

City of Lufkin, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2010

**Prepared by
Finance Department**

**CITY OF LUFKIN, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

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INTRODUCTORY SECTION



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February 3, 2011

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

The comprehensive annual financial report of the City of Lufkin, Texas for the fiscal year ended September 30, 2010 is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the City of Lufkin issue annually a report on its financial position and activities in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

Alexander, Lankford & Hiers, Inc., Certified Public Accountants, have issued an unqualified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2010. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

The City of Lufkin, incorporated in 1890, is located in East Texas at the intersection of U.S. Highways 69 and 59, and serves as the county seat of Angelina County. It also acts as the commercial hub of a 12 county rural market region, serving over 300,000 residents. The City currently has a land area of 34.02 square miles and a population of 35,067 according to the 2010 census. It is empowered to levy a property tax on both real and personal property located within its boundaries and has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council.

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

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

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

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

Local economy

The 2009 – 2010 fiscal year in the City of Lufkin was presented with both challenges and successes. The City was feeling the effects of the recession with the year-end sales tax revenues being lower than the revenues from fiscal year 2008. The effects of the closing of a major industry, Citation, the previous fiscal year continued into fiscal year 2010 causing a significant decline in franchise fees as they were a large electrical user. Due to the diversity of our economy, the continued growth of our medical and aerospace industries, our status as a regional hub buffered these losses.

The 2010 – 2011 fiscal year looks to be more positive. This City was able to provide its citizens with a two cent reduction in the ad-valorem tax rate. The City issued just over \$9 million in bonds for a Capital Improvement Program. The Aspen Power Merchant Biomass Plant construction is nearing completion and is expected to provide approximately 150 new jobs. The U.S. Army Reserve and National Guard base which will house 200 troops in Lufkin is expected to be completed early in 2011, and a \$4 million EDA grant for pre-development of the City's 156 acre industrial rail park is in progress with a new industry committed to open in the industrial park. 2011 promises a year of positive recovery and growth well into the future.

The planning and zoning activity is another tool used to monitor the local economy. The City of Lufkin Planning and Zoning office has experienced a steady level of activity during the previous year and we anticipate that activity to remain consistent this upcoming year. The significant change that has affected our area is the type of activity being submitted for review. Applications have changed markedly during the last three (3) years from larger scale activities (such as individually sited large chain restaurants), to simpler projects that reflect greater investment in existing assets (i.e. construction of buildings on existing commercial sites). The change is most visible in the number and size of applications for annexing, platting and zoning activity collectively during the course of the last fiscal year. The decrease is generally attributed, by the project owners, to concerns over the national economy and its potential impact on Lufkin in the near future.

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

The 1990 census recorded Lufkin's population at 30,206 and Angelina County's population at 69,884. The 2000 census recorded populations of 32,709 and 80,130 for the City of Lufkin and Angelina County respectively. The 2010 reflects Lufkin's current population at 35,067 and the County's population at 86,771. The unemployment rate for the City, as of September 2010, according to Texas Workforce statistics, is 8.7 percent compared to an 8.9 percent unemployment rate for Angelina County and 8.2 percent for the state. The national unemployment rate is 9.8%.

Long-term financial planning

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

- Improve drainage and correct problems within the City of Lufkin.
 - Complete drainage study of all watersheds within the city limits and extraterritorial jurisdiction. (complete)
 - Implement drainage study results:

- Drainage detention system.
- Develop and implement improvements for better mobility within the City.
 - Prepare recommendations and submit to Council.
 - Implement improvements to the central business district that were approved in the TEA 21 grant award (complete).
- Provide safe, secure environment to Lufkin citizens.
 - Maintain vehicular rotation schedule for public safety vehicles.
 - Replace fire rescue pumpers (complete) and maintain rotation schedule for ambulance replacements through capital improvement planning.
 - Expand community and neighborhood policing projects on an ongoing basis.
 - Coordinate with Angelina College in developing a fire academy for training new personnel (complete).
- Establish reliable, broad based communications for public safety and citizen information purposes.
 - Upgrade and replace the current police communications system (complete).
 - Complete the update of each City department's web site (complete). Develop Internet web based uses for citizen utilization to include online building permitting, inquiry and payment of utility accounts (complete), recreation class schedules, fine payments (complete).
- Provide increased beautification and quality of life projects.
 - Implement improvements to the Kit McConnico Park as outlined in the Parks Master Plan (100% complete).
 - Develop entryway beautification program by utilizing the Angelina/Beautiful Clean program and funding from TxDOT grant program. Continue maintenance contracts and projects to enhance the perception of Lufkin as clean and beautiful.
 - Develop funding sources for increased color, planting and maintenance of public areas, major travel corridors and entryways.
- Develop a new capital improvement plan. (complete)
 - Identify needs for infrastructure improvements. (complete)
 - Denman Avenue Street Reconstruction. (complete)
 - White Oak Drive Bridge Replacement. (complete)
 - Groesbeck Avenue Bridge Replacement. (complete)
 - Zoo Maintenance Facility Replacement. (complete)
 - Identify water and wastewater improvements.
 - US 59 South Line extension and Lift Station abandonment.
 - Kit McConnico I/I Project K.
 - Central I/I Project H.
 - Develop a priority ranking for identified projects.
 - Develop funding alternatives.

Financial Policies

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

At September 30, 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
Proprietary Funds: (working capital)		
Water/Wastewater Fund - 12.5%	1,907,115	4,739,593
Solid Waste/Recycling Fund - 12.5%	750,025	4,201,693

Major initiatives

City management has completed comprehensive analysis of the rolling equipment stock, and developed a fleet services and replacement policy that has been adopted by City Council. This project resulted in developing a planned replacement schedule of the vehicles and equipment used in our daily operation. High cost, long life equipment such as fire trucks and road equipment will be funded separately. During FY 2010 the City purchased \$1,442,415 in new/ replacement equipment and is planning to replace approximately \$2,024,898 of equipment in FY 2011.

The City also completed a maintenance facility, hay and feed storage facility and restoration of the historic Angelina County Lumber Company Locomotive No. 110, at the Ellen Trout Zoo.

Other major projects include the purchase of land for a new Central Fire Station which will combine current stations one and three. A replacement for Fire Engine #7 was purchased for \$464,718 and a landscaping project for Highway 59 South was completed through a grant for \$615,000 from the T.L.L. Temple Foundation.


Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lufkin, Texas for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2009. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated December 7, 2009. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device. The City also received the Texas Comptroller's Gold Circle Leadership Award, which recognizes the City for meeting a high standard for financial transparency online.

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

Respectively submitted,



 Paul L. Parker
 City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lufkin
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

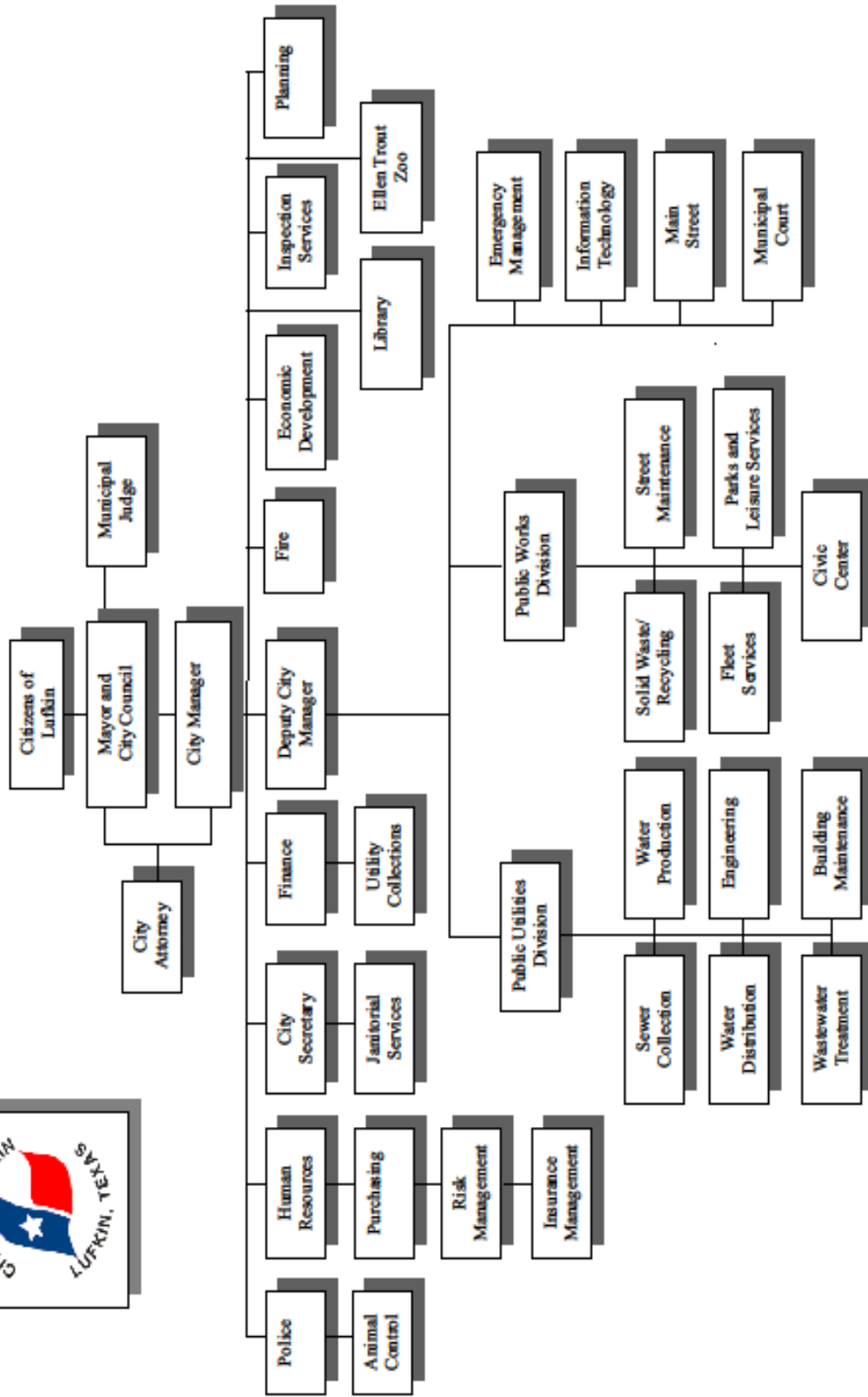
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**CITY OF LUFKIN, TEXAS
ORGANIZATION CHART**



