



# CITY OF LUFKIN

## **Vision Statement**

*Guided by City Council Leadership, we will be an organization that offers an excellent quality of life for its citizens.*

## **Our Mission**

*To meet the needs of the citizens.*

## **Our Values**

### **We will COMMUNICATE -**

Throughout the organization  
To create solutions  
Everyone's input is valued

### **We will have INTEGRITY -**

We are trustworthy  
We have a willingness to serve  
We have a commitment to fairness

### **We will be held ACCOUNTABLE -**

We accept responsibility for our actions and results

### **We will strive for TEAMWORK -**

We will work together harmoniously toward common goals

### **We will demonstrate a strong WORK ETHIC -**

We display a daily effort in applying required skills to complete assigned tasks

### **We will be INNOVATIVE -**

We encourage and support change through seeking better ways to do our jobs



**City of Lufkin, Texas**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended September 30, 2004**

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

**CITY OF LUFKIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

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# **INTRODUCTORY SECTION**

## Our Mission . . . To meet the needs of the Citizens



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January 25, 2005

### **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, 2004 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 activity 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.

This report consists of management's representations concerning the finances of the City of Lufkin. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lufkin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Lufkin's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Lufkin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Axley & Rode, LLP, a firm of licensed certified public accountants, has audited the City of Lufkin's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Lufkin for the fiscal year ended September 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Lufkin's financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The City of Lufkin is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*. Information related to this single audit, including the schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included.

GAAP require 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

## **Our Mission . . . To meet the needs of the Citizens**

region, serving over 300,000 residents. The City currently has a land area of 27.9 square miles and a population of 32,709 according to the 2000 census. It is empowered to levy a property tax on both real and personal property located within its boundaries and has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council.

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

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

The annual budget serves as the foundation for the City of Lufkin's financial planning and control. All city departments are required to submit requests for appropriation to the City Manager prior to the end of May each year. The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager presents this proposed budget to City Council for review prior to September 1. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than September 30, 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.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Lufkin operates.

**Local economy:** The City currently enjoys a stable economy that has been growing at a rate of about two percent per year during the last decade. Local indicators point to continued, stable growth. During FY 2004, the citizens of Lufkin voted to implement a 4B economic development corporation (EDC) for the purpose of stimulating and expanding the economic base of the city. The economy of the region is dominated by timber, cattle and poultry production as well as manufacturing. Major industries with headquarters or divisions located within the City's boundaries or within close proximity include manufacturing, foundry, poultry and timber processing. Lufkin also serves as the region's health care provider with two major hospitals, one having recently been ranked #2 in the State and #12 nationally in cardiac care.

The 1990 census recorded Lufkin's population at 30,206 and Angelina County's population at 69,884. The 2000 census reflects Lufkin's current population at 32,709 and the county's population at 80,130. The unemployment rate for the City, as of September 2004, according to Texas Workforce statistics, is 6.1 percent compared to a 6.4 percent unemployment rate for Angelina County and 5.5 percent for the state. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 5.1 percent.

**Long-term financial planning:** City Council established the following goals and objectives to be carried out during the next several years.

- Improve drainage and correct problems within the City of Lufkin.
  - Complete drainage study of all watersheds within the city limits and extraterritorial jurisdiction.
  - Implement drainage study results:
    - Drainage detention system
      - Design and acquire property for three detention ponds by summer 2002 (complete).

## Our Mission . . . To meet the needs of the Citizens

- Develop and implement improvements for better mobility within the city.
  - Conduct inventory of all streets and classify by quality standards of the Street Improvement Plan (complete summer 2002)
  - Prepare recommendations and submit to Council.
  - Implement street improvements as approved by City Council in fiscal 2000.
  - Implement improvements to the central business district that were approved in the TEA 21 grant award.
  - Implement plans and construct streets approved in the May 2001 street bond election (25% 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 (90% 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.
  - 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.

**Cash management policies and practices.** Cash temporarily idle during the year was invested in short-term money market instruments including demand deposits, certificates of deposit, U.S Treasury obligations, U.S. Government agency obligations, government investment pools and money market funds. In order to facilitate cash management, the operating cash of certain funds is pooled into a common account. The average yield for investments of the pooled cash account was approximately 1.435%, and the City earned interest revenue of \$354,330 on all investments for the year ended September 30, 2004.

The objectives of the City's investment policy are to minimize credit and market risks while maintaining liquidity and a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized with U.S. Treasury obligations. All collateral on deposits was held either by the City's agent or by a financial institution's trust department in the City's name. Investments in U.S. Government securities held by the City at September 30, 2004 are classified in the category of lowest risk and amounts invested in governmental investment pools and money market funds are not categorized as specified by the Governmental Accounting Standards Board.

**Risk Management.** The City purchases workers' compensation insurance coverage from Deep East Texas Self Insurance Fund, a public entities risk pool. The Fund reinsures through commercial companies for claims in excess of \$500,000. The City also maintains liability and property insurance coverage 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.

**Group Health.** The City's Employee Health Benefit Plan provides coverage to its employees of up to \$75,000 for each individual. Reinsurance agreements provide for a stop loss per individual of \$75,000 and an aggregate stop amount of \$795.33 per individual per month for medical and prescription card service. At September 30, net assets of the Fund were \$901,011 a decrease of \$833,266 from the previous year. Insurance claims and related expenses for fiscal 2004 were \$4,012,031.

## Our Mission . . . To meet the needs of the Citizens

**Pension benefits.** The City provides pension benefits for all of its full time employees (except fire fighters) through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 784 administered by TMRS, an agent multiple-employer public employee retirement system. The TMRS issues a publicly available financial report that includes financial statements and required supplementary information.

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 City of Lufkin entered into an agreement with The Board of Trustees during FY 2004 stating that the City of Lufkin did not desire to opt out of the mandate stipulated by the Texas Legislature under Proposition XV requiring Cities to be responsible for insuring that the benefits payable under the fund are not reduced. The agreement allows the City of Lufkin to make provisions to the plan that will help to guarantee the financial soundness of it. Additionally, the City of Lufkin Council will receive quarterly reports and the City's Investment Committee will review the investment activity of the Plan and the City Council shall appoint a total of three members of the Board of Trustees. The City assumes the right to conduct annual audits of the Plan at the Fund's expense. The City is not financially accountable for the Fund nor does the Fund's exclusion from the City's financial statements render them misleading or incomplete. Therefore, the Firemen's Relief and Retirement Fund of Lufkin, Texas is not considered to be a component unit of any other reporting entity.

Additional information on the City of Lufkin's pension arrangements can be found in the notes to the financial statements.

### 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, 2003. 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.

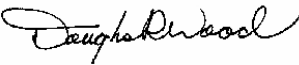
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated September 21, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device.

