**a. Contributions**

The contribution rate for the employees is 7% and the City matching percent is currently 2 to 1 both as adopted by the City Council. Under the state law governing TMRS, the actuary annually determines the City's contribution rate, using the projected unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year lag between the actuarial valuation that is the basis of the rate and the calendar year when the rate goes into effect. The December 31, 2008 valuation is effective for rates beginning January 2010.

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The City's total payroll in fiscal year 2010 was \$18,408,629 and the City's contributions were based on a payroll of \$14,243,946. Both the City and the covered employees made contributions, amounting to \$2,273,442 (16.39% of covered payroll for the months in calendar year 2010 and 14.78% for the months in calendar year 2009) for the City and \$977,077 (7.00%) for the employees. There were no related party transactions.

**b. Actuarial valuation information**

Actuarial valuation date	December 31, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level percentage of payroll
Remaining amortization period	28 years –closed period
Asset valuation method	10-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	Varies by age and service
Inflation	3.0%
Cost-of-living adjustment	2.1%

**c. Trend information**

Year Ended September 30,	Annual Pension Cost (APC)	Contributions Made	Percentage of APC Contributed	Net Pension Obligation
2007	\$1,708,333	\$1,708,333	100%	\$ -
2008	1,891,141	1,891,141	100%	-
2009	2,523,180	2,028,365	80%	494,815
2010	2,767,601	2,273,442	82%	988,974

**d. Funding progress**

As of December 31, 2009, the most recent actuarial valuation date, the plan was 56.5 percent funded. The actuarial accrued liability for benefits was \$53,064,418 and the actuarial value of assets was \$29,983,066, which results in an unfunded actuarial accrued liability (UAAL) of \$23,081,352. The covered payroll was \$14,438,811 and the ratio of the UAAL to covered payroll was 159.9 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**4. Firemen's retirement fund**

The Firemen's Relief and Retirement Fund (Fund) of Lufkin, Texas is a single-employer defined benefit pension plan administered by a board of trustees. The Firemen's Relief and Retirement Fund of Lufkin, Texas is not considered to be a component unit of the City or of any other reporting entity. The fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing the Firemen's Relief and Retirement Fund of Lufkin, Texas, P.O. Drawer 190, Lufkin, Texas 75902.

Firefighters in the Lufkin Fire Department are covered by the Fund. As of the latest actuarial information dated December 31, 2008, the fund had the following membership information:

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Retirees, vested terminated employees and beneficiaries	57
Current employees:	
Electing DROP	1
Fully vested	33
Non-vested	43
Total	134

The Fund operates primarily under the “Texas Local Fire Fighters Retirement Act,” Article 6243.e *Vernon’s Texas Civil Statutes*, 45<sup>th</sup> Legislature as revised by the 73<sup>rd</sup> Legislature and administers retirement and disability and death benefits to employees and beneficiaries of the employees of the fire department of City of Lufkin, Texas. The plan uses the accrual basis of accounting. The plan document was amended effective November 30, 2009.

Service retirement eligibility is as follows:

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

Disability retirement eligibility is as follows:

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

Vested termination eligibility is as follows:

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

Death benefit eligibility is as follows:

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

Deferred retirement option provision eligibility is as follows:

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

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

The firefighter may leave the program at any time within the six year period. At the time the firefighter does leave the DROP, they are entitled to receive the amount which has accumulated in the Fund by making an irrevocable decision to request payment of the entire amount in a lump-sum, or to request that the accumulation be paid in not more than

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three installments beginning not more than thirteen months from leaving the DROP, with the final installment being made not more than thirty-seven months after leaving the DROP. The Fund must be given a 180 day notice of fund withdrawal. They are also entitled to begin receiving their monthly pension that was previously being paid monthly into the Fund. They must also retire from active duty with the Fire Department at the time they leave the DROP.

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

The contribution rate of the fire fighters is determined by the fire fighters. The City's contribution rate is determined by negotiations with the fire fighters. The actuary certifies the actuarial annual required contribution (ARC). The total contributions of the fire fighters and the City are less than the actuarial annual required contribution. At September 30, 2010, the City's net pension obligation for the Fireman's Relief and Retirement Fund of Lufkin, Texas was estimated to be \$2,145,154.

The City's total salaries and wages for fiscal year 2010 for firemen was \$4,330,721 and the City's contributions were based on a payroll of \$4,165,457. Both the City and the covered employees made contributions, amounting to \$548,843 (13.18%) by employees and \$945,881 (22.71%) by the City. The minimum actuarial contribution rate with a 40 year amortization period would be 35.98% or with a 30 year amortization period would be 43.54%.

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

**a. Actuarial valuation information**

Valuation date	December 31, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	Infinite – open period / see below
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.0%
Amortization increase	1.6%
Inflation rate	3.0%

The City of Lufkin has agreed to increase its funding commitment to the Firemen's Relief & Retirement Fund to a total of 20.74% effective October 1, 2010 and 23.50% effective January 1, 2010. In addition, the firefighters have increased their funding commitment to 13.20% of eligible compensation, bringing the total contribution rate to 33.94% as of October 1, 2009 and 36.70% as of January 1, 2010.

The actuary certified that the increased contribution rate will be sufficient to amortize the unfunded actuarial liability over no more than 40 years, provided there are no future benefit improvements and plan experience is consistent with the long term actuarial valuation methods and assumptions.