**City of Lufkin, Texas
List of Principal Officials
September 30, 2010**

Governing Body

Honorable Jack Gorden, Jr., Mayor

City Council

Victor Travis	Ward No. 1
Robert Shankle	Ward No. 2
Lynn Torres	Ward No. 3
Don Langston	Ward No. 4
Rufus Duncan, Jr.	Ward No. 5
Phil Medford	Ward No. 6

Other Principal Officials

Paul L. Parker.....	City Manager
Keith Wright.....	Deputy City Manager
Rodney Ivy.....	Director of Human Resources
Scott Marcotte.....	Police Chief
Danny Kistner	Fire Chief
Douglas R. Wood	Director of Finance
Renee Thompson	City Secretary

FINANCIAL SECTION

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



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

Wilbur E. Alexander, CPA
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lufkin, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental and internal service funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2010, as listed in the table of contents. These financial statements are the responsibility of City of Lufkin, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Lufkin, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service fund of City of Lufkin, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Member of American Institute of Certified Public Accountants Private Companies Practice Section

INDEPENDENT AUDITOR'S REPORT - CONTINUED

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2011 on our consideration of City of Lufkin, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information on pages 12 through 21 and 69 through 71 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
February 3, 2011



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Management's Discussion and Analysis

As management of the City of Lufkin, Texas, we offer readers of the City of Lufkin's financial statements this narrative overview and analysis of the financial activities of the City of Lufkin (City) for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$129,343 (*net assets*). The unrestricted net assets component is a deficit of \$7,183. The unrestricted net assets decrease of \$591 from the prior year was primarily the result of investment in capital assets.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,032, a decrease of \$1,950 from the prior year. The decrease is the result of the planned reduction of the general fund balance of \$545 and a decrease in construction fund balances of \$1,431.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,297 or 8% of total general fund expenditures.
- The City's total debt decreased by \$3,440 (7.2%) during the fiscal year. The key factors in this decrease were \$3,825 for the retirement of general obligation debt, \$765 for the retirement of revenue supported debt, note proceeds of \$91, note payments of \$274, with increases in net pension obligation of \$1,237, and an increase in compensated absences of \$96.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, culture and recreation, planning and community development, and public works. The business-type activities of the City include water and sewer service and solid waste/recycling service.

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

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

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

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

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

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

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

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the condition rating of the City of Lufkin's street system. Required supplementary information can be found on pages 69-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 72-101 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$129,343 at the close of fiscal year 2010.

By far the largest portion of the City's net assets (95%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lufkin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lufkin's Combined Net Assets

	Governmental activities		Business-type activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 23,382	\$ 24,753	\$ 18,706	\$ 20,071	\$ 42,088	\$ 44,824
Capital assets	94,731	93,297	67,465	68,752	162,196	162,049
Total assets	118,113	118,050	86,171	88,823	204,284	206,873
Long-term liabilities outstanding	59,384	62,164	12,291	12,952	71,675	75,116
Other liabilities	2,407	2,521	859	1,349	3,266	3,870
Total liabilities	61,791	64,685	13,150	14,301	74,941	78,986
Net assets:						
Invested in capital assets, net of related debt	67,637	63,259	55,837	56,454	123,474	119,713
Restricted	3,019	3,857	10,033	10,909	13,052	14,766
Unrestricted	(14,334)	(13,751)	7,151	7,159	(7,183)	(6,592)
Total net assets	\$ 56,322	\$ 53,365	\$ 73,021	\$ 74,522	\$ 129,343	\$ 127,887

An additional portion of the City's net assets (10%) represents resources that are subject to external restrictions on how they may be used. The remaining negative balance of unrestricted net assets (\$7,183) is primarily the result of the issuance of certificates of obligation bonds and the transfer of those funds to the business-type activities in prior years.

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

There was a decrease of \$838 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this decrease resulted from the decrease in capital projects fund balances. There was a decrease of \$876 in restricted net assets of the business-type activities due to the decrease in the restricted for retirement of debt of \$382, decrease in the restricted for capital projects of \$834 and an increase in the restricted for renewal and replacement of \$340.

The government's total net assets increased by \$1,456 during the current fiscal year. This increase is attributable to the additional investment in capital assets of \$3,761, a decrease in restricted net assets of \$1,714, and a decrease in unrestricted net assets of \$591.

City of Lufkin's Change in Net Assets

	Governmental activities		Business-type activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 4,178	\$ 5,228	\$ 20,407	\$ 19,447	\$ 24,585	\$ 24,675
Operating grants and contributions	417	1,125	43	334	460	1,459
Capital grants and contributions	760	911	183	24	943	935
General revenues:						
Property taxes	9,864	9,981	-	-	9,864	9,981
Other taxes	13,300	14,325	-	-	13,300	14,325
Other	2,673	4,331	306	399	2,979	4,730
Total revenues	<u>31,192</u>	<u>35,901</u>	<u>20,939</u>	<u>20,204</u>	<u>52,131</u>	<u>56,105</u>
Expenses:						
General government	2,800	2,425	-	-	2,800	2,425
Public safety	16,618	16,333	-	-	16,618	16,333
Cultural and recreation	5,339	5,722	-	-	5,339	5,722
Planning and community development	360	382	-	-	360	382
Public works	3,693	8,148	-	-	3,693	8,148
Interest on long-term debt	2,476	2,256	-	-	2,476	2,256
Water and Sewer	-	-	13,593	12,854	13,593	12,854
Solid Waste Disposal	-	-	5,796	5,872	5,796	5,872
Total expenses	<u>31,286</u>	<u>35,266</u>	<u>19,389</u>	<u>18,726</u>	<u>50,675</u>	<u>53,992</u>
Change in net assets before transfers	(94)	635	1,550	1,478	1,456	2,113
Transfers	3,051	(12,607)	(3,051)	12,607	-	-
Change in net assets	2,957	(11,972)	(1,501)	14,085	1,456	2,113
Net assets, beginning	53,365	65,337	74,522	60,437	127,887	125,774
Net assets, ending	<u>\$ 56,322</u>	<u>\$ 53,365</u>	<u>\$ 73,021</u>	<u>\$ 74,522</u>	<u>\$ 129,343</u>	<u>\$ 127,887</u>

Governmental activities. Governmental activities increased the City of Lufkin's net assets by \$2,957. Key elements of this increase are as follows:

Charges for services decreased by \$1,050 (20%) during the year. This decrease was due to the decline of revenue from new construction in Lufkin.