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

Respectively submitted,

  
\_\_\_\_\_  
Paul L. Parker  
City Manager

  
\_\_\_\_\_  
Douglas R. Wood  
Director of Accounting

# 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, 2003

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.

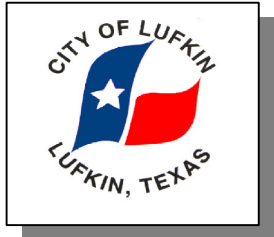


*Nancy L. Zjelke*

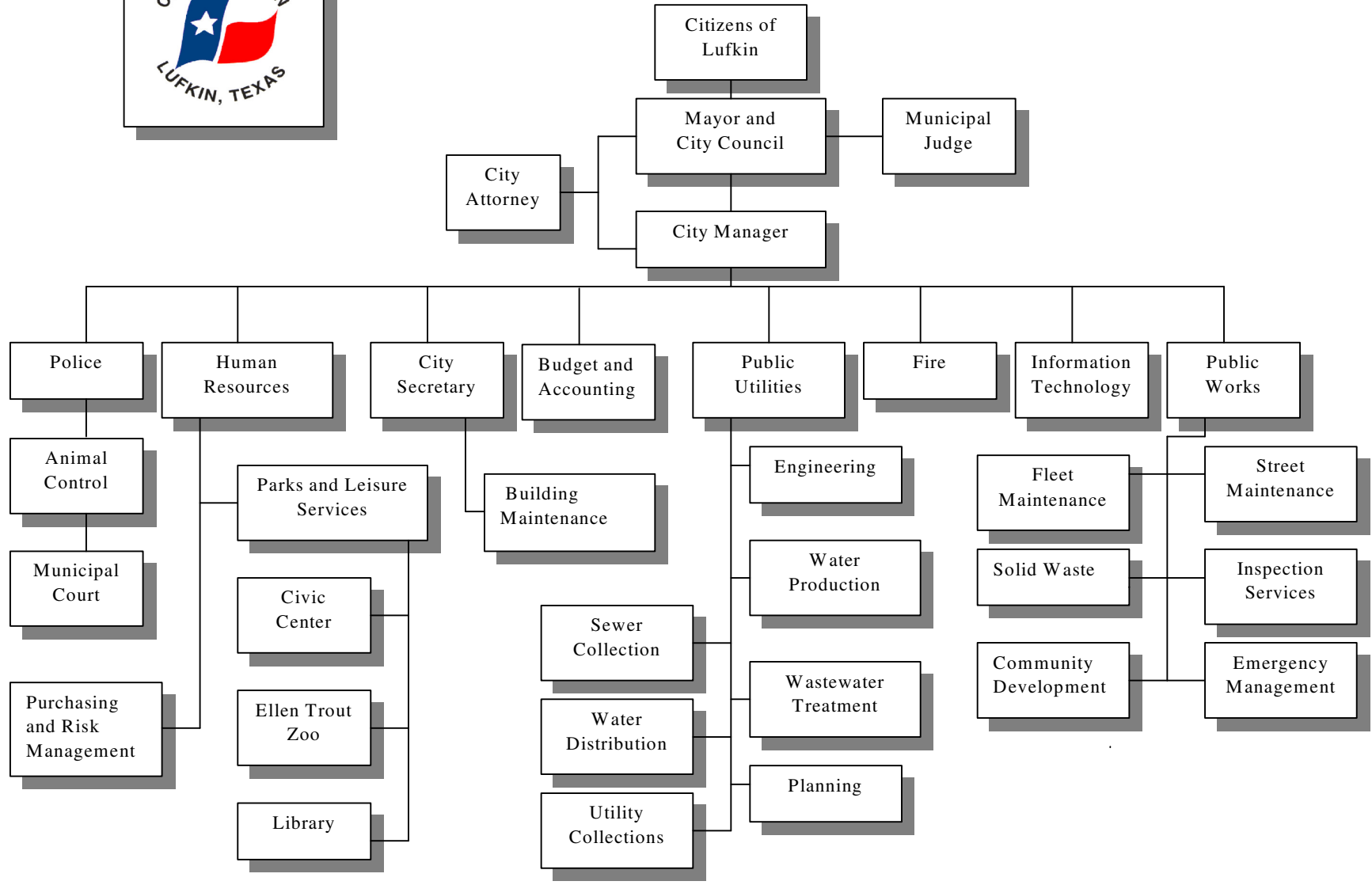
President

*Jeffrey R. Emer*

Executive Director



# CITY OF LUFKIN, TEXAS ORGANIZATION CHART



**City of Lufkin, Texas  
List of Principal Officials  
September 30, 2004**

**Governing Body**

Honorable Louis A. Bronaugh, Mayor

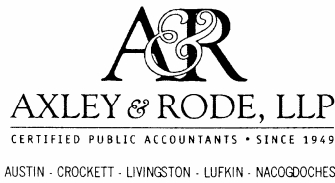
**City Council**

R. L Kuykendall .....	Ward No. 1
Rose Faine Boyd .....	Ward No. 2
Lynn Torres .....	Ward No. 3
Gordon Langston.....	Ward No. 4
Jack Gorden, Jr. ....	Ward No. 5
Dennis Robertson .....	Ward No. 6

**Other Principal Officials**

Paul L. Parker.....	City Manager
Keith Wright .....	City Engineer
David Koonce .....	Director of Human Resources
Renee Thompson .....	City Secretary
Kenneth Williams .....	Director of Public Works
Douglas R. Wood .....	Director of Accounting

## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' 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, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas, as of and for the year ended September 30, 2004, 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, 2004, as listed in the table of contents. These financial statements and schedules are the responsibility of the City of Lufkin, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

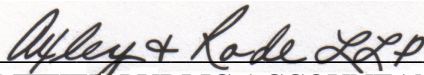
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In 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 the City of Lufkin, Texas as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and required supplementary information on pages 12 through 21 and 67 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the City of Lufkin, Texas' basic financial statements and the financial statements of each of the nonmajor governmental and internal service funds presented as supplementary information in the accompanying combining and individual fund 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 introductory section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is also the responsibility of City of Lufkin, Texas' management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic, combining and individual fund financial statements and schedules and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic, combining and individual fund financial statements and, accordingly, we express no opinion on them.

  
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
January 25, 2005



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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, 2004. 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 \$108,397 (*net assets*). Of this amount, \$19,579 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,241, a decrease of \$3,029 from the prior year. The decrease is the result of expenditure of proceeds from the issuance of long-term debt for capital assets and the general fund current year revenues exceeding expenditures.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$8,434,088 or 39.7% of total general fund expenditures.
- The City's total debt decreased by \$2,975 (6.1%) during the fiscal year. The key factors in this decrease were the retirement of \$2,135 general obligation debt and \$840 of revenue supported debt.