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**b. Trend information**

Year Ended December 31,	Annual Pension Cost (APC)	Contributions Paid	Percentage of APC	Net Pension Obligation
2007	\$ 959,751	\$ 533,523	56%	\$ 1,279,689
2008	1,093,189	700,739	64%	1,672,139
2009	1,127,429	778,632	69%	2,020,936

**c. Schedule of funding progress**

Actuarial Payroll Date	(1) Value of Assets	(2) Accrued Liability	(3) Funded (1) / (2)	(4) Unfunded Actuarial Liability (UAAL)	(5) Covered Payroll	(6) UAAL as a Percentage Payroll (3) / (5)
5/31/89	\$ 4,254,289	\$ 5,803,232	73.3%	\$ 1,548,943	\$ 1,448,153	107.0%
12/31/92	5,694,765	7,654,481	74.4%	1,959,716	1,708,570	114.7%
12/31/95	6,800,995	9,756,867	69.7%	2,955,872	1,999,097	147.9%
12/31/98	9,736,390	11,853,931	82.1%	2,117,541	2,397,350	88.3%
12/31/00	11,018,263	13,937,639	79.1%	2,919,376	2,685,849	108.7%
12/31/02	9,611,084	15,747,613	61.0%	6,136,529	3,226,247	190.2%
12/31/04	10,673,969	17,613,892	60.6%	6,939,923	3,041,650	228.2%
12/31/06	10,612,279	21,164,321	50.1%	10,552,042	3,552,919	297.0%
12/31/08	7,880,755	24,777,439	31.8%	15,320,532	4,148,732	369.3%

The schedule of funding progress information was obtained from the December 31, 2008, actuarial valuation reports. The actuarial valuation of assets for prior years has been restated from the original actuarial reports in accordance with GASB 25 and GASB 27.

**d. Reconciliation of Net Pension Obligation (NPO)**

	Year Ended December 31, 2009
1. Balance at beginning of year	\$ 1,672,139
2. Changes during year	
a. Net employer ARC	1,115,704
b. Interest on NPO	125,410
c. Amortization adjustment on ARC	(113,685)
d. Employer contribution	(778,632)
3. Balance at end of year	<u>\$ 2,020,936</u>

**5. Other postemployment benefits (OPEB)**

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund (the Fund) that provides health care coverage for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2010, there were 28 retirees and 7 spouses receiving the postemployment health care benefit. The Fund does not issue a publicly available report. For financial reporting purposes, the Plan is accounted for in the Group Health Insurance Fund.

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**a. Funding policy**

The contribution requirements of the City and participants are established and may be amended by the City Council. The required contribution for the City's share is \$5,000 per retiree. The retirees pay premiums of \$310 or \$710 for single coverage and \$721 or \$1,006 for single plus spouse coverage in the low and high plans, respectively. Retirees contributed \$146,103 for fiscal year 2010.

**b. Annual OPEB cost and Net OPEB obligation**

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the City's annual OPEB cost, the amount actually contributed, and the changes in the City's net OPEB obligation for the fiscal year ended September 30, 2010 were as follows:

Annual required contribution	\$ 308,621
Interest on net OPEB obligation	9,690
Adjustment to annual required contribution	<u>(7,284)</u>
Annual OPEB cost	311,027
Contributions made	<u>(16,611)</u>
Increase in net OPEB obligation	327,638
Net OPEB obligation, beginning of year	<u>242,241</u>
Net OPEB obligation, end of year	<u><u>\$ 569,879</u></u>

The City's annual OPEB cost, the percentage contributed, and the net OPEB obligations for fiscal years 2010 and 2009 were as follows:

Year Ended	Annual OPEB cost	Annual Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2009	\$ 298,095	\$ 298,095	19%	\$ 242,241
9/30/2010	311,027	(16,611)	(5)%	569,879

Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the City elected to implement prospectively.

**c. Funded Status and Funding Progress**

As of October 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,400,488, all of which was unfunded. The estimated covered payroll (annual payroll of active employees covered by the Plan) was \$17,097,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 20 percent.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include assumptions about mortality and the healthcare cost

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trend. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing over time relative to the actuarial accrued liabilities for benefits.

**d. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes and based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2010 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.00% discount rate, a 3.00% payroll growth rate, and an annual healthcare cost trend rate of 9.00% initially, reduced by decrements to an ultimate rate of 5.00% after 12 years. The initial UAAL and subsequent changes in UAAL due to amendments and gains or losses are each amortized over thirty-year periods as a level percent of projected payroll on a closed basis.

**H. Subsequent Events**

The City completed bond refunding in October 2010. \$2,975,000 of Certificates of Obligations, \$450,000 of Certificates of Obligation and \$9,410,000 of Revenue Bonds were retired and General Obligation Debt in the amount of \$12,130,000 was issued at 2.00% to 4.00%. The City also issued \$9,145,000 of Certificates of Obligation at 2.00% to 4.00% in October 2010.

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**Condition rating of the City's street system**

The City performed a complete inventory and condition assessment during the spring of 2009. This condition assessment will be performed every two years. Each street was assigned a physical condition based on nineteen potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned to each street and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned the physical characteristics of a new street. The following conditions were defined:

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

<u>Condition</u>	<u>% of streets</u>		
	<u>2,009</u>	<u>2008</u>	<u>2007</u>
Excellent to Good	36.0%	31.0%	27.0%
Fair to Good	35.0%	48.0%	50.0%
Substandard	29.0%	21.0%	23.0%

	<u>Percentage of Lane-miles in Excellent to Very Good Condition</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Collector Streets	40%	52%	50.0%
Residential Streets	36%	33%	26.0%

	<u>Percentage of Lane-miles in Substandard Condition</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Collector Streets	23%	13%	17.0%
Residential Streets	30%	20%	23.0%

The average rating for the City's streets at September 30, 2009 was 65; this rating remained flat from the previous year.

Note: The condition of road pavement is measured using the Paver 4.2 Pavement Management System, which is based on a weighted average of 19 distress factors found in pavement surfaces dependent upon the type of road material (concrete or asphalt). The Paver 4.2 Pavement Management System uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good to excellent condition (80-100) fair condition (56-79), and substandard condition (less than 55). It is the City of Lufkin's policy to maintain at least a 56 condition index of its street system. No more than 10% should be in substandard condition. Condition assessments are determined bi-annually.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Collector streets:			
Needed	\$ 544	\$ 276	\$ 160
Actual	210	72	-
Residential streets:			
Needed	6,255	4,329	2,895
Actual	3,572	3,611	3,779
Overall system			
Needed	6,799	4,605	3,055
Actual	3,782	3,683	3,779
Difference	\$ (3,017)	\$ (922)	\$ 724

The City's streets are constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. The City has determined that the amount of annual expenditures required to maintain the City's streets at the average PCI rating of 56 through the year 2010 is a minimum of \$6,799. A schedule of estimated annual amounts and actual expenditures for street maintenance for the past five years is as follows (in thousands):