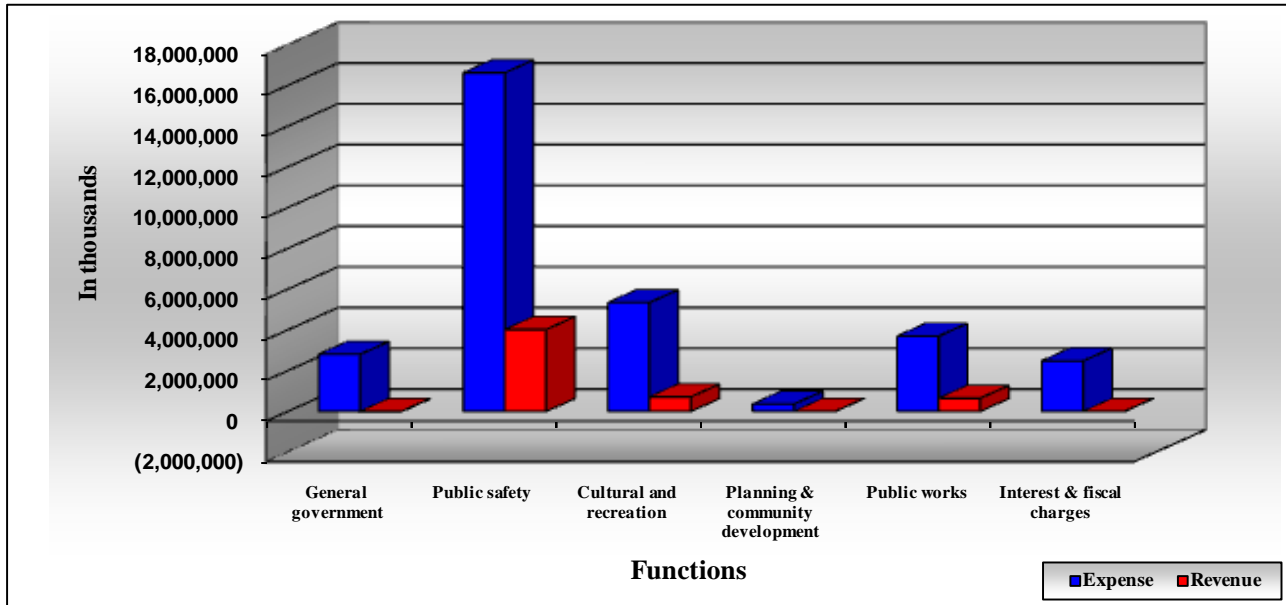
Operating grants for governmental activities decreased by \$708 (63%), due to FY 2009 reimbursement of costs associated with hurricane Ike that affected the City of Lufkin in September 2008 and the continuation of grants from the prior year.

Other taxes for governmental activities decreased by \$1,025 (7%) as the result of reduced franchise fees related to the closing of a major industry in Lufkin in FY 2009.

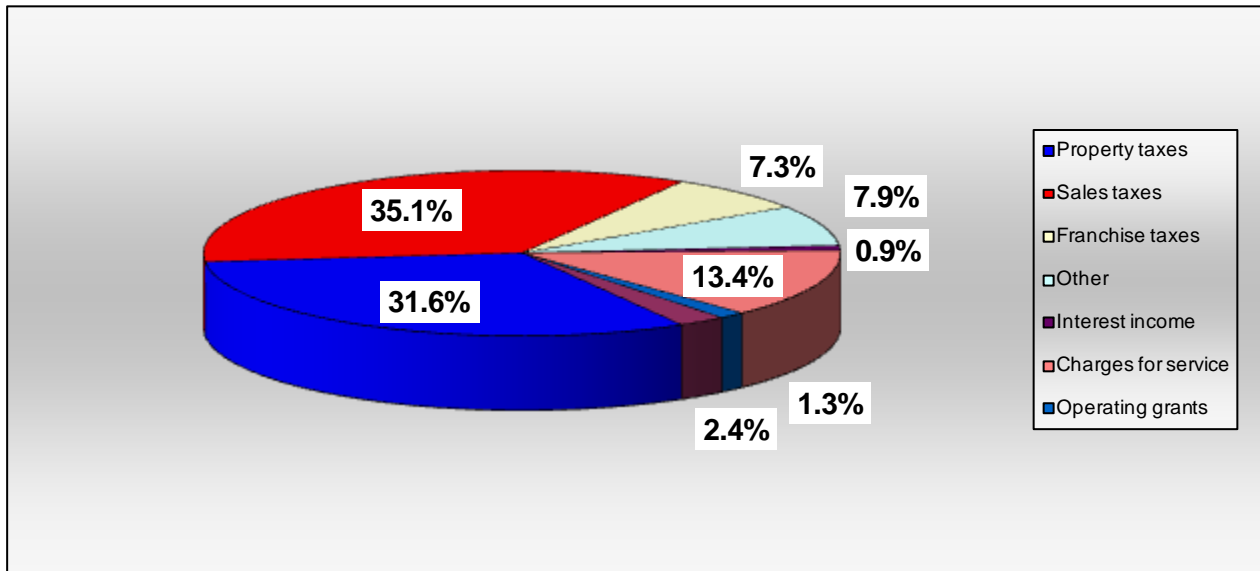
Other revenues for governmental activities decreased by \$1,658 (38%) due to reclassification of other revenues and charges for services.

Transfers out for governmental activities decreased by \$15,658 (1,242%) primarily as the result of the issuance and transfer of \$17,400 of certificates of obligation debt to fund the acquisition of water rights in the prior year.

Expenses and Program Revenues – Governmental Activities



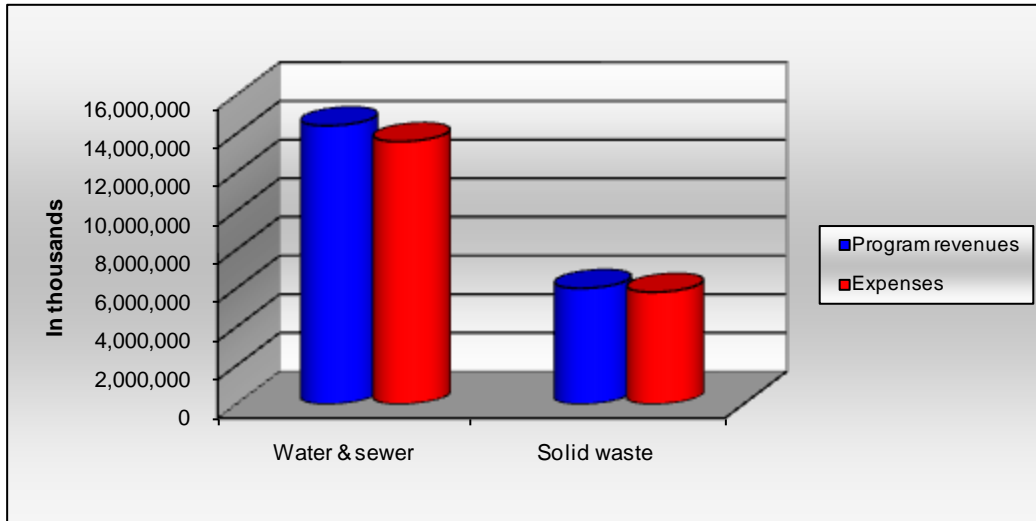
Revenues by Source – Governmental Activities



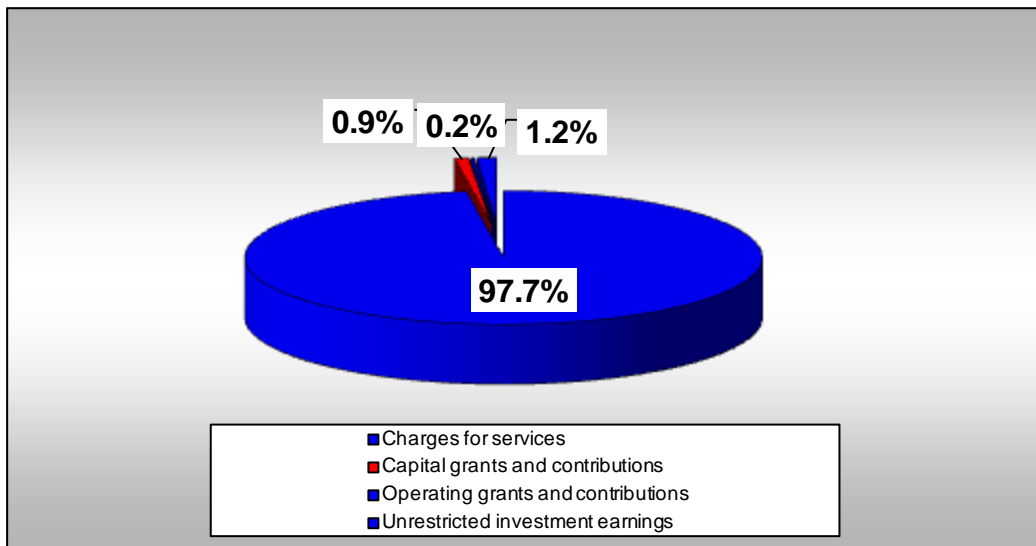
Business-type activities. Business-type activities decreased the City’s net assets by \$1,502. Key elements of this decrease are as follows:

- Revenues exceeded expenses by \$1,550. Charges for services increased by 5% from last year. Revenues increased as a result of a 6% increase in water and sewer rates. Expenses increased by 4% as a result of increased maintenance costs.
- Transfers to business-type activities from governmental activities decreased by \$15,658, a decrease of (124%) from the previous year. This decrease is primarily attributed to the transfer of proceeds for the issuance of \$17,400 in certificates of obligation to the Water and Sewer Fund in the prior year.