### Overview of the Financial Statements

This discussion and analysis are 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

## Our Mission . . . To meet the needs of the Citizens

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, Debt Service Fund, 1999 CIP Bond Program and the 2001 CIP Street Bond Program, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund, debt service fund, and special revenue funds—Ellen Trout Zoo, Civic Center and Special Recreation 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 an internal service fund to account for its self-insured group health insurance plan. This service benefits governmental and business-type functions, which result in an allocation, based on participants, between the governmental and business-type activities in the governmental-wide financial statements.

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 fund is 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 City of Lufkin's progress in finding its obligation to provide retirement benefits to its employees. Required supplementary information can be found on page 67 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 70-86 of this report.

## Our Mission . . . To meet the needs of the Citizens

### 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 \$108,397 at the close of fiscal year 2004.

By far the largest portion of the City's net assets 65% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lufkin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Lufkin's Combined Net Assets

	Governmental activities		Business-type activities		Totals	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 20,004	\$ 23,726	\$ 20,043	\$ 20,485	\$ 40,047	\$ 44,211
Capital assets	73,434	70,356	47,151	44,717	120,585	115,073
Total assets	<u>93,438</u>	<u>94,082</u>	<u>67,194</u>	<u>65,202</u>	<u>160,632</u>	<u>159,284</u>
Long-term liabilities outstanding	36,203	38,647	11,650	11,259	47,853	49,906
Other liabilities	2,831	3,756	1,552	2,435	4,383	6,191
Total liabilities	<u>39,034</u>	<u>42,403</u>	<u>13,202</u>	<u>13,694</u>	<u>52,236</u>	<u>56,097</u>
Net assets:						
Invested in capital assets, net of related debt	35,708	32,837	35,624	32,879	71,332	65,716
Restricted	4,939	8,944	8,218	10,769	13,157	19,713
Unrestricted	<u>13,757</u>	<u>9,897</u>	<u>10,150</u>	<u>7,860</u>	<u>23,908</u>	<u>17,757</u>
Total net assets	<u>\$ 54,405</u>	<u>\$ 51,678</u>	<u>\$ 53,992</u>	<u>\$ 51,508</u>	<u>\$ 108,397</u>	<u>\$ 103,186</u>

An additional portion of the City's net assets 22.1% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$23,908 may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was a decrease of \$4,005 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this decrease resulted from the decrease in unspent debt proceeds in capital projects funds.

The government's net assets increased by \$5,211 during the current fiscal year. This increase is attributable to the additional investment in capital assets \$5,610 an increase in restricted assets of \$187 for additional debt services payments in the business-type activities, a decrease in restricted assets of \$2,755 for construction of capital assets in the business-type activities, less reductions in restricted assets of \$4,211 for governmental activities resulting from the completion of various capital projects.

**Governmental activities.** Governmental activities increased the City of Lufkin's net assets by \$2,726 accounting for 52% of the total growth in the net assets of the City. Key elements of this increase are as follows:

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

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Totals</u>	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 4,613	\$ 3,391	\$ 18,916	\$ 17,547	\$ 23,529	\$ 20,938
Operating grants and contributions	369	1,078	-	-	369	1,078
Capital grants and contributions	809	541	890	115	1,699	-
General revenues:						
Property taxes	7,900	7,280	-	-	7,900	7,280
Other taxes	11,812	11,364	-	-	11,812	11,364
Other	1,428	985	270	254	1,698	1,239
Total revenues	<u>26,930</u>	<u>24,639</u>	<u>20,076</u>	<u>17,916</u>	<u>47,006</u>	<u>41,899</u>
Expenses:						
General government	1,760	1,759	-	-	1,760	1,759
Public safety	13,109	13,087	-	-	13,109	13,087
Culture and recreation	4,124	3,994	-	-	4,124	3,994
Planning and community development	305	390	-	-	305	390
Public works	4,075	3,280	-	-	4,075	3,280
Non-departmental	300	334	-	-	300	334
Interest on long-term debt	1,718	1,560	-	-	1,718	1,560
Water and Sewer	-	-	11,381	10,718	11,381	10,718
Solid Waste Disposal	-	-	5,025	4,448	5,025	4,448
Total expenses	<u>25,390</u>	<u>24,404</u>	<u>16,406</u>	<u>15,166</u>	<u>41,795</u>	<u>39,570</u>
Increase in net assets before transfers and capital contributions	1,540	235	3,670	2,750	5,211	2,985
Transfers	1,186	513	(1,186)	(513)	-	-
Capital contributions	-	-	-	-	-	-
Increase in net assets	<u>2,726</u>	<u>748</u>	<u>2,484</u>	<u>2,237</u>	<u>5,211</u>	<u>2,985</u>
Net assets, beginning	<u>51,678</u>	<u>50,930</u>	<u>51,508</u>	<u>49,271</u>	<u>103,186</u>	<u>100,201</u>
Net assets, ending	<u>\$ 54,404</u>	<u>\$ 51,678</u>	<u>\$ 53,992</u>	<u>\$ 51,508</u>	<u>\$ 108,397</u>	<u>\$ 103,186</u>

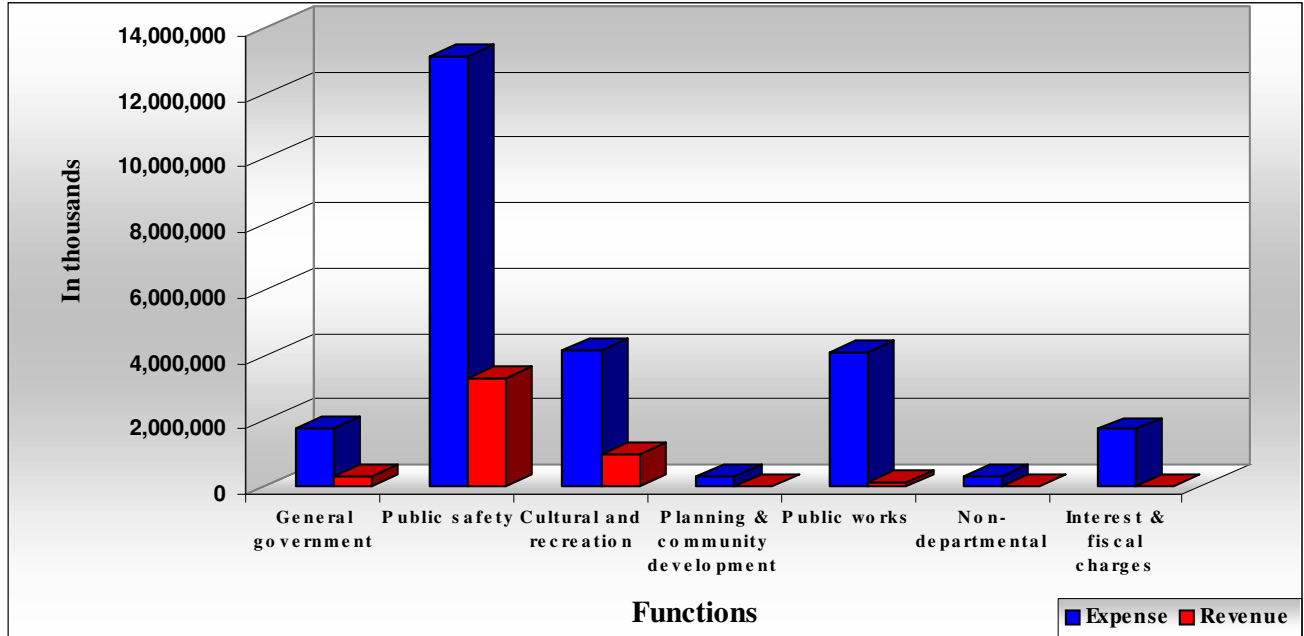
Property taxes increased by \$620 (8.5%) during the year. About half of this increase resulted from a voter approved rate increase of 2 cents dedicated to debt service for the reconstruction of four roads in the city. The balance of the increase was the product of new construction and reassessment of property.