<u>Fiscal year</u>	<u>Budget</u>	<u>Actual</u>
2010	\$ 3,987	\$ 3,782
2009	3,930	3,683
2008	4,116	3,779
2007	3,388	3,136
2006	3,194	3,187

**SCHEDULE OF FUNDING PROGRESS FOR TEXAS MUNICIPAL RETIREMENT SYSTEM**

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1)/(2)	(5) Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(5)
12/31/2006	\$ 25,242,986	\$ 37,233,229	\$ 11,990,243	67.8%	\$ 11,614,248	103.2%
12/31/2007	27,565,130	47,329,961	19,764,831	58.2%	12,463,578	158.6%
12/31/2008	29,226,783	50,672,215	21,445,432	57.7%	13,720,152	156.3%
12/31/2009	29,983,066	53,064,418	23,081,352	56.5%	14,438,811	159.9%

**CITY OF LUFKIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2010**

**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH INSURANCE FUND**

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1)/(2)	(5) Annual Covered Payroll	UAAL as % of Covered Payroll (3)/(5)
10/1/2008	\$ -	\$ 3,265,949	\$ 3,265,949	0%	\$ 15,507,441	21%
10/1/2010	-	3,400,488	3,400,488	0%	17,097,000	20%

Fiscal year 2009 was the year of implementation for GASB Statement No 45.

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**September 30, 2010**

	ECONOMIC DEVELOPMENT CORPORATION	LUFKIN CONVENTION AND BUSINESS BUREAU	TOTAL COMPONENT UNITS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 326,737	\$ 149,730	\$ 476,467
Investments	3,111,377	-	3,111,377
Receivables - net	88,113	-	88,113
Intergovernmental receivables	370,382	88,120	458,502
Capital assets (net of accumulated depreciation):			
Construction in progress	366,032	-	366,032
Total assets	<u>4,262,641</u>	<u>237,850</u>	<u>4,500,491</u>
<b>LIABILITIES</b>			
Accounts/claims payable	47,422	1,901	49,323
Accrued liabilities	9,779	3,594	13,373
Noncurrent liabilities:			
Due in more than one year	11,221	4,261	15,482
Total liabilities	<u>68,422</u>	<u>9,756</u>	<u>78,178</u>
<b>NET ASSETS</b>			
Unrestricted	4,194,219	228,094	4,422,313
Total net assets	<u>\$ 4,194,219</u>	<u>\$ 228,094</u>	<u>\$ 4,422,313</u>

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

**CITY OF LUFKIN, TEXAS  
COMBINING STATEMENT OF ACTIVITIES  
COMPONENT UNITS**

**For the Year ended September 30, 2010**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS		
	EXPENSES	OPERATING SERVICES CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ECONOMIC CORPORATION	CONVENTION AND BUSINESS BUREAU	TOTAL
Economic Development Corporation	\$ 508,987	\$ -	\$ 340,207	\$ (168,780)	\$ -	\$ (168,780)
Lufkin Convention & Visitors Bureau	209,912	-	7,235	-	(202,677)	(202,677)
Total	\$ 718,899	\$ -	\$ 7,235	\$ (168,780)	\$ (202,677)	\$ (371,457)
General revenues:						
Sales taxes				995,321	-	995,321
Other				46,825	430,696	477,521
Unrestricted investment earnings				24,341	75	24,416
Total general revenues and transfers				1,066,487	430,771	1,497,258
Change in net assets				897,707	228,094	1,125,801
Net assets - beginning				3,296,512	-	3,296,512
Net assets - ending				\$ 4,194,219	\$ 228,094	\$ 4,422,313

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



## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

### CAPITAL PROJECTS FUNDS

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

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

Drainage Mitigation Fund – To account for projects related mitigation of drainage issues within the City.

Animal Control Building Fund – To account for the construction of the Animal Control Building.

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

Texas Capital Grant Fund – To account for the Texas Capital Grant activity.

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

2010 Capital Improvement Fund – To account for the issuance of the 2010 Certificates of Obligation.

### INTERNAL SERVICE FUNDS

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

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

**CITY OF LUFKIN, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 September 30, 2010**

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 801,187	\$ 28,677	\$ 829,864
Investments	1,535,040	2,020,000	3,555,040
Receivables:			
Accounts	168,722	-	168,722
Other	310,946	331	311,277
Allowance for uncollectibles	(151,200)	-	(151,200)
Intergovernmental receivables	-	26,675	26,675
Total assets	<u>\$ 2,664,695</u>	<u>\$ 2,075,683</u>	<u>\$ 4,740,378</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 162,744	\$ 62,697	\$ 225,441
Due to other funds	14,800	530,370	545,170
Accrued liabilities	106,220	30,175	136,395
Deferred revenues	32,722	-	32,722
Total liabilities	<u>316,486</u>	<u>623,242</u>	<u>939,728</u>
<b>FUND BALANCES</b>			
Restricted	583,527	1,452,441	2,035,968
Committed	1,647,843	-	1,647,843
Assigned	116,839	-	116,839
Total fund balances	<u>2,348,209</u>	<u>1,452,441</u>	<u>3,800,650</u>
Total liabilities and fund balances	<u>\$ 2,664,695</u>	<u>\$ 2,075,683</u>	<u>\$ 4,740,378</u>

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

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2010**

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues			
Other taxes	\$ 766,090	\$ -	\$ 766,090
Charges for services	582,841	-	582,841
Interest income	16,858	5,120	21,978
Intergovernmental	284,356	635,965	920,321
Other revenues	69,723	7,128	76,851
Total revenues	<u>1,719,868</u>	<u>648,213</u>	<u>2,368,081</u>
Expenditures			
Current:			
General government	590,351	-	590,351
Public safety	165,225	-	165,225
Cultural and recreation	1,239,767	-	1,239,767
Capital outlay:			
General government	-	995,415	995,415
Cultural and recreation	-	569,946	569,946
Public works	-	155,828	155,828
Public safety	-	450,570	450,570
Total expenditures	<u>1,995,343</u>	<u>2,171,759</u>	<u>4,167,102</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(275,475)</u>	<u>(1,523,546)</u>	<u>(1,799,021)</u>
Other Financing Sources (Uses)			
Transfers in	27,945	223,128	251,073
Transfers out	(271,007)	(130,951)	(401,958)
Insurance recovery	534,040	-	534,040
Total other financing sources (uses)	<u>290,978</u>	<u>92,177</u>	<u>383,155</u>
Net change in fund balances	15,503	(1,431,369)	(1,415,866)
Fund balances - beginning	<u>2,332,706</u>	<u>2,883,810</u>	<u>5,216,516</u>
Fund balances - ending	<u>\$ 2,348,209</u>	<u>\$ 1,452,441</u>	<u>\$ 3,800,650</u>