Expenses and Program Revenues – Business-type activities



Revenues by Source – Business-type activities



Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the City of Lufkin’s governmental funds reported combined ending fund balances of \$16,032, a decrease of \$1,950 from the prior year.

Of the combined governmental funds ending fund balance, \$2,297 (14%) is unassigned which is available for spending at the government’s discretion. The portions of fund balance that are not available for new spending because it has already been assigned, committed, or restricted are \$1,470, \$9,027 and \$3,020, respectively. The remaining amount of

fund balance is nonspendable due to the items not being expected to be converted to cash. The nonspendable fund balance, \$218, relates to inventory and prepaid items.

The general fund is the chief operating fund of the City of Lufkin. At the end of the current fiscal year, the General Fund had fund balances of \$2,297, \$1,353, and \$7,380 that were unassigned, assigned and committed, respectively. The remaining amount, \$218, was nonspendable. Total fund balance was \$11,248. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8% of total general fund expenditures, while total fund balance represents 39% of the same amount.

The fund balance of the City's general fund decreased by \$545 during the current fiscal year. The decrease was less than planned due to reductions in budgeted expenditures from FY 2009.

The debt service fund has a total fund balance of \$984, all of which is restricted for the payment of debt service. The net increase in fund balance in the debt service fund during the current year was \$11. This increase resulted from an increase in ad valorem tax collections over the amount budgeted for FY 2010.

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

Unrestricted net assets of the Water and Sewer Utility Fund at the end of the current fiscal year amounted to \$2,647, and the Solid Waste Disposal Fund amounted to \$4,504. The total net assets decreased for Water and Sewer Utility by \$1,766 while the Solid Waste Disposal Fund increased by \$264. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences in the original and the final amended expenditure budget amounted to \$239 in increased appropriations. The major adjustment was:

- \$236 in public safety was primarily for increase of \$168 in the Fire Department and \$87 in Inspections.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$1,033 being added to fund balance. This will allow the City to continue with some projects (maintenance and repair items) that have been in progress for several years.

Capital Asset and Debt Administration

Capital assets. The City of Lufkin's investment in capital assets for its governmental and business-type activities amounts to \$162,196 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, water rights, buildings, improvements, machinery and equipment, roads, and bridges.

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

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

The City's policy is to achieve an average rating of 56 for all streets. The City performed a complete inventory and conditions assessment during 2009. This condition assessment is performed every two years. The average rating for the City's streets at September 30, 2009 was 65; this rating remained flat from the previous year. The City's streets are

constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. The City's budget for street maintenance for the fiscal year ended September 30, 2010 was \$3,989 as compared to \$3,930 for the previous year. Actual expenditures were \$3,782 for FY 2010, reflecting a slight increase of \$99 from FY 2009. The increase is attributable to the cost of materials. 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.

Condition Rating of the City's Street System

	Percentage of Lane-miles in Excellent to Very Good Condition	
	2009	2008
Collector Streets	40%	52%
Residential Streets	36%	33%

	Percentage of Lane-miles in Substandard Condition	
	2009	2008
Collector Streets	23%	13%
Residential Streets	30%	20%

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

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

Governmental

- Completed Kit McConnico Parking Lot - \$136 – Total costs - \$142
- Completed White Oak Bridge repair - \$170 – Total costs - \$170
- Completed Groesbeck Bridge repair - \$113 – Total costs - \$113
- Completed Zoo maintenance facility - \$137 – Total costs - \$137
- Completed Zoo hay barn - \$70 – Total costs - \$70
- Continued renovation on Pines Theater - \$26 – Total projected cost - \$1,063
- Completed girls softball restroom renovation - \$47 – Total cost - \$129

Business-type

- Completed Wastewater Treatment Headworks Equipment installation – \$17 - Total cost - \$563
- Completed Chlorine Contact Basin - \$0 – Total cost - \$4
- Continued Sam Rayburn water supply implementation - \$1,136 – Total cost - \$1,148
- Continued SSCS US 69 annexed area - \$118 – Total cost - \$156
- Completed Raw Sewage Pump - \$42 – Total Cost \$42
- Completed Copeland St. Sewage Lift - \$117 – Total Cost \$117
- Completed Kit McConnico Lift Station Pump - \$66 – Total Cost \$66
- Began US 59 Lift Station and Line Extension - \$167 – Total Cost \$217

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

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land and water rights	\$ 4,224	\$ 4,224	\$ 6,525	\$ 6,507	\$ 10,749	\$ 10,731
Works of art	278	278	-	-	278	278
Buildings	11,529	11,426	3,600	3,715	15,129	15,141
Machinery and equipment	3,746	3,416	3,466	2,756	7,212	6,172
Vehicles	3,661	3,768	91	163	3,752	3,931
Improvements other than buildings	12,883	13,067	51,798	53,446	64,681	66,513
Infrastructure	56,716	56,432	-	-	56,716	56,432
Construction in progress	1,694	686	1,985	2,165	3,679	2,851
Total	\$ 94,731	\$ 93,297	\$ 67,465	\$ 68,752	\$ 162,196	\$ 162,049

Additional information on the City of Lufkin's capital assets can be found in note IV. E. on pages 50 - 54 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$63,325. Of this amount \$51,925 is backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenues (i.e., revenue bonds).

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

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 51,925	\$ 55,750	\$ -	\$ -	\$ 51,925	\$ 55,750
Revenue bonds	-	-	11,400	12,165	11,400	12,165
Total	\$ 51,925	\$ 55,750	\$ 11,400	\$ 12,165	\$ 63,325	\$ 67,915

The City's bonded debt decreased by \$4,590 (7%) during the current year. The key factors in this decrease were the retirement of revenue bonds of \$765 and general obligation bonds of \$3,825 during the current year.

The City of Lufkin maintains an "Aa1" rating from Moody's and an "AA-" rating from Standard & Poor's for general obligation debt and the revenue bonds of the Water and Sewer Utility.

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

Additional information on the City's long-term debt can be found in note IV. G. on pages 55-60 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City, according to Texas Workforce statistics, is 7.9%, a decrease of 0.8% from last year. The 7.8% unemployment rate for Angelina County is a decrease of 1.1% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 9.6 %.
- The state sales tax receipts for the current fiscal year totaled \$10,949, a decrease of \$489 or (4%) from the previous year indicating a moderate increase in the retail economy.
- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the City of Lufkin's budget for the 2011 fiscal year.

During the current fiscal year, unassigned, assigned and committed fund balance in the general fund decreased to \$11,030. The City has appropriated \$1,038 of this amount for spending in the 2011 fiscal year budget. It is intended that this use of available fund balance will support the decrease in the property tax rate millage rate from .5338 to .5138 for the 2011 fiscal year.

The Water and Sewer Utility rates increased 6% for all categories for the 2011 budget in support of the cost of the water rights and increased water pumping capacity acquired in FY 2010.