Operating grants for governmental activities decreased by \$709 (65.8%), due to the completion of grants not renewed in subsequent periods.

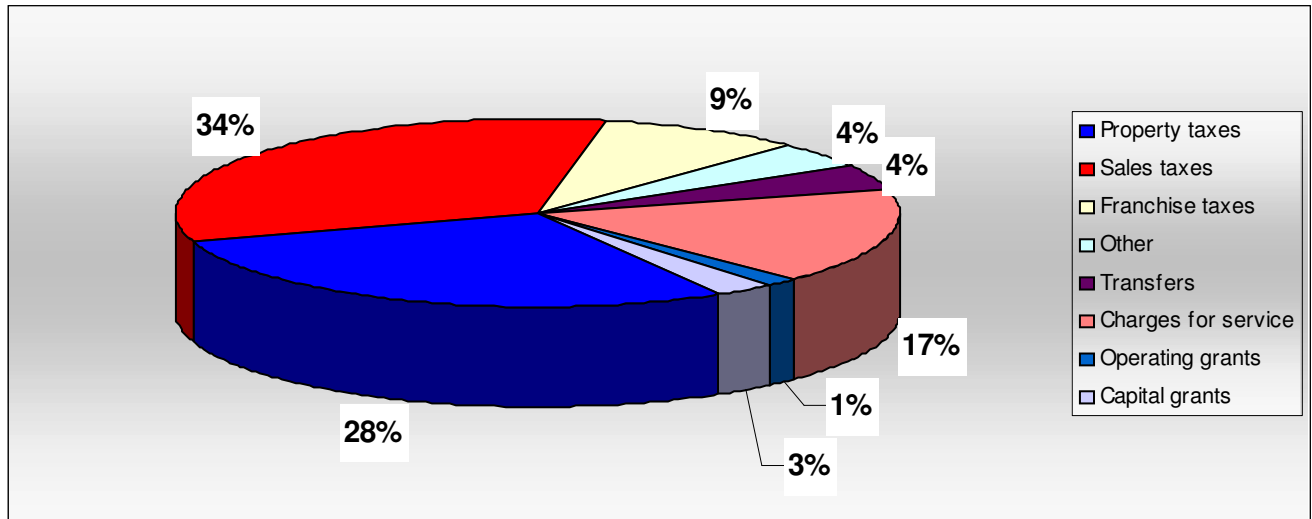
Capital grants for governmental activities increased by \$268 (49.5%) as the result of receiving a Homeland Security Grant to purchase equipment for police, fire and public works functions.

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### Expenses and Program Revenues – Governmental Activities



### Revenues by Source – Governmental Activities

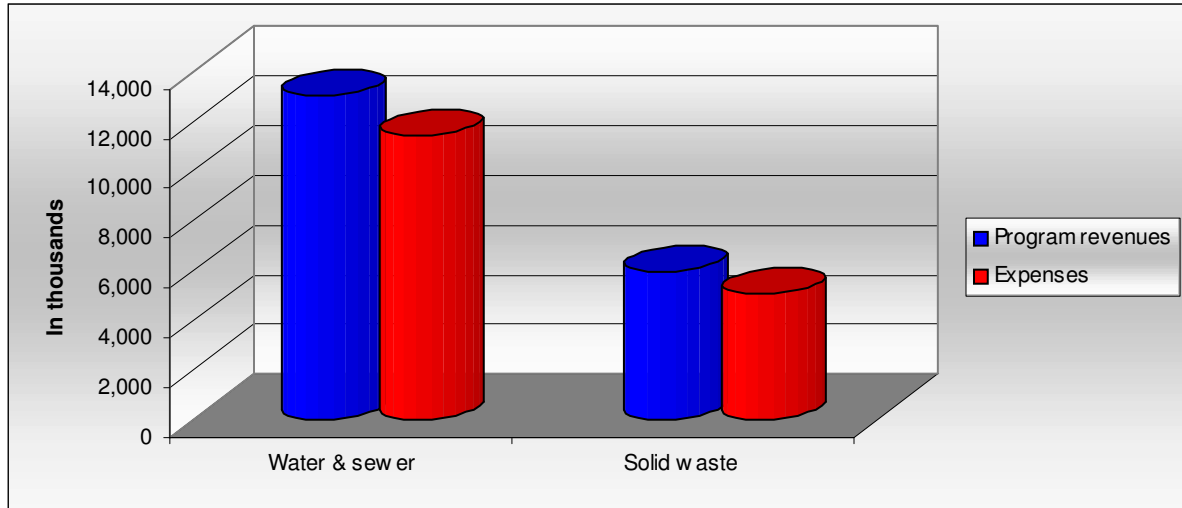


**Business-type activities.** Business-type activities increased the City’s net assets by \$2,237, accounting for 75% of the total growth in the government’s net assets. Key elements of this increase are as follows:

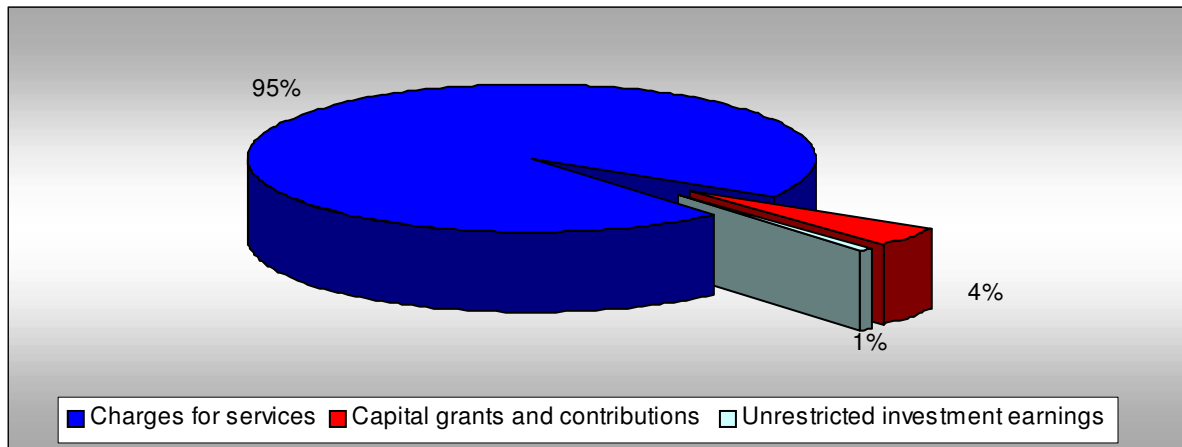
- Charges for services for business-type activities exceeded expenses by \$1,369. Charges for services increased by 7.8% from last year and expenses were 13.3% less than current year revenues. Revenues increased as a result of an increase in water and sewer rates a cooler summer and an increase in rainfall compared to the previous year. Expenses increased by 8.2% as a result of the maintenance upgrade of a portion of the meter reading system and an increase in depreciation expense over the previous year.
- The City increased water rates, system wide, by approximately 2% and increased sewer rates, system wide, by approximately 16%.
- Transfers from the business-type activities to governmental activities totaled \$1,186 an increase of 131.2% over the previous year. This increase is primarily the result of the business-type activities additional share of general obligation debt service.

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### Expenses and Program Revenues – Business-type activities



### Revenues by Source – Business-type activities



### Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the City of Lufkin’s governmental funds reported combined ending fund balances of \$15,241, a decrease of \$3,029 from the prior year.

Approximately 86% of this total amount, \$13,088 constitutes *unreserved fund balance*, which is available for spending at the government’s discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to inventory \$63 and 2) to pay debt service, \$2,089.

The general fund is the chief operating fund of the City of Lufkin. At the end of the current fiscal year, unreserved fund balance was \$8,371, while total fund balance was \$8,434. As a measure of the general fund’s liquidity, it may

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be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39% of total general fund expenditures, while total fund balance represents 39.7% of the same amount.

The fund balance of the City's general fund increased by \$851 during the current fiscal year. The increase was slightly more than planned due to an increase in sales tax revenues and reductions in budgeted expenditures in public safety, culture & recreation, and public works.

The debt service fund has a total fund balance of \$2,089, all of which is reserved for the payment of debt service. The net increase in fund balance in the debt service fund during the current year was \$207. This increase resulted because of the delay in the issuance of additional debt until FY 2005.

**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 \$113, and the Solid Waste Disposal Fund amounted to \$5,493. The decline for Water and Sewer Utility totaled \$2,830 while the Solid Waste Disposal Fund grew by \$1,020. 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 \$245 in increased appropriations. The major adjustments were:

- \$72 increase in general government for unplanned building maintenance and a computer upgrade from capital outlay
- \$101 increase in public safety for supplies and capital outlay partially offset by a decrease in payroll costs.
- \$45 increase culture and recreation for capital outlay for items carried forward from the prior year.
- \$41 increase public works for maintenance and miscellaneous services.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$871 being added to fund balance. This will allow the City to proceed with some projects (maintenance and repair items) that have been delayed 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 \$115,885,073 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, and bridges.

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

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

The City's policy is to achieve an average rating of 56 for all streets. The average rating for the City's streets at September 30, 2004 was 84, a two-point increase over 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

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activities such as pothole patching and street sweeping. The City's budget for street maintenance for the fiscal year ended September 30, 2004 was \$ 2,767 as compared to \$2,769 for the previous year. Actual expenditures were \$2,400 for FY 2004, a decrease of \$82 from FY 2003. \$105 was carried forward to FY 2005 to complete projects in progress. These expenditures delayed deterioration. 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 2006 is a minimum of \$10,928.

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

	Percentage of lane miles in Excellent to Very Good	
	2004	2003
	Major thoroughfares	87.0%
Collector Streets	88.0%	87.7%
Residential Streets	80.0%	78.0%

	Percentage of lane miles in Substandard Condition	
	2004	2003
	Major thoroughfares	0.6%
Collector Streets	1.2%	1.6%
Residential Streets	1.0%	1.3%

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 (71-100), *fair* condition (41-70), and *substandard* condition (less than 41).

Major capital asset events during the current fiscal year included the following:

#### Governmental

- Completed the reconstruction of Copeland Street - \$619 - Total cost – \$1,799
- Completed the reconstruction of Angelina Street - \$829 – Total cost - \$2,208
- Continued the Kit McConnico Park improvements - \$1,181
- Completed construction of Hurricane Creek Detention Pond #8 - \$343 – Total cost \$1,007
- Completed the construction of Whitehouse Dr. – phase 1 - \$2 – Total cost - \$433

#### Business-type

- Asbestos pipe replacement – completed, Project #7- Total cost - \$1,080
- Asbestos pipe replacement – in progress, Project #5 - \$80
- Asbestos pipe replacement – in progress, Project #6 - \$ 1,059
- Asbestos pipe replacement – in progress, Project #8 - \$40
- Asbestos pipe replacement – in progress, Project #2B - \$40
- Asbestos pipe replacement – in progress, Project #12 & #13 - \$404
- Asbestos pipe replacement – in progress, Project #9 & # 12 - \$125
- Asbestos pipe replacement – in progress, Project #15 - \$112
- Water Well # 15 – in progress, - \$282
- Continued downtown utility line replacement - \$201
- Continued Kit McConnico Force Main - \$825
- Completed White Ave Lift Station – \$134 – Total cost \$148
- Completed The Settlement sewer line addition - \$14 – Total cost \$530

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

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land and storage space	\$ 3,041	\$ 2,509	\$ 1,517	\$ 1,433	\$ 4,558	\$ 3,942
Works of Art	376	376	-	-	376	376
Buildings	8,702	8,764	2,665	2,748	11,367	11,512
Machinery and equipment	3,104	3,460	3,257	3,596	6,361	7,056
Vehicles	1,549	1,739	1,541	1,617	3,090	3,356
Improvements other than buildings	1,752	1,691	32,273	29,710	34,025	31,401
Infrastructure	48,595	44,760	-	-	48,595	44,760
Construction in progress	6,313	7,056	5,899	5,613	12,212	12,669
Total	<u>\$ 73,432</u>	<u>\$ 70,355</u>	<u>\$ 47,152</u>	<u>\$ 44,717</u>	<u>\$ 120,584</u>	<u>\$ 115,072</u>

Additional information on the City of Lufkin's capital assets can be found in note IV. F. on pages 51-55 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$48,650. Of this amount \$37,035 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	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 34,900	\$ 37,035	\$ -	\$ -	\$ 34,900	\$ 37,035
Revenue bonds	-	-	11,985	11,615	11,985	11,615
Total	<u>\$ 34,900</u>	<u>\$ 37,035</u>	<u>\$ 11,985</u>	<u>\$ 11,615</u>	<u>\$ 46,885</u>	<u>\$ 48,650</u>

The City's bonded debt decreased by \$1,765 (3.6%) during the current year. The key factors in this decrease were the retirement of \$2,135 general obligation bonds and \$840 in revenue bonds. Revenue bonds in the amount of \$1,210 were issued during the year.