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

**CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
September 30, 2010**

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	FEMA FUNDED GRANTS FUND	POLICE SEIZED FUND	COURT SECURITY/ TECHNOLOGY FUND
<b>ASSETS</b>					
Cash and cash equivalents	\$ 71,520	\$ 516,749	\$ -	\$ 29,393	\$ 56,521
Investments	275,000	884,540	-	100,000	-
Receivables:					
Accounts	-	-	-	-	168,187
Other	185,069	869	-	-	-
Allowance for uncollectibles	-	-	-	-	(151,200)
Total assets	<u>\$ 531,589</u>	<u>\$ 1,402,158</u>	<u>\$ -</u>	<u>\$ 129,393</u>	<u>\$ 73,508</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 62,315	\$ 6,947	\$ -	\$ -	\$ 7
Due to other funds	-	-	-	-	-
Accrued liabilities	93,278	35	-	12,480	-
Deferred revenues	15,200	-	-	-	16,987
Total liabilities	<u>170,793</u>	<u>6,982</u>	<u>-</u>	<u>12,480</u>	<u>16,994</u>
<b>FUND BALANCES</b>					
Restricted	208,208	-	-	116,913	46,794
Committed	124,603	1,395,176	-	-	-
Assigned	27,985	-	-	-	9,720
Total fund balances	<u>360,796</u>	<u>1,395,176</u>	<u>-</u>	<u>116,913</u>	<u>56,514</u>
Total liabilities and fund balances	<u>\$ 531,589</u>	<u>\$ 1,402,158</u>	<u>\$ -</u>	<u>\$ 129,393</u>	<u>\$ 73,508</u>

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

<u>POLICE GRANTS FUND</u>	<u>SPECIAL RECREATION FUND</u>	<u>INSURANCE LOSS FUND</u>	<u>ANIMAL CONTROL - KURTH GRANT FUND</u>	<u>POLICE DARE CONTRIBUTION GRANT FUND</u>
\$ 15,308	\$ 48,680	\$ 9	\$ 48,648	\$ 108
-	-	80,500	195,000	-
-	535	-	-	-
-	-	125,008	-	-
-	-	-	-	-
<u>\$ 15,308</u>	<u>\$ 49,215</u>	<u>\$ 205,517</u>	<u>\$ 243,648</u>	<u>\$ 108</u>
\$ -	\$ 6,211	\$ 87,239	\$ 24	\$ -
-	-	14,800	-	-
-	427	-	-	-
-	535	-	-	-
<u>-</u>	<u>7,173</u>	<u>102,039</u>	<u>24</u>	<u>-</u>
15,308	-	-	196,304	-
-	24,586	103,478	-	-
-	17,456	-	47,320	108
<u>15,308</u>	<u>42,042</u>	<u>103,478</u>	<u>243,624</u>	<u>108</u>
<u>\$ 15,308</u>	<u>\$ 49,215</u>	<u>\$ 205,517</u>	<u>\$ 243,648</u>	<u>\$ 108</u>

(Continued)

**CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
September 30, 2010**

	<u>ANIMAL'S ATTIC GIFT SHOP FUND</u>	<u>TOTAL NONMAJOR SPECIAL REVENUE FUNDS</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,251	\$ 801,187
Investments	-	1,535,040
Receivables:		
Accounts	-	168,722
Other	-	310,946
Allowance for uncollectibles	-	(151,200)
Total assets	<u>\$ 14,251</u>	<u>\$ 2,664,695</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 1	\$ 162,744
Due to other funds	-	14,800
Accrued liabilities	-	106,220
Deferred revenues	-	32,722
Total liabilities	<u>1</u>	<u>316,486</u>
<b>FUND BALANCES</b>		
Restricted	-	583,527
Committed	-	1,647,843
Assigned	14,250	116,839
Total fund balances	<u>14,250</u>	<u>2,348,209</u>
Total liabilities and fund balances	<u>\$ 14,251</u>	<u>\$ 2,664,695</u>

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



**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**For the Year Ended September 30, 2010**

	HOTEL/MOTEL TAX FUND	ZOO BUILDING FUND	FEMA FUNDED GRANTS FUND	POLICE SEIZED FUND	COURT SECURITY/ TECHNOLOGY FUND
<b>Revenues</b>					
Other taxes	\$ 766,090	\$ -	\$ -	\$ -	\$ -
Charges for services	174,293	232,922	-	-	-
Intergovernmental	-	-	-	-	-
Other revenues	200	-	-	15,774	46,330
Interest income	3,216	11,648	23	974	5
Total revenues	<u>943,799</u>	<u>244,570</u>	<u>23</u>	<u>16,748</u>	<u>46,335</u>
<b>Expenditures</b>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	16,371	25,104
Cultural and recreation	954,490	111,498	-	-	-
Total expenditures	<u>954,490</u>	<u>111,498</u>	<u>-</u>	<u>16,371</u>	<u>25,104</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,691)</u>	<u>133,072</u>	<u>23</u>	<u>377</u>	<u>21,231</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	-	-
Transfers out	(3,475)	-	(36,128)	(5,404)	(20,000)
Insurance recovery	-	-	-	-	-
Total other financing sources (uses)	<u>(3,475)</u>	<u>-</u>	<u>(36,128)</u>	<u>(5,404)</u>	<u>(20,000)</u>
Net change in fund balances	(14,166)	133,072	(36,105)	(5,027)	1,231
Fund balances - beginning	<u>374,962</u>	<u>1,262,104</u>	<u>36,105</u>	<u>121,940</u>	<u>55,283</u>
Fund balances - ending	<u>\$ 360,796</u>	<u>\$ 1,395,176</u>	<u>\$ -</u>	<u>\$ 116,913</u>	<u>\$ 56,514</u>