Requests for information

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

BASIC FINANCIAL STATEMENTS

CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
September 30, 2010

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNITS
	ACTIVITIES	ACTIVITIES		
ASSETS				
Cash and cash equivalents	\$ 4,020,773	\$ 662,503	\$ 4,683,276	\$ 476,467
Investments	16,105,491	3,860,174	19,965,665	3,111,377
Receivables - net	1,509,152	2,489,445	3,998,597	88,113
Inventories	212,405	291,076	503,481	-
Prepaid items	5,581	-	5,581	-
Deferred charges	529,948	306,606	836,554	-
Restricted Assets:				
Cash and cash equivalents	-	2,055,618	2,055,618	-
Investments-customer deposits	-	247,043	247,043	-
Investments	-	8,090,787	8,090,787	-
Intergovernmental receivables	-	6,400	6,400	-
Other receivable-net	-	103,667	103,667	-
Intergovernmental receivables	998,259	4,200	1,002,459	458,502
Notes receivable - net	-	588,397	588,397	-
Capital assets (net of accumulated depreciation):				
Land	4,223,746	2,670,824	6,894,570	-
Water rights	-	3,854,095	3,854,095	-
Infrastructure	56,716,037	-	56,716,037	-
Works of art	278,500	-	278,500	-
Buildings	11,528,746	3,600,694	15,129,440	-
Improvements other than buildings	12,882,579	51,797,737	64,680,316	-
Machinery and equipment	3,746,115	3,465,526	7,211,641	-
Vehicles	3,661,068	90,535	3,751,603	-
Construction in progress	1,694,471	1,985,103	3,679,574	366,032
Total assets	<u>118,112,871</u>	<u>86,170,430</u>	<u>204,283,301</u>	<u>4,500,491</u>
LIABILITIES				
Accounts/claims payable	1,188,519	254,263	1,442,782	49,323
Accrued interest	290,161	-	290,161	-
Accrued liabilities	912,543	170,520	1,083,063	13,373
Unearned revenues	15,735	-	15,735	-
Payable from restricted assets	-	433,719	433,719	-
Noncurrent liabilities:				
Due within one year	4,332,575	1,068,627	5,401,202	-
Due in more than one year	55,051,143	11,222,776	66,273,919	15,482
Total liabilities	<u>61,790,676</u>	<u>13,149,905</u>	<u>74,940,581</u>	<u>78,178</u>
NET ASSETS				
Invested in capital assets, net of related debt	67,636,822	55,836,467	123,473,289	-
Restricted for:				
Retirement of debt	983,575	2,673,592	3,657,167	-
Capital projects	1,452,441	5,191,381	6,643,822	-
Renewal and replacement	-	2,167,792	2,167,792	-
Other	583,527	-	583,527	-
Unrestricted	(14,334,170)	7,151,293	(7,182,877)	4,422,313
Total net assets	<u>\$ 56,322,195</u>	<u>\$ 73,020,525</u>	<u>\$ 129,342,720</u>	<u>\$ 4,422,313</u>

CITY OF LUFKIN, TEXAS
STATEMENT OF ACTIVITIES
For the Year ended September 30, 2010

FUNCTIONS/PROGAMS	PROGRAM REVENUES					NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			COMPONENT UNITS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	TOTAL			
						GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES		
Primary government:									
Governmental activities:									
General government	\$ 2,799,858	\$ (12,429)	\$ 1,000	\$ -	\$ (2,811,287)	\$ -	\$ (2,811,287)	\$ -	
Public safety	16,617,857	3,578,206	315,538	124,290	(12,599,823)	-	(12,599,823)	-	
Cultural and recreation	5,339,091	582,841	100,890	25,040	(4,630,320)	-	(4,630,320)	-	
Planning and community development	-	-	-	-	(359,983)	-	(359,983)	-	
Public works	3,692,933	29,235	-	610,925	(3,052,773)	-	(3,052,773)	-	
Interest and fiscal charges	2,476,528	-	-	-	(2,476,528)	-	(2,476,528)	-	
Total governmental activities	31,286,250	4,177,853	417,428	760,255	(25,930,714)	-	(25,930,714)	-	
Business-type activities:									
Water and Sewer	13,593,469	14,412,385	-	182,421	-	1,001,337	1,001,337	-	
Solid Waste Disposal	5,796,212	5,995,079	42,878	-	-	241,745	241,745	-	
Total business-type activities	19,389,681	20,407,464	42,878	182,421	-	1,243,082	1,243,082	-	
Total primary government	\$ 50,675,931	\$ 24,585,317	\$ 460,306	\$ 942,676	(25,930,714)	1,243,082	(24,687,632)	-	
Component units	\$ 718,899	\$ -	\$ 7,235	\$ 340,207				(371,457)	
General revenues:									
Property taxes					9,863,874	-	9,863,874	-	
Sales taxes					10,948,538	-	10,948,538	995,321	
Franchise taxes					2,262,291	-	2,262,291	-	
Mixed beverage tax					89,538	-	89,538	-	
Other					2,317,613	-	2,317,613	477,521	
Unrestricted investment earnings					294,240	254,090	548,330	24,416	
Gain on retirement of capital assets					61,048	52,043	113,091	-	
Transfers					3,051,260	(3,051,260)	-	-	
Total general revenues and transfers					28,888,402	(2,745,127)	26,143,275	1,497,258	
Change in net assets					2,957,688	(1,502,045)	1,455,643	1,125,801	
Net assets - beginning					53,364,507	74,522,570	127,887,077	3,296,512	
Net assets - ending					\$ 56,322,195	\$ 73,020,525	\$ 129,342,720	\$ 4,422,313	

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

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

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 2,073,035	\$ 329,363	\$ 829,864	\$ 3,232,262
Investments	8,830,911	655,000	3,555,040	13,040,951
Receivables:				
Taxes	595,998	306,987	-	902,985
Accounts	2,254,304	-	168,722	2,423,026
Other	8,439	124	311,277	319,840
Allowance for uncollectibles	(1,854,609)	(270,149)	(151,200)	(2,275,958)
Due from other funds	545,170	-	-	545,170
Intergovernmental receivables	971,584	-	26,675	998,259
Inventories	212,405	-	-	212,405
Prepaid items	5,581	-	-	5,581
Total assets	<u>\$ 13,642,818</u>	<u>\$ 1,021,325</u>	<u>\$ 4,740,378</u>	<u>\$ 19,404,521</u>
LIABILITIES				
Accounts/claims payable	\$ 628,893	\$ 912	\$ 225,441	\$ 855,246
Due to other funds	-	-	545,170	545,170
Accrued liabilities	772,386	-	136,395	908,781
Deferred revenues	993,878	36,838	32,722	1,063,438
Total liabilities	<u>2,395,157</u>	<u>37,750</u>	<u>939,728</u>	<u>3,372,635</u>
FUND BALANCES				
Nonspendable	217,986	-	-	217,986
Restricted	-	983,575	2,035,968	3,019,543
Committed	7,379,552	-	1,647,843	9,027,395
Assigned	1,352,819	-	116,839	1,469,658
Unassigned	2,297,304	-	-	2,297,304
Total fund balances	<u>11,247,661</u>	<u>983,575</u>	<u>3,800,650</u>	<u>16,031,886</u>
Total liabilities and fund balances	<u>\$ 13,642,818</u>	<u>\$ 1,021,325</u>	<u>\$ 4,740,378</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.				91,154,663
Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.				1,078,604
Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.				529,948
Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.				108,358
An internal service fund is used to charge the cost of health insurance to individual funds. The funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				915,220
An internal service fund is used for equipment acquisition and replacement. The governmental funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				6,177,395
Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.				<u>(59,673,879)</u>
Net assets of governmental activities				<u>\$ 56,322,195</u>

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

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

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Revenues				
Taxes:				
Property	\$ 6,175,696	\$ 3,742,781	\$ -	\$ 9,918,477
Sales	10,948,538	-	-	10,948,538
Franchise	2,262,291	-	-	2,262,291
Other	89,538	-	766,090	855,628
Licenses and permits	241,404	-	-	241,404
Fines and forfeitures	1,019,852	-	-	1,019,852
Charges for services	2,529,030	-	582,841	3,111,871
Interest income	88,001	21,572	21,978	131,551
Intergovernmental	3,798,502	-	920,321	4,718,823
Other revenues	552,178	-	76,851	629,029
Total revenues	<u>27,705,030</u>	<u>3,764,353</u>	<u>2,368,081</u>	<u>33,837,464</u>
Expenditures				
Current:				
General government	3,704,791	-	590,351	4,295,142
Public safety	16,006,249	-	165,225	16,171,474
Cultural and recreation	3,507,734	-	1,239,767	4,747,501
Planning and community development	377,406	-	-	377,406
Public works	4,825,432	-	-	4,825,432
Debt service:				
Principal	124,321	3,825,000	-	3,949,321
Interest and fiscal charges	28,766	2,747,256	-	2,776,022
Capital outlay	-	-	2,171,759	2,171,759
Total expenditures	<u>28,574,699</u>	<u>6,572,256</u>	<u>4,167,102</u>	<u>39,314,057</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(869,669)</u>	<u>(2,807,903)</u>	<u>(1,799,021)</u>	<u>(5,476,593)</u>
Other Financing Sources (Uses)				
Transfers in	383,485	2,818,660	251,073	3,453,218
Transfers out	(150,000)	-	(401,958)	(551,958)
Note proceeds	91,113	-	-	91,113
Insurance recovery	-	-	534,040	534,040
Total other financing sources (uses)	<u>324,598</u>	<u>2,818,660</u>	<u>383,155</u>	<u>3,526,413</u>
Net change in fund balances	(545,071)	10,757	(1,415,866)	(1,950,180)
Fund balances - beginning	<u>11,792,732</u>	<u>972,818</u>	<u>5,216,516</u>	<u>17,982,066</u>
Fund balances - ending	<u>\$ 11,247,661</u>	<u>\$ 983,575</u>	<u>\$ 3,800,650</u>	<u>\$ 16,031,886</u>