The City of Lufkin maintains an "A2" rating from Moody's and an "A+" rating from Standard & Poor's for general obligation debt and the revenue bonds of the Water and Sewer Utility.

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

Additional information on the City's long-term debt can be found in note IV. I on pages 57-59.

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

- The unemployment rate for the City, according to Texas Workforce statistics, is 6.1%, an increase of 0.3% from last year. The 6.4% unemployment rate for Angelina County is an increase of 0.3% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 5.1 %.
- The state sales tax receipts for the current fiscal year totaled \$9,161, an increase of \$444 or (5%) from the previous year indicating a moderate increase in the retail economy.
- Economic trends in the region compare favorably with state and national indices.

## **Our Mission . . . To meet the needs of the Citizens**

All of these factors were considered in preparing the City of Lufkin's budget for the 2005 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$8,371. The City has appropriated \$656 of this amount for spending in the 2005 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2005 fiscal year.

Both the Water and Sewer Utility rates were increased for the 2005 budget. The water rates increased an average of 2% for all customers and the sewer rates increased 15% for commercial and 4.5% for industrial customers. These rate increases were necessary to reallocate the cost of service between industrial and commercial customers and to finance debt service, construction, renewal and replacement of equipment and the increased cost of service provided by the water and sewer utility.

### **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 Accounting, 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, 2004**

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7,284,114		\$ 3,169,309		\$ 10,453,423
Investments	10,119,013		4,749,849		14,868,862
Receivables - net	2,011,986		2,533,101		4,545,087
Internal balances	(704,305)		704,305		-
Inventories	63,359		88,781		152,140
Prepaid items	1,355		-		1,355
Restricted Assets:					
Cash and cash equivalents	-		2,668,051		2,668,051
Investments	-		6,082,293		6,082,293
Other receivables	-		46,842		46,842
Due from other governments	1,228,960		-		1,228,960
Capital assets (net of accumulated depreciation):					
Land	3,041,391		413,085		3,454,476
Storage space in Sam Rayburn Reservoir			1,103,648		1,103,648
Infrastructure	48,595,045		-		48,595,045
Works of art	376,450		-		376,450
Buildings	8,702,123		2,665,486		11,367,609
Improvements other than buildings	1,752,009		32,272,512		34,024,521
Machinery and equipment	3,104,246		3,257,433		6,361,679
Vehicles	1,549,160		1,540,558		3,089,718
Construction in progress	6,313,461		5,898,639		12,212,100
Total assets	<u>\$ 93,438,367</u>		<u>\$ 67,193,892</u>		<u>\$ 160,632,259</u>
<b>LIABILITIES</b>					
Accounts/claims payable	\$ 619,355		\$ 437,308		\$ 1,056,663
Accrued interest	200,297		3,966		204,263
Accrued liabilities	1,959,735		692,452		2,652,187
Notes payable	-		14,340		14,340
Unearned revenues	51,678		-		51,678
Payable from restricted assets:					
Accounts payable	-		190,232		190,232
Accrued interest	-		213,505		213,505
Noncurrent liabilities:					
Due within one year	2,542,381		880,000		3,422,381
Due in more than one year	33,660,233		10,769,950		44,430,183
Total liabilities	<u>39,033,679</u>		<u>13,201,753</u>		<u>52,235,432</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	35,707,971		35,624,112		71,332,083
Restricted for:					
Retirement of debt	2,089,399		1,525,346		3,614,745
Capital projects	2,850,136		(1,259,422)		1,590,714
Renewal and replacement	-		7,951,830		7,951,830
Unrestricted	13,757,182		10,150,273		23,907,455
Total net assets	<u>\$ 54,404,688</u>		<u>\$ 53,992,139</u>		<u>\$ 108,396,827</u>

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

**CITY OF LUFKIN, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**For the Year ended September 30, 2004**

FUNCTIONS/PROGAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS		TOTAL
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<b>Governmental activities:</b>							
General government	\$ 1,759,684	\$ 257,055	\$ -	\$ -	\$ (1,502,629)	\$ -	\$ (1,502,629)
Public safety	13,109,149	3,267,128	336,160	185,246	(9,320,615)	-	(9,320,615)
Culture and recreation	4,123,553	975,561	6,112	-	(3,141,880)	-	(3,141,880)
Planning and community development	305,271	1,350	19,922	-	(283,999)	-	(283,999)
Public works	4,074,593	111,811	6,910	623,661	(3,332,211)	-	(3,332,211)
Non-departmental	300,231	-	-	-	(300,231)	-	(300,231)
Interest and fiscal charges	1,717,748	-	-	-	(1,717,748)	-	(1,717,748)
Total governmental activities	<u>25,390,230</u>	<u>4,612,905</u>	<u>369,104</u>	<u>808,907</u>	<u>(19,599,314)</u>	<u>-</u>	<u>(19,599,314)</u>
<b>Business-type activities:</b>							
Water and Sewer	11,380,909	12,982,033	-	851,119	-	2,452,243	2,452,243
Solid Waste Disposal	5,024,931	5,934,336	-	38,769	-	948,174	948,174
Total business-type activities	<u>16,405,840</u>	<u>18,916,369</u>	<u>-</u>	<u>889,888</u>	<u>-</u>	<u>3,400,417</u>	<u>3,400,417</u>
Total government	<u>\$ 41,796,070</u>	<u>\$ 23,529,274</u>	<u>\$ 369,104</u>	<u>\$ 1,698,795</u>	<u>\$ (19,599,314)</u>	<u>\$ 3,400,417</u>	<u>\$ (16,198,897)</u>
<b>General revenues:</b>							
Property taxes					7,900,201	-	7,900,201
Sales taxes					9,160,681	-	9,160,681
Franchise taxes					2,585,306	-	2,585,306
Mixed beverage tax					65,514	-	65,514
Other					1,228,129	-	1,228,129
Unrestricted investment earnings					199,876	158,114	357,991
Gain on retirement of capital assets					-	111,677	111,677
Transfers					1,185,801	(1,185,801)	-
Total general revenues and transfers					<u>22,325,508</u>	<u>(916,010)</u>	<u>21,409,499</u>
Change in net assets					2,726,194	2,484,408	5,210,602
Net assets - beginning					<u>51,678,494</u>	<u>51,507,731</u>	<u>103,186,225</u>
Net assets - ending					<u>\$ 54,404,688</u>	<u>\$ 53,992,139</u>	<u>\$ 108,396,827</u>