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

<u>POLICE GRANTS FUND</u>	<u>SPECIAL RECREATION FUND</u>	<u>INSURANCE LOSS FUND</u>	<u>ANIMAL CONTROL - KURTH GRANT FUND</u>	<u>POLICE DARE CONTRIBUTION GRANT FUND</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	175,626	-	-	-
122,771	-	-	161,585	-
3,039	-	-	-	-
-	(31)	730	293	-
<u>125,810</u>	<u>175,595</u>	<u>730</u>	<u>161,878</u>	<u>-</u>
-	-	590,351	-	-
112,311	-	-	11,220	-
-	173,779	-	-	-
<u>112,311</u>	<u>173,779</u>	<u>590,351</u>	<u>11,220</u>	<u>-</u>
13,499	1,816	(589,621)	150,658	-
-	-	-	27,945	-
-	(6,000)	-	(200,000)	-
-	-	534,040	-	-
<u>-</u>	<u>(6,000)</u>	<u>534,040</u>	<u>(172,055)</u>	<u>-</u>
13,499	(4,184)	(55,581)	(21,397)	-
1,809	46,226	159,059	265,021	108
<u>\$ 15,308</u>	<u>\$ 42,042</u>	<u>\$ 103,478</u>	<u>\$ 243,624</u>	<u>\$ 108</u>

(Continued)

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**For the Year Ended September 30, 2010**

	<u>ANIMAL'S ATTIC GIFT SHOP FUND</u>	<u>TOTAL NONMAJOR SPECIAL REVENUE FUNDS</u>
Revenues		
Other taxes	\$ -	\$ 766,090
Charges for services	-	582,841
Intergovernmental	-	284,356
Other revenues	4,380	69,723
Interest income	-	16,858
Total revenues	<u>4,380</u>	<u>1,719,868</u>
Expenditures		
Current:		
General government	-	590,351
Public safety	219	165,225
Cultural and recreation	-	1,239,767
Total expenditures	<u>219</u>	<u>1,995,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,161</u>	<u>(275,475)</u>
Other Financing Sources (Uses)		
Transfers in	-	27,945
Transfers out	-	(271,007)
Insurance recovery	-	534,040
Total other financing sources (uses)	<u>-</u>	<u>290,978</u>
Net change in fund balances	4,161	15,503
Fund balances - beginning	<u>10,089</u>	<u>2,332,706</u>
Fund balances - ending	<u>\$ 14,250</u>	<u>\$ 2,348,209</u>

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



**CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS  
September 30, 2010**

	STREET CONSTRUCTION FUND	1999 CIP BOND PROGRAM FUND	DRAINAGE MITIGATION FUND	ANIMAL CONTROL BUILDING FUND
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,604	\$ 18,813	\$ 5,962	\$ -
Investments	1,930,000	65,000	25,000	-
Receivables:				
Other	-	331	-	-
Intergovernmental	-	-	-	-
Total assets	<u>\$ 1,933,604</u>	<u>\$ 84,144</u>	<u>\$ 30,962</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 5,408	\$ 12,485	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	<u>5,408</u>	<u>12,485</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted	<u>1,928,196</u>	<u>71,659</u>	<u>30,962</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,933,604</u>	<u>\$ 84,144</u>	<u>\$ 30,962</u>	<u>\$ -</u>

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

2001 CIP STREET BOND PROGRAM FUND	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND	2010 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ -	\$ -	\$ -	\$ 298	\$ 28,677
-	-	-	-	2,020,000
-	-	-	-	331
-	26,675	-	-	26,675
<u>\$ -</u>	<u>\$ 26,675</u>	<u>\$ -</u>	<u>\$ 298</u>	<u>\$ 2,075,683</u>
\$ -	\$ -	\$ -	\$ 44,804	\$ 62,697
-	26,675	3,500	-	30,175
-	-	-	530,370	530,370
<u>-</u>	<u>26,675</u>	<u>3,500</u>	<u>575,174</u>	<u>623,242</u>
-	-	(3,500)	(574,876)	1,452,441
<u>\$ -</u>	<u>\$ 26,675</u>	<u>\$ -</u>	<u>\$ 298</u>	<u>\$ 2,075,683</u>

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**For The Year Ended September 30, 2010**

	STREET CONSTRUCTION FUND	1999 CIP BOND PROGRAM FUND	DRAINAGE MITIGATION FUND	ANIMAL CONTROL BUILDING FUND
<b>Revenues</b>				
Interest income	\$ -	\$ 4,973	\$ 33	\$ 114
Other revenues	-	-	-	-
Intergovernmental	609,290	-	-	-
Total revenues	<u>609,290</u>	<u>4,973</u>	<u>33</u>	<u>114</u>
<b>Expenditures</b>				
Capital outlay:				
General government	894,104	-	-	-
Public safety	20,701	-	-	(578)
Cultural and recreation	184,677	255,304	-	-
Public works	-	-	-	-
Total expenditures	<u>1,099,482</u>	<u>255,304</u>	<u>-</u>	<u>(578)</u>
Excess (deficiency) of of revenues over (under) expenditures	<u>(490,192)</u>	<u>(250,331)</u>	<u>33</u>	<u>692</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	7,128	-	-
Transfers out	(91,893)	(3,985)	-	(27,945)
Total other financing sources (uses)	<u>(91,893)</u>	<u>3,143</u>	<u>-</u>	<u>(27,945)</u>
Net change in fund balances	(582,085)	(247,188)	33	(27,253)
Fund balances - beginning	<u>2,510,281</u>	<u>318,847</u>	<u>30,929</u>	<u>27,253</u>
Fund balances - ending	<u>\$ 1,928,196</u>	<u>\$ 71,659</u>	<u>\$ 30,962</u>	<u>\$ -</u>