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

CITY OF LUFKIN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

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

Net change in fund balances – total governmental funds	\$ (1,950,180)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(110,618)
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	938,679
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	999,877
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>3,079,920</u>
Change in net assets of governmental activities	<u><u>\$ 2,957,678</u></u>

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

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)
Revenues				
Taxes:				
Ad valorem	\$ 6,245,258	\$ 6,246,717	\$ 6,175,696	\$ (71,021)
Sales	11,572,917	10,844,167	10,948,538	104,371
Franchise	2,764,600	2,389,437	2,262,291	(127,146)
Other	85,000	85,000	89,538	4,538
Total taxes	<u>20,667,775</u>	<u>19,565,321</u>	<u>19,476,063</u>	<u>(89,258)</u>
Licenses and Permits:				
Building permits and inspections	240,000	225,000	173,212	(51,788)
Plumbing permits and inspections	30,000	13,000	10,532	(2,468)
Electric permits and inspections	35,000	20,000	19,768	(232)
Heat and vent permits	25,000	16,000	17,255	1,255
Other permits	17,500	12,284	18,523	6,239
Licenses	1,250	2,400	2,114	(286)
Total licenses and permits	<u>348,750</u>	<u>288,684</u>	<u>241,404</u>	<u>(47,280)</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	1,014,200	891,490	849,256	(42,234)
Red light fines and costs	280,000	280,000	168,647	(111,353)
Parking fines	2,000	1,200	1,949	749
Total fines and forfeitures	<u>1,296,200</u>	<u>1,172,690</u>	<u>1,019,852</u>	<u>(152,838)</u>
Charges for Services:				
Emergency medical services	2,090,500	2,090,500	2,230,522	140,022
Emergency medical service - County	225,000	225,000	225,000	-
Mowing lots	5,000	5,000	3,560	(1,440)
False alarm fees	27,000	21,000	23,985	2,985
Other	36,250	37,800	45,963	8,163
Total charges for services	<u>2,383,750</u>	<u>2,379,300</u>	<u>2,529,030</u>	<u>149,730</u>
Interest Income	<u>140,000</u>	<u>140,000</u>	<u>88,001</u>	<u>(51,999)</u>
Intergovernmental:				
Grant revenues	6,000	291,390	257,361	(34,029)
General and administrative services	3,534,981	3,541,141	3,541,141	-
Total intergovernmental	<u>3,540,981</u>	<u>3,832,531</u>	<u>3,798,502</u>	<u>(34,029)</u>
Other Revenues:				
Parks	18,000	19,000	19,194	194
Library	20,500	20,500	25,500	5,000
Animal shelter collections	77,100	85,650	83,680	(1,970)
Zone change fees	2,600	500	1,650	1,150
Zoo admission fees	103,000	103,000	100,214	(2,786)
Rent on city property	24,260	26,680	27,894	1,214
Salvage and auction	-	41,250	52,561	11,311
Miscellaneous	47,950	42,551	85,850	43,299
Salary reimbursements	100,585	116,000	155,635	39,635
Total other revenues	<u>393,995</u>	<u>455,131</u>	<u>552,178</u>	<u>97,047</u>
Total revenues	<u>28,771,451</u>	<u>27,833,657</u>	<u>27,705,030</u>	<u>(128,627)</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
Current:				
General government:				
General:				
Payroll costs	123,122	122,478	122,931	(453)
Supplies	21,430	22,805	23,666	(861)
Maintenance	300	300	-	300
Miscellaneous services	115,810	110,470	99,703	10,767
Sundry charges	117,460	117,460	111,246	6,214
Total general	<u>378,122</u>	<u>373,513</u>	<u>357,546</u>	<u>15,967</u>
City manager:				
Payroll costs	287,008	285,396	280,197	5,199
Supplies	15,000	16,340	16,127	213
Maintenance	1,700	-	-	-
Miscellaneous services	26,100	32,100	27,897	4,203
Total city manager	<u>329,808</u>	<u>333,836</u>	<u>324,221</u>	<u>9,615</u>
Deputy city manager:				
Payroll costs	188,011	186,806	186,396	410
Supplies	3,910	3,910	3,749	161
Maintenance	325	-	-	-
Miscellaneous services	19,750	19,250	15,018	4,232
Sundry charges	100	-	-	-
Total city manager	<u>212,096</u>	<u>209,966</u>	<u>205,163</u>	<u>4,803</u>
Finance:				
Payroll costs	473,912	468,252	468,494	(242)
Supplies	15,950	16,330	15,360	970
Maintenance	7,070	6,070	5,025	1,045
Miscellaneous services	77,330	76,698	74,933	1,765
Sundry charges	-	55	130	(75)
Total finance	<u>574,262</u>	<u>567,405</u>	<u>563,942</u>	<u>3,463</u>
Legal:				
Payroll costs	-	122,067	121,170	897
Supplies	-	5,000	4,646	354
Miscellaneous services	161,000	51,000	51,104	(104)
Total legal	<u>161,000</u>	<u>178,067</u>	<u>176,920</u>	<u>1,147</u>
Tax:				
Miscellaneous services	204,000	204,000	179,201	24,799
Total tax	<u>204,000</u>	<u>204,000</u>	<u>179,201</u>	<u>24,799</u>
Human resources:				
Payroll costs	248,855	245,324	245,111	213
Supplies	11,450	10,350	9,208	1,142
Maintenance	750	-	-	-
Miscellaneous services	58,590	39,650	39,205	445
Sundry charges	23,500	23,500	21,731	1,769
Total human resources	<u>343,145</u>	<u>318,824</u>	<u>315,255</u>	<u>3,569</u>
Municipal building:				
Payroll costs	71,257	71,198	69,645	1,553
Supplies	23,300	25,450	22,460	2,990
Maintenance	58,500	112,714	99,148	13,566
Miscellaneous services	174,780	150,595	136,805	13,790
Total municipal building	<u>327,837</u>	<u>359,957</u>	<u>328,058</u>	<u>31,899</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET-
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)
Information technology:				
Payroll costs	353,779	410,762	392,716	18,046
Supplies	166,825	146,825	143,022	3,803
Maintenance	321,300	326,100	316,591	9,509
Miscellaneous services	215,290	214,670	181,956	32,714
Capital outlay	38,340	50,340	48,074	2,266
Total information technology	<u>1,095,534</u>	<u>1,148,697</u>	<u>1,082,359</u>	<u>66,338</u>
Non-departmental:				
Payroll costs	20,000	32,430	28,116	4,314
Miscellaneous services	214,809	184,308	126,736	57,572
Sundry charges	-	4,649	17,274	(12,625)
Total non-departmental	<u>234,809</u>	<u>221,387</u>	<u>172,126</u>	<u>49,261</u>
Total general government	<u>3,860,613</u>	<u>3,915,652</u>	<u>3,704,791</u>	<u>210,861</u>
Public safety:				
Municipal court:				
Payroll costs	294,726	307,846	301,794	6,052
Supplies	13,250	11,975	11,448	527
Maintenance	500	500	494	6
Miscellaneous services	16,925	15,425	14,925	500
Total municipal court	<u>325,401</u>	<u>335,746</u>	<u>328,661</u>	<u>7,085</u>
Police:				
Payroll costs	6,872,390	6,738,468	6,749,816	(11,348)
Supplies	378,065	374,065	341,065	33,000
Maintenance	80,295	79,005	72,400	6,605
Miscellaneous services	541,209	532,209	519,822	12,387
Sundry charges	1,000	1,000	361	639
Capital outlay	-	93,503	79,594	13,909
Total police	<u>7,872,959</u>	<u>7,818,250</u>	<u>7,763,058</u>	<u>55,192</u>
Fire:				
Payroll costs	5,976,511	5,995,603	5,859,950	135,653
Supplies	388,170	395,415	387,718	7,697
Maintenance	110,225	140,843	117,856	22,987
Miscellaneous services	349,089	345,910	305,622	40,288
Sundry charges	200	200	-	200
Capital outlay	-	113,891	113,891	-
Total fire	<u>6,824,195</u>	<u>6,991,862</u>	<u>6,785,037</u>	<u>206,825</u>
Inspection:				
Payroll costs	443,265	438,398	438,092	306
Supplies	25,150	23,570	24,347	(777)
Maintenance	3,800	2,937	2,649	288
Miscellaneous services	63,288	58,256	45,892	12,364
Sundry charges	100	100,000	-	100,000
Total inspection	<u>535,603</u>	<u>623,161</u>	<u>510,980</u>	<u>112,181</u>
Emergency management:				
Supplies	2,450	3,450	3,056	394
Maintenance	1,550	-	-	-
Miscellaneous services	26,700	48,700	42,012	6,688
Capital outlay	-	27,477	27,477	-
Total emergency management	<u>30,700</u>	<u>79,627</u>	<u>72,545</u>	<u>7,082</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Animal control:				
Payroll costs	424,196	415,484	410,886	4,598
Supplies	57,650	56,400	48,873	7,527
Maintenance	24,500	8,600	7,670	930
Miscellaneous services	84,689	87,129	78,539	8,590
Total animal control	<u>591,035</u>	<u>567,613</u>	<u>545,968</u>	<u>21,645</u>
Total public safety	<u>16,179,893</u>	<u>16,416,259</u>	<u>16,006,249</u>	<u>410,010</u>
Cultural and recreation:				
Parks:				
Payroll costs	881,246	859,105	823,307	35,798
Supplies	137,555	126,384	115,584	10,800
Maintenance	84,100	95,100	97,292	(2,192)
Miscellaneous services	495,541	470,183	398,409	71,774
Sundry charges	-	160	160	-
Capital outlay	47,725	59,336	57,439	1,897
Total parks	<u>1,646,167</u>	<u>1,610,268</u>	<u>1,492,191</u>	<u>118,077</u>
Zoo:				
Payroll costs	1,063,004	1,045,948	1,038,075	7,873
Supplies	184,320	184,185	184,446	(261)
Maintenance	2,450	95,333	95,208	125
Miscellaneous services	171,631	177,362	175,776	1,586
Total zoo	<u>1,421,405</u>	<u>1,502,828</u>	<u>1,493,505</u>	<u>9,323</u>
Library:				
Payroll costs	455,766	414,800	402,917	11,883
Supplies	19,900	19,925	14,852	5,073
Maintenance	47,235	36,635	27,351	9,284
Miscellaneous services	84,850	87,150	76,918	10,232
Total library	<u>607,751</u>	<u>558,510</u>	<u>522,038</u>	<u>36,472</u>
Total cultural and recreation	<u>3,675,323</u>	<u>3,671,606</u>	<u>3,507,734</u>	<u>163,872</u>
Planning and community development:				
Main street				
Payroll costs	141,970	141,462	142,563	(1,101)
Supplies	5,500	4,800	3,811	989
Miscellaneous services	14,808	12,658	11,892	766
Total main street	<u>162,278</u>	<u>158,920</u>	<u>158,266</u>	<u>654</u>
Planning and Zoning:				
Payroll costs	213,131	184,331	184,008	323
Supplies	5,850	5,115	4,994	121
Maintenance	1,100	-	-	-
Miscellaneous services	25,240	30,325	30,138	187
Total planning and zoning	<u>245,321</u>	<u>219,771</u>	<u>219,140</u>	<u>631</u>
Total planning and community development	<u>407,599</u>	<u>378,691</u>	<u>377,406</u>	<u>1,285</u>