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

**CITY OF LUFKIN, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2004**

	<u>GENERAL</u>	<u>DEBT SERVICE FUND</u>	<u>1999 CIP BOND PROGRAM FUND</u>	<u>2001 CIP STREET BOND PROGRAM</u>	<u>TOTAL NONMAJOR GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,913,019	\$ 970,137	\$ 9	\$ 3,058,206	\$ 1,090,065	\$ 7,031,436
Investments	7,382,590	1,110,551	-	100,333	1,088,053	9,681,527
Receivables:						
Taxes	508,490	241,764	-	-	-	750,254
Accounts	4,811,593	-	-	-	57,843	4,869,436
Other	73,922	10,090	-	-	144,697	228,709
Allowance for uncollectibles	(3,881,227)	(236,324)	-	-	(7,386)	(4,124,937)
Due from other funds	113	-	-	-	-	113
Intergovernmental receivable	954,647	-	217,133	-	57,180	1,228,960
Inventories	63,359	-	-	-	-	63,359
Prepaid items	1,355	-	-	-	-	1,355
 Total assets	 <u>\$ 11,827,861</u>	 <u>\$ 2,096,218</u>	 <u>\$ 217,142</u>	 <u>\$ 3,158,539</u>	 <u>\$ 2,430,452</u>	 <u>\$ 19,730,212</u>
<b>LIABILITIES</b>						
Accounts/claims payable	\$ 228,985	\$ 1,380	\$ 29,397	\$ 34,913	\$ 32,111	\$ 326,786
Due to other funds	-	-	704,305	-	113	704,418
Accrued compensated absences	742,401	-	-	-	6,571	748,972
Accrued liabilities	981,031	-	162,648	8,722	58,362	1,210,763
Deferred revenues	1,441,355	5,439	-	-	51,678	1,498,472
Total liabilities	<u>3,393,772</u>	<u>6,819</u>	<u>896,350</u>	<u>43,635</u>	<u>148,835</u>	<u>4,489,411</u>
<b>FUND BALANCES</b>						
Reserved:						
For inventory	63,359	-	-	-	-	63,359
Debt service	-	2,089,399	-	-	-	2,089,399
Unreserved, reported in:						
General fund	8,370,730	-	-	-	-	8,370,730
Special revenue funds	-	-	-	-	1,867,177	1,867,177
Capital projects funds	-	-	(679,208)	3,114,904	414,440	2,850,136
Total fund balances	<u>8,434,089</u>	<u>2,089,399</u>	<u>(679,208)</u>	<u>3,114,904</u>	<u>2,281,617</u>	<u>15,240,801</u>
Total liabilities and fund balances	<u>\$ 11,827,861</u>	<u>\$ 2,096,218</u>	<u>\$ 217,142</u>	<u>\$ 3,158,539</u>	<u>\$ 2,430,452</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.	73,433,885
Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.	1,429,913
Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.	451,223
Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.	16,880
An internal service fund is used to charge the cost of health insurance to individual funds. 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.	686,120
Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.	(36,854,134)
Net assets of governmental activities	<u>\$ 54,404,688</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, 2004**

	GENERAL	DEBT SERVICE FUND	1999 CIP BOND PROGRAM FUND	2001 CIP STREET BOND PROGRAM	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<b>Revenues</b>						
Taxes	\$ 16,867,496	\$ 2,843,957	\$ -	\$ -	\$ 536,565	\$ 20,248,018
Licenses and permits	264,047	-	-	-	-	264,047
Fines and forfeitures	758,375	-	-	-	-	758,375
Charges for services	1,141,736	-	-	-	394,228	1,535,964
Interest income	86,424	29,958	8,101	40,293	16,107	180,883
Intergovernmental	2,546,626	-	577,629	-	302,784	3,427,039
Other revenues	580,003	700	1,281	-	443,279	1,025,263
<b>Total revenues</b>	<u>22,244,707</u>	<u>2,874,615</u>	<u>587,011</u>	<u>40,293</u>	<u>1,692,963</u>	<u>27,439,589</u>
<b>Expenditures</b>						
<b>Current:</b>						
General government	2,592,710	-	-	-	-	2,592,710
Public safety	12,006,502	-	155,641	-	338,925	12,501,068
Culture and recreation	2,585,948	-	1,294,049	-	1,007,555	4,887,552
Planning and community development	286,903	-	-	-	-	286,903
Public works	3,304,381	-	2,336,228	1,148,303	252,945	7,041,857
Non-departmental	98,233	11,500	-	-	222,636	332,369
<b>Debt service:</b>						
Principal	352,281	2,135,000	-	-	-	2,487,281
Interest and fiscal charges	13,452	1,631,987	-	-	-	1,645,439
<b>Total expenditures</b>	<u>21,240,410</u>	<u>3,778,487</u>	<u>3,785,918</u>	<u>1,148,303</u>	<u>1,822,061</u>	<u>31,775,179</u>
Deficiency of revenues under expenditures	1,004,297	(903,872)	(3,198,907)	(1,108,010)	(129,098)	(4,335,590)
<b>Other Financing Sources (Uses)</b>						
Capital lease proceeds	120,300	-	-	-	-	120,300
Transfers in	-	1,110,801	-	-	347,692	1,458,493
Transfers out	(272,692)	-	-	-	-	(272,692)
<b>Total other financing     sources (uses)</b>	<u>(152,392)</u>	<u>1,110,801</u>	<u>-</u>	<u>-</u>	<u>347,692</u>	<u>1,306,101</u>
<b>Net change in fund balances</b>	851,905	206,929	(3,198,907)	(1,108,010)	218,594	(3,029,489)
<b>Fund balances - beginning</b>	<u>7,582,184</u>	<u>1,882,470</u>	<u>2,519,699</u>	<u>4,222,914</u>	<u>2,063,023</u>	<u>18,270,290</u>
<b>Fund balances - ending</b>	<u>\$ 8,434,089</u>	<u>\$ 2,089,399</u>	<u>\$ (679,208)</u>	<u>\$ 3,114,904</u>	<u>\$ 2,281,617</u>	<u>\$ 15,240,801</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, 2004**