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

2001 CIP STREET BOND PROGRAM	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND	2010 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ -	\$ -	\$ -	\$ -	\$ 5,120
7,128	-	-	-	7,128
-	26,675	-	-	635,965
<u>7,128</u>	<u>26,675</u>	<u>-</u>	<u>-</u>	<u>648,213</u>
-	26,675	-	74,636	995,415
-	-	-	430,447	450,570
-	-	-	129,965	569,946
-	-	-	155,828	155,828
<u>-</u>	<u>26,675</u>	<u>-</u>	<u>790,876</u>	<u>2,171,759</u>
<u>7,128</u>	<u>-</u>	<u>-</u>	<u>(790,876)</u>	<u>(1,523,546)</u>
-	-	-	216,000	223,128
<u>(7,128)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(130,951)</u>
<u>(7,128)</u>	<u>-</u>	<u>-</u>	<u>216,000</u>	<u>92,177</u>
-	-	-	(574,876)	(1,431,369)
-	-	(3,500)	-	2,883,810
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,500)</u>	<u>\$ (574,876)</u>	<u>\$ 1,452,441</u>

**CITY OF LUFKIN, TEXAS**  
**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**WATER AND SEWER UTILITY ENTERPRISE FUND**  
**For The Year Ended September 30, 2010**

Utility collections:	
Payroll costs	\$ 570,964
Supplies	86,714
Maintenance of equipment	14,524
Miscellaneous services	57,446
Total utility collections	<u>729,648</u>
Water utilities:	
Payroll costs	701,796
Supplies	101,023
Maintenance of equipment	407,460
Miscellaneous services	106,464
Total water utilities	<u>1,316,743</u>
Wastewater treatment plant:	
Payroll costs	923,486
Supplies	321,440
Maintenance of equipment	158,569
Miscellaneous services	661,183
Total wastewater treatment plant	<u>2,064,678</u>
Water production:	
Payroll costs	75,292
Supplies	971,960
Maintenance of equipment	231,985
Miscellaneous services	1,410,538
Total water production	<u>2,689,775</u>
Sewer utilities:	
Payroll costs	908,958
Supplies	188,143
Maintenance of equipment	310,805
Miscellaneous services	315,740
Total sewer utilities	<u>1,723,646</u>
Depreciation and amortization	2,140,853
General and administrative	2,171,618
Non-departmental	305,833
Total operating expenses	<u>\$ 13,142,794</u>

**CITY OF LUFKIN, TEXAS**  
**SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT**  
**SOLID WASTE DISPOSAL ENTERPRISE FUND**  
**For The Year Ended September 30, 2010**

Sanitation:	
Payroll costs	\$ 1,101,904
Supplies	328,677
Maintenance of equipment	168,016
Miscellaneous services	2,110,466
Total sanitation	<u>3,709,063</u>
Recycling:	
Payroll costs	220,166
Supplies	47,092
Maintenance of equipment	30,944
Miscellaneous services	149,897
Total recycling	<u>448,099</u>
Depreciation and amortization	149,917
General and administrative	1,471,228
Non-departmental	17,905
Total operating expenses	<u>\$ 5,796,212</u>

**CITY OF LUFKIN, TEXAS**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>Revenues</b>				
Ad valorem taxes	\$ 3,692,518	\$ 3,692,518	\$ 3,742,781	\$ 50,263
Interest income	30,000	30,000	21,572	(8,428)
Total revenues	<u>3,722,518</u>	<u>3,722,518</u>	<u>3,764,353</u>	<u>41,835</u>
<b>Expenditures</b>				
<b>Debt service:</b>				
<b>Principal:</b>				
1998 certificates of obligation	200,000	200,000	200,000	-
1999 certificates of obligation	200,000	200,000	200,000	-
2002 certificates of obligation	100,000	100,000	100,000	-
2002 general obligation bonds	400,000	400,000	400,000	-
2002 general obligation refunding bonds	675,000	675,000	675,000	-
2003 general obligation bonds	150,000	150,000	150,000	-
2003 certificates of obligation	75,000	75,000	75,000	-
2004 certificates of obligation	300,000	300,000	300,000	-
2006 general obligation refunding bonds	850,000	850,000	850,000	-
2007 general obligation bonds	60,000	60,000	60,000	-
2007 certificates of obligation	815,000	815,000	815,000	-
Total principal	<u>3,825,000</u>	<u>3,825,000</u>	<u>3,825,000</u>	<u>-</u>
<b>Interest:</b>				
1998 certificates of obligation	144,400	144,400	144,400	-
1999 certificates of obligation	32,838	32,838	32,838	-
2002 certificates of obligation	82,644	82,644	82,644	-
2002 general obligation bonds	279,626	279,626	279,625	1
2002 general obligation refunding bonds	82,376	82,376	82,375	1
2003 general obligation bonds	133,488	133,488	133,488	-
2003 certificates of obligation	63,600	63,600	63,600	-
2004 certificates of obligation	294,894	294,894	294,894	-
2006 general obligation refunding	289,642	289,642	289,641	1
2007 general obligation bonds	72,432	72,432	72,432	-
2007 certificates of obligation	187,712	187,712	187,712	-
2009 general obligation bonds	1,072,927	1,072,927	1,072,926	1
Total interest	<u>2,736,579</u>	<u>2,736,579</u>	<u>2,736,575</u>	<u>4</u>
Bond issuance costs and paying agent fees	10,500	10,500	10,681	(181)
Total expenditures	<u>6,572,079</u>	<u>6,572,079</u>	<u>6,572,256</u>	<u>(177)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,849,561)</u>	<u>(2,849,561)</u>	<u>(2,807,903)</u>	<u>41,658</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,818,660	2,818,660	2,818,660	-
Total other financing sources (uses)	<u>2,818,660</u>	<u>2,818,660</u>	<u>2,818,660</u>	<u>-</u>
Net change in fund balances	(30,901)	(30,901)	10,757	41,658
Fund balances - beginning	617,213	639,383	972,818	333,435
Fund balances - ending	<u>\$ 586,312</u>	<u>\$ 608,482</u>	<u>\$ 983,575</u>	<u>\$ 375,093</u>