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

(Continued)

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

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Public Works				
Engineering:				
Payroll costs	558,529	554,946	554,542	404
Supplies	19,320	13,480	11,537	1,943
Maintenance	22,995	24,795	20,385	4,410
Miscellaneous services	89,803	88,803	57,829	30,974
Total engineering	<u>690,647</u>	<u>682,024</u>	<u>644,293</u>	<u>37,731</u>
Street:				
Payroll costs	1,484,493	1,429,879	1,361,261	68,618
Supplies	261,560	222,750	193,272	29,478
Maintenance	1,271,425	1,340,279	1,110,997	229,282
Miscellaneous services	976,846	993,861	1,116,433	(122,572)
Capital outlay	-	11,400	11,039	361
Total street	<u>3,994,324</u>	<u>3,998,169</u>	<u>3,793,002</u>	<u>205,167</u>
Fleet management:				
Payroll costs	328,177	312,748	293,967	18,781
Supplies	35,775	32,275	59,734	(27,459)
Maintenance	21,900	11,505	8,772	2,733
Miscellaneous services	20,869	19,169	13,967	5,202
Sundry charges	-	12,441	11,697	744
Total fleet management	<u>406,721</u>	<u>388,138</u>	<u>388,137</u>	<u>1</u>
Total public works	<u>5,091,692</u>	<u>5,068,331</u>	<u>4,825,432</u>	<u>242,899</u>
Debt Service:				
Notes payable:				
Principal	124,321	128,105	124,321	3,784
Interest	28,767	28,767	28,766	1
Total debt service	<u>153,088</u>	<u>156,872</u>	<u>153,087</u>	<u>3,785</u>
Total expenditures	<u>29,368,208</u>	<u>29,607,411</u>	<u>28,574,699</u>	<u>1,032,712</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(596,757)</u>	<u>(1,773,754)</u>	<u>(869,669)</u>	<u>904,085</u>
Other Financing Sources (Uses)				
Transfers out	(150,000)	(150,000)	(150,000)	-
Transfers in	226,000	379,485	383,485	4,000
Note proceeds	-	91,113	91,113	-
Total other financing sources (uses)	<u>76,000</u>	<u>320,598</u>	<u>324,598</u>	<u>4,000</u>
Net change in fund balances	<u>(520,757)</u>	<u>(1,453,156)</u>	<u>(545,071)</u>	<u>908,085</u>
Fund balances - beginning	<u>11,792,732</u>	<u>11,792,732</u>	<u>11,792,732</u>	<u>-</u>
Fund balances - ending	<u>\$ 11,271,975</u>	<u>\$ 10,339,576</u>	<u>\$ 11,247,661</u>	<u>\$ 908,085</u>

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



CITY OF LUFKIN, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 349,121	\$ 313,382	\$ 662,503	\$ 788,511
Investments	577,728	3,282,446	3,860,174	3,064,540
Restricted assets:				
Cash and cash equivalents	356,549	-	356,549	-
Investments - customer deposits	247,043	-	247,043	-
Investments	2,470,787	-	2,470,787	-
Accounts receivable (net of allowance for uncollectibles)	1,804,925	684,520	2,489,445	-
Interest receivable	32,932	-	32,932	-
Intergovernmental receivables	2,222	1,978	4,200	-
Note receivable (net of allowance for uncollectibles)	-	147,100	147,100	-
Inventories	289,648	1,428	291,076	-
Deferred charges	306,606	-	306,606	-
Total current assets	<u>6,437,561</u>	<u>4,430,854</u>	<u>10,868,415</u>	<u>3,853,051</u>
Noncurrent assets:				
Restricted Assets:				
Cash and cash equivalents	1,699,069	-	1,699,069	-
Investments	5,620,000	-	5,620,000	-
Intergovernmental receivables	6,400	-	6,400	-
Interest receivable	70,735	-	70,735	-
Note receivable (net of allowance for uncollectibles)	-	441,297	441,297	-
Total restricted noncurrent assets	<u>7,396,204</u>	<u>441,297</u>	<u>7,837,501</u>	<u>-</u>
Capital assets:				
Land	2,509,460	161,364	2,670,824	-
Water rights	3,854,095	-	3,854,095	-
Buildings	3,258,788	2,291,845	5,550,633	-
Machinery and equipment	13,312,453	1,091,401	14,403,854	1,398,337
Vehicles	1,137,678	1,803,903	2,941,581	4,691,697
Improvements	73,667,982	744,109	74,412,091	-
Construction in progress	1,985,103	-	1,985,103	-
Less accumulated depreciation	<u>(35,336,002)</u>	<u>(3,017,665)</u>	<u>(38,353,667)</u>	<u>(2,513,435)</u>
Total capital assets (net of accumulated depreciation)	<u>64,389,557</u>	<u>3,074,957</u>	<u>67,464,514</u>	<u>3,576,599</u>
Total noncurrent assets	<u>71,785,761</u>	<u>3,516,254</u>	<u>75,302,015</u>	<u>3,576,599</u>
Total assets	<u>78,223,322</u>	<u>7,947,108</u>	<u>86,170,430</u>	<u>7,429,650</u>