**CITY OF LUFKIN, TEXAS**  
**HOTEL/MOTEL TAX SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Other taxes	\$ 800,000	\$ 700,000	\$ 766,090	\$ 66,090
Charges for services	165,150	178,050	174,293	(3,757)
Other revenues	-	-	200	200
Interest income	1,200	2,500	3,216	716
Total revenues	<u>966,350</u>	<u>880,550</u>	<u>943,799</u>	<u>63,249</u>
Expenditures				
Current:				
Cultural and recreation	996,821	995,000	954,490	40,510
Total expenditures	<u>996,821</u>	<u>995,000</u>	<u>954,490</u>	<u>40,510</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,471)</u>	<u>(114,450)</u>	<u>(10,691)</u>	<u>103,759</u>
Other Financing Sources (Uses)				
Transfers out	-	-	(3,475)	(3,475)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3,475)</u>	<u>(3,475)</u>
Net change in fund balances	(30,471)	(114,450)	(14,166)	100,284
Fund balances - beginning	<u>374,962</u>	<u>374,962</u>	<u>374,962</u>	<u>-</u>
Fund balances - ending	<u>\$ 344,491</u>	<u>\$ 260,512</u>	<u>\$ 360,796</u>	<u>\$ 100,284</u>

**CITY OF LUFKIN, TEXAS**  
**ZOO BUILDING SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Charges for services	\$ 231,500	\$ 230,845	\$ 232,922	\$ 2,077
Interest income	8,000	14,000	11,648	(2,352)
Total revenues	<u>239,500</u>	<u>244,845</u>	<u>244,570</u>	<u>(275)</u>
Expenditures				
Current:				
Cultural and recreation	<u>162,700</u>	<u>188,490</u>	<u>111,498</u>	<u>76,992</u>
Total expenditures	<u>162,700</u>	<u>188,490</u>	<u>111,498</u>	<u>76,992</u>
Excess (deficiency) of revenues over (under) expenditures	76,800	56,355	133,072	76,717
Fund balances - beginning	<u>1,062,439</u>	<u>1,062,439</u>	<u>1,262,104</u>	<u>199,665</u>
Fund balances - ending	<u>\$ 1,139,239</u>	<u>\$ 1,118,794</u>	<u>\$1,395,176</u>	<u>\$ 276,382</u>

**CITY OF LUFKIN, TEXAS**  
**COURT SECURITY/TECHNOLOGY SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Interest income	\$ 225	\$ 225	\$ 5	\$ (220)
Other revenues	51,000	39,750	46,330	6,580
Total revenues	<u>51,225</u>	<u>39,975</u>	<u>46,335</u>	<u>6,360</u>
Expenditures				
Current:				
Public safety	27,150	29,560	25,104	4,456
Total expenditures	<u>27,150</u>	<u>29,560</u>	<u>25,104</u>	<u>4,456</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,075</u>	<u>10,415</u>	<u>21,231</u>	<u>10,816</u>
Other Financing Sources (Uses)				
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Net change in fund balances	4,075	(9,585)	1,231	10,816
Fund balances - beginning	<u>55,283</u>	<u>55,283</u>	<u>55,283</u>	<u>-</u>
Fund balances - ending	<u>\$ 59,358</u>	<u>\$ 45,698</u>	<u>\$ 56,514</u>	<u>\$ 10,816</u>

**CITY OF LUFKIN, TEXAS**  
**SPECIAL RECREATION SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Charges for services	\$ 194,475	\$ 188,440	\$ 175,626	\$ (12,814)
Interest income	200	200	(31)	(231)
Total revenues	<u>194,675</u>	<u>188,640</u>	<u>175,595</u>	<u>(13,045)</u>
Expenditures				
Current:				
Cultural and recreation	<u>190,685</u>	<u>184,560</u>	<u>173,779</u>	<u>10,781</u>
Total expenditures	<u>190,685</u>	<u>184,560</u>	<u>173,779</u>	<u>10,781</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,990</u>	<u>4,080</u>	<u>1,816</u>	<u>(2,264)</u>
Other Financing Sources (Uses)				
Transfers out	<u>(6,000)</u>	<u>(6,000)</u>	<u>(6,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6,000)</u>	<u>(6,000)</u>	<u>(6,000)</u>	<u>-</u>
Net change in fund balances	(2,010)	(1,920)	(4,184)	(2,264)
Fund balances - beginning	<u>46,226</u>	<u>46,226</u>	<u>46,226</u>	<u>-</u>
Fund balances - ending	<u>\$ 44,216</u>	<u>\$ 44,306</u>	<u>\$ 42,042</u>	<u>\$ (2,264)</u>

**CITY OF LUFKIN, TEXAS**  
**ANIMAL CONTROL-KURTH GRANT SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Intergovernmental	\$ 225,000	\$ 150,000	\$ 161,585	\$ 11,585
Interest income	1,250	800	293	(507)
Total revenues	<u>226,250</u>	<u>150,800</u>	<u>161,878</u>	<u>11,078</u>
Expenditures				
Current:				
Public safety	-	11,220	11,220	-
Total expenditures	<u>-</u>	<u>11,220</u>	<u>11,220</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>226,250</u>	<u>139,580</u>	<u>150,658</u>	<u>11,078</u>
Other Financing Sources (Uses)				
Transfers in	-	27,945	27,945	-
Transfers out	(200,000)	(200,000)	(200,000)	-
Total other financing sources (uses)	<u>(200,000)</u>	<u>(172,055)</u>	<u>(172,055)</u>	<u>-</u>
Net change in fund balances	26,250	(32,475)	(21,397)	11,078
Fund balances - beginning	<u>265,021</u>	<u>265,021</u>	<u>265,021</u>	<u>-</u>
Fund balances - ending	<u>\$ 291,271</u>	<u>\$ 232,546</u>	<u>\$ 243,624</u>	<u>\$ 11,078</u>