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

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
LIABILITIES				
Current liabilities:				
Accounts/claims payable	97,514	156,749	254,263	333,273
Accrued compensated absences	118,832	26,966	145,798	-
Accrued liabilities	125,074	45,446	170,520	3,762
Current liabilities payable from restricted assets:				
Accrued interest payable	186,676	-	186,676	-
Customer deposits	247,043	-	247,043	-
Notes payable - current maturities	127,829	-	127,829	-
Bonds payable - current maturities	795,000	-	795,000	-
 Total current liabilities	 <u>1,697,968</u>	 <u>229,161</u>	 <u>1,927,129</u>	 <u>337,035</u>
Noncurrent liabilities:				
Accrued compensated absences	139,498	31,655	171,153	-
Notes payable	100,218	-	100,218	-
Net pension obligation	239,450	106,955	346,405	-
Revenue bonds payable	10,605,000	-	10,605,000	-
Total noncurrent liabilities	<u>11,084,166</u>	<u>138,610</u>	<u>11,222,776</u>	<u>-</u>
Total liabilities	<u>12,782,134</u>	<u>367,771</u>	<u>13,149,905</u>	<u>337,035</u>
NET ASSETS				
Invested in capital assets, net of related debt	52,761,510	3,074,957	55,836,467	3,576,599
Restricted for retirement of debt	2,673,592	-	2,673,592	-
Restricted for construction	5,191,381	-	5,191,381	-
Restricted for renewal and replacement	2,167,792	-	2,167,792	-
Unrestricted	2,646,913	4,504,380	7,151,293	3,516,016
Total net assets	<u>\$ 65,441,188</u>	<u>\$ 7,579,337</u>	<u>\$ 73,020,525</u>	<u>\$ 7,092,615</u>

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended September 30, 2010

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
	Operating Revenues:			
Water sales	\$ 7,731,060	\$ -	\$ 7,731,060	\$ -
Sewer service charges	6,306,535	-	6,306,535	-
Sanitation collections	-	5,951,004	5,951,004	-
Provision for bad debts	(89,994)	(28,934)	(118,928)	-
Service revenue	274,340	-	274,340	-
General and administrative	107,865	-	107,865	-
Employee premiums	-	-	-	689,170
Employer premiums	-	-	-	2,295,000
Equipment rental	-	-	-	1,643,488
Miscellaneous	82,579	73,009	155,588	98,701
Total operating revenues	<u>14,412,385</u>	<u>5,995,079</u>	<u>20,407,464</u>	<u>4,726,359</u>
Operating Expenses:				
Utility collections	729,648	-	729,648	-
Water utilities	1,316,743	-	1,316,743	-
Sewer utilities	1,723,646	-	1,723,646	-
Wastewater treatment plant	2,064,678	-	2,064,678	-
Water production	2,689,775	-	2,689,775	-
Sanitation department	-	3,709,063	3,709,063	-
Recycling department	-	448,099	448,099	-
Public safety	-	-	-	3,038
Public works	-	-	-	24,080
Insurance claims and related expenses	-	-	-	2,947,238
Depreciation and amortization	2,140,853	149,917	2,290,770	995,231
General and administrative	2,171,618	1,471,228	3,642,846	-
Non-departmental	305,833	17,905	323,738	-
Total operating expenses	<u>13,142,794</u>	<u>5,796,212</u>	<u>18,939,006</u>	<u>3,969,587</u>
Operating income (loss)	<u>1,269,591</u>	<u>198,867</u>	<u>1,468,458</u>	<u>756,772</u>
Nonoperating Revenues (Expenses):				
Intergovernmental	-	42,878	42,878	-
Interest income	175,628	78,462	254,090	23,430
Interest expense	(445,838)	-	(445,838)	-
Bond fees and issuance costs	(4,837)	-	(4,837)	-
Gain (loss) on sale of assets	40,476	11,567	52,043	8,487
Total nonoperating revenues (expenses)	<u>(234,571)</u>	<u>132,907</u>	<u>(101,664)</u>	<u>31,917</u>
Income (loss) before contributions and transfers	1,035,020	331,774	1,366,794	788,689
Capital contributions	182,421	-	182,421	-
Transfers in	-	-	-	150,000
Transfers out	(2,983,708)	(67,552)	(3,051,260)	-
Change in net assets	<u>(1,766,267)</u>	<u>264,222</u>	<u>(1,502,045)</u>	<u>938,689</u>
Total net assets - beginning	<u>67,207,455</u>	<u>7,315,115</u>	<u>74,522,570</u>	<u>6,153,926</u>
Total net assets - ending	<u>\$ 65,441,188</u>	<u>\$ 7,579,337</u>	<u>\$ 73,020,525</u>	<u>\$ 7,092,615</u>

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

CITY OF LUFKIN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2010

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 14,269,069	\$ 5,962,819	\$ 20,231,888	\$ 692,953
Receipts from interfund services provided	-	-	-	3,938,488
Payments to suppliers	(7,684,178)	(3,522,027)	(11,206,205)	(2,851,127)
Payments to employees	(2,996,106)	(1,250,473)	(4,246,579)	-
Payments for interfund services used	(657,717)	(803,380)	(1,461,097)	-
Net cash provided by (used by) operating activities	<u>2,931,068</u>	<u>386,939</u>	<u>3,318,007</u>	<u>1,780,314</u>
Cash Flows From Noncapital Financing Activities:				
Transfer from other funds	-	-	-	150,000
Transfer to other funds	(2,983,708)	(67,552)	(3,051,260)	-
Intergovernmental grants	-	44,456	44,456	-
Net cash provided by (used by) noncapital financing activities	<u>(2,983,708)</u>	<u>(23,096)</u>	<u>(3,006,804)</u>	<u>150,000</u>
Cash Flows From Capital and Related Financing Activities:				
Capital contributions	182,661	-	182,661	-
Purchase of capital assets	(24,360)	-	(24,360)	(1,442,415)
Acquisition and construction of capital assets	(951,349)	-	(951,349)	-
Principal paid on capital debt	(914,629)	-	(914,629)	-
Interest and fees paid on capital debt	(451,227)	-	(451,227)	-
Proceeds from sale of capital assets	40,476	11,567	52,043	21,596
Net cash provided by (used by) capital and related financing activities	<u>(2,118,428)</u>	<u>11,567</u>	<u>(2,106,861)</u>	<u>(1,420,819)</u>
Cash Flows From Investing Activities:				
Proceeds from sale and maturities of investments	8,714,634	3,425,739	12,140,373	3,025,000
Purchase of investments	(6,394,558)	(3,867,446)	(10,262,004)	(3,314,540)
Remittances on note receivable	-	(91,113)	(91,113)	-
Collections on note receivable	-	124,321	124,321	-
Interest and dividends received	101,904	78,462	180,366	38,404
Net cash provided by (used by) investing activities	<u>2,421,980</u>	<u>(330,037)</u>	<u>2,091,943</u>	<u>(251,136)</u>
Net increase (decrease) in cash and cash equivalents	250,912	45,373	296,285	258,359
Cash and cash equivalents - beginning	2,153,827	268,009	2,421,836	530,152
Cash and cash equivalents - ending	<u>\$ 2,404,739</u>	<u>\$ 313,382</u>	<u>\$ 2,718,121</u>	<u>\$ 788,511</u>

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

(Continued)

**CITY OF LUFKIN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended September 30, 2010**

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:				
Operating income (loss)	\$ 1,269,591	\$ 198,867	\$ 1,468,458	\$ 756,772
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:				
Depreciation and amortization	2,140,853	149,917	2,290,770	995,231
(Increase) in accounts receivable-net	(145,846)	(32,260)	(178,106)	-
(Increase) decrease in inventories	(42,589)	15,063	(27,526)	-
(Decrease) in accounts/claims payable	(491,066)	(17,444)	(508,510)	31,152
Increase in accrued compensated absences	19,479	1,577	21,056	-
Increase in customer deposits	2,530	-	2,530	-
Increase (decrease) in accrued liabilities	15,166	637	15,803	(2,841)
Increase in net pension obligation	162,950	70,582	233,532	-
Total adjustments	<u>1,661,477</u>	<u>188,072</u>	<u>1,849,549</u>	<u>1,023,542</u>
Net cash provided by (used by) operating activities	<u>\$ 2,931,068</u>	<u>\$ 386,939</u>	<u>\$ 3,318,007</u>	<u>\$ 1,780,314</u>

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