**CITY OF LUFKIN, TEXAS**  
**ANIMAL'S ATTIC GIFT SHOP SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL**  
**For the Year Ended September 30, 2010**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Revenues				
Other revenues	\$ 4,500	\$ 4,000	\$ 4,380	\$ 380
Interest income	45	45	-	(45)
Total revenues	<u>4,545</u>	<u>4,045</u>	<u>4,380</u>	<u>335</u>
Expenditures				
Current:				
Public safety	4,500	4,520	219	4,301
Total expenditures	<u>4,500</u>	<u>4,520</u>	<u>219</u>	<u>4,301</u>
Net change in fund balances	45	(475)	4,161	4,636
Fund balances - beginning	<u>10,089</u>	<u>10,089</u>	<u>10,089</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 10,134</u></u>	<u><u>\$ 9,614</u></u>	<u><u>\$ 14,250</u></u>	<u><u>\$ 4,636</u></u>

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**September 30, 2010**

	<u>GROUP HEALTH INSURANCE</u>	<u>EQUIPMENT ACQUISITION AND REPLACEMENT</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 532,198	\$ 256,313	\$ 788,511
Investments	<u>719,540</u>	<u>2,345,000</u>	<u>3,064,540</u>
Total current assets	<u>1,251,738</u>	<u>2,601,313</u>	<u>3,853,051</u>
Capital assets:			
Machinery and equipment	-	1,398,337	1,398,337
Vehicles	-	4,691,697	4,691,697
Less accumulated depreciation	<u>-</u>	<u>(2,513,435)</u>	<u>(2,513,435)</u>
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>3,576,599</u>	<u>3,576,599</u>
Total assets	<u>1,251,738</u>	<u>6,177,912</u>	<u>7,429,650</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts/claims payable	332,756	517	333,273
Accrued liabilities	<u>3,762</u>	<u>-</u>	<u>3,762</u>
Total current liabilities	<u>336,518</u>	<u>517</u>	<u>337,035</u>
Total liabilities	<u>336,518</u>	<u>517</u>	<u>337,035</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	3,576,599	3,576,599
Unrestricted	<u>915,220</u>	<u>2,600,796</u>	<u>3,516,016</u>
Total net assets	<u>\$ 915,220</u>	<u>\$ 6,177,395</u>	<u>\$ 7,092,615</u>

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

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**September 30, 2010**

	<u>GROUP HEALTH INSURANCE</u>	<u>EQUIPMENT ACQUISITION AND REPLACEMENT</u>	<u>TOTAL</u>
<b>Operating Revenues:</b>			
Employee premiums	\$ 689,170	\$ -	\$ 689,170
Employer premiums	2,295,000	-	2,295,000
Equipment rental	-	1,643,488	1,643,488
Miscellaneous	97,499	1,202	98,701
Total operating revenues	<u>3,081,669</u>	<u>1,644,690</u>	<u>4,726,359</u>
<b>Operating Expenses:</b>			
Insurance claims and related expenses	2,947,238	-	2,947,238
Public safety	-	3,038	3,038
Public works	-	24,080	24,080
Depreciation and amortization	-	995,231	995,231
Total operating expenses	<u>2,947,238</u>	<u>1,022,349</u>	<u>3,969,587</u>
Operating income (loss)	<u>134,431</u>	<u>622,341</u>	<u>756,772</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain on sale of assets	-	8,487	8,487
Interest income	22,553	877	23,430
Total nonoperating revenues (expenses)	<u>22,553</u>	<u>9,364</u>	<u>31,917</u>
Income (loss) before transfers	156,984	631,705	788,689
Transfers in	150,000	-	150,000
Change in net assets	<u>306,984</u>	<u>631,705</u>	<u>938,689</u>
Total net assets - beginning	<u>608,236</u>	<u>5,545,690</u>	<u>6,153,926</u>
Total net assets - ending	<u>\$ 915,220</u>	<u>\$ 6,177,395</u>	<u>\$ 7,092,615</u>

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

**CITY OF LUFKIN, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**September 30, 2010**

	<u>GROUP HEALTH INSURANCE</u>	<u>EQUIPMENT ACQUISITION AND REPLACEMENT</u>	<u>TOTAL</u>
<b>Cash Flows From Operating Activities:</b>			
Receipts from customers and users	\$ 691,751	\$ 1,202	\$ 692,953
Receipts from interfund services provided	2,295,000	1,643,488	3,938,488
Payments to suppliers	<u>(2,824,013)</u>	<u>(27,114)</u>	<u>(2,851,127)</u>
Net cash provided by operating activities	<u>162,738</u>	<u>1,617,576</u>	<u>1,780,314</u>
<b>Cash Flows From Noncapital Financing Activities:</b>			
Transfer from other funds	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Net cash provided by noncapital and financing activities	<u>150,000</u>	<u>-</u>	<u>150,000</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase of capital assets	-	(1,442,415)	(1,442,415)
Proceeds from sale of assets	<u>-</u>	<u>21,596</u>	<u>21,596</u>
Net cash used by capital and related financing activities	<u>-</u>	<u>(1,420,819)</u>	<u>(1,420,819)</u>
<b>Cash Flows From Investing Activities:</b>			
Proceeds from sale and maturities of investments	840,000	2,185,000	3,025,000
Purchase of investments	(819,540)	(2,495,000)	(3,314,540)
Interest and dividends received	22,835	15,569	38,404
Net cash used by investing activities	<u>43,295</u>	<u>(294,431)</u>	<u>(251,136)</u>
Net increase (decrease) in cash and cash equivalents	356,033	(97,674)	258,359
Cash and cash equivalents - beginning	<u>176,165</u>	<u>353,987</u>	<u>530,152</u>
Cash and cash equivalents - ending	<u>\$ 532,198</u>	<u>\$ 256,313</u>	<u>\$ 788,511</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:</b>			
Operating income (loss)	<u>\$ 134,431</u>	<u>\$ 622,341</u>	<u>\$ 756,772</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	995,231	995,231
Increase (decrease) in accounts/claims payable	31,148	4	31,152
(Decrease) in accrued liabilities	<u>(2,841)</u>	<u>-</u>	<u>(2,841)</u>
Total adjustments	<u>28,307</u>	<u>995,235</u>	<u>1,023,542</u>
Net cash provided by operating activities	<u>\$ 162,738</u>	<u>\$ 1,617,576</u>	<u>\$ 1,780,314</u>

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