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

Net change in fund balances – total governmental funds	\$ (3,029,489)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	884,358
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	(650,661)
Governmental funds report capital outlay 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.	3,510,847
In the statement of activities, only the loss on retirement of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(432,807)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>2,443,946</u>
Change in net assets of governmental activities	<u><u>\$ 2,726,194</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes:				
Ad valorem	\$ 4,984,638	\$ 4,984,638	\$ 5,055,995	\$ 71,357
Sales	8,675,000	8,675,000	9,160,681	485,681
Franchise	2,508,580	2,508,580	2,585,306	76,726
Other	57,000	57,000	65,514	8,514
Total taxes	<u>16,225,218</u>	<u>16,225,218</u>	<u>16,867,496</u>	<u>642,278</u>
Licenses and Permits:				
Building permits and inspections	160,000	160,000	193,504	33,504
Plumbing permits and inspections	15,000	15,000	12,855	(2,145)
Electric permits and inspections	16,000	16,000	19,517	3,517
Heat and vent permits	14,000	14,000	17,570	3,570
Other permits	4,950	4,950	10,788	5,838
Licenses	9,278	9,278	9,813	535
Total licenses and permits	<u>219,228</u>	<u>219,228</u>	<u>264,047</u>	<u>44,819</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	838,600	838,600	757,615	(80,985)
Parking fines	2,000	2,000	760	(1,240)
Total fines and forfeitures	<u>840,600</u>	<u>840,600</u>	<u>758,375</u>	<u>(82,225)</u>
Charges for Services:				
Emergency medical services	825,000	825,000	924,397	99,397
Emergency medical service - County	175,560	175,560	175,560	-
Mowing lots	100	100	2,782	2,682
False alarm fees	20,000	20,000	16,770	(3,230)
Other	26,400	26,400	22,227	(4,173)
Total charges for services	<u>1,047,060</u>	<u>1,047,060</u>	<u>1,141,736</u>	<u>94,676</u>
Interest income	<u>125,000</u>	<u>125,000</u>	<u>86,424</u>	<u>(38,576)</u>
Intergovernmental:				
Grant revenues	266,530	266,530	297,598	31,068
General and administrative services	2,249,028	2,249,028	2,249,028	-
Total intergovernmental	<u>2,515,558</u>	<u>2,515,558</u>	<u>2,546,626</u>	<u>31,068</u>
Other Revenues:				
Parks	15,000	15,000	18,709	3,709
Library	14,000	14,000	26,059	12,059
Animal shelter collections	35,750	35,750	54,741	18,991
Zone change fees	2,250	2,250	1,350	(900)
Salvage and auction	-	-	60,128	60,128
Rent on city property	27,800	27,800	32,293	4,493
Salary reimbursements	137,406	137,406	144,611	7,205
Miscellaneous	60,500	60,500	242,112	181,612
Total other revenues	<u>292,706</u>	<u>292,706</u>	<u>580,003</u>	<u>287,297</u>
Total revenues	<u>\$ 21,265,370</u>	<u>\$ 21,265,370</u>	<u>\$ 22,244,707</u>	<u>\$ 979,337</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
Current:				
General government:				
General:				
Payroll costs	\$ 92,209	\$ 94,778	\$ 93,128	\$ 1,650
Supplies	27,916	21,533	21,863	(330)
Maintenance	4,500	3,050	2,843	207
Miscellaneous services	111,146	110,037	105,936	4,101
Sundry charges	133,475	133,350	128,056	5,294
Total general	<u>369,246</u>	<u>362,748</u>	<u>351,826</u>	<u>10,922</u>
Administration:				
Payroll costs	216,575	247,918	244,152	3,766
Supplies	15,300	13,700	14,323	(623)
Maintenance	8,650	7,350	4,988	2,362
Miscellaneous services	28,000	24,000	31,303	(7,303)
Total administration	<u>268,525</u>	<u>292,968</u>	<u>294,766</u>	<u>(1,798)</u>
Accounting:				
Payroll costs	364,476	363,694	363,048	646
Supplies	17,300	13,930	13,970	(40)
Maintenance	3,900	3,795	2,525	1,270
Miscellaneous services	76,038	70,135	62,837	7,298
Total accounting	<u>461,714</u>	<u>451,554</u>	<u>442,380</u>	<u>9,174</u>
Legal:				
Miscellaneous services	135,000	135,000	141,723	(6,723)
Total legal	<u>135,000</u>	<u>135,000</u>	<u>141,723</u>	<u>(6,723)</u>
Tax:				
Miscellaneous services	121,000	126,500	123,728	2,772
Total tax	<u>121,000</u>	<u>126,500</u>	<u>123,728</u>	<u>2,772</u>
Human resources:				
Payroll costs	165,654	178,702	175,048	3,654
Supplies	17,500	11,600	6,881	4,719
Maintenance	1,481	1,481	258	1,223
Miscellaneous services	47,850	45,890	41,810	4,080
Sundry charges	12,900	12,900	6,456	6,444
Total human resources	<u>245,385</u>	<u>250,573</u>	<u>230,453</u>	<u>20,120</u>
Municipal building:				
Payroll costs	28,217	28,344	28,971	(627)
Supplies	9,910	10,729	10,267	462
Maintenance	35,145	46,079	19,868	26,211
Miscellaneous services	217,490	205,312	193,009	12,303
Capital outlay	-	35,546	35,546	-
Total municipal building	<u>290,762</u>	<u>326,010</u>	<u>287,661</u>	<u>38,349</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Information technology:				
Payroll costs	257,489	258,768	259,433	(665)
Supplies	27,090	48,029	45,897	2,132
Maintenance	278,750	227,503	227,497	6
Miscellaneous services	78,532	80,385	78,607	1,778
Capital outlay	-	49,427	45,534	3,893
Total information technology	<u>641,861</u>	<u>664,112</u>	<u>656,968</u>	<u>7,144</u>
Purchasing:				
Payroll costs	61,167	59,865	55,891	3,974
Supplies	1,000	500	4,479	(3,979)
Miscellaneous services	4,872	2,427	2,835	(408)
Total purchasing	<u>67,039</u>	<u>62,792</u>	<u>63,205</u>	<u>(413)</u>
Total general government	<u>2,600,532</u>	<u>2,672,257</u>	<u>2,592,710</u>	<u>79,547</u>
Public safety:				
Municipal court:				
Payroll costs	185,842	188,940	188,630	310
Supplies	11,511	9,471	8,588	883
Maintenance	400	400	26	374
Miscellaneous services	10,041	9,941	8,427	1,514
Total municipal court	<u>207,794</u>	<u>208,752</u>	<u>205,671</u>	<u>3,081</u>
Police:				
Payroll costs	5,035,532	5,104,560	5,145,308	(40,748)
Supplies	299,539	271,595	274,641	(3,046)
Maintenance	114,564	88,556	74,836	13,720
Miscellaneous services	278,179	255,083	246,270	8,813
Sundry charges	4,000	1,000	302	698
Capital outlay	140,400	127,549	127,549	-
Total police	<u>5,872,214</u>	<u>5,848,343</u>	<u>5,868,906</u>	<u>(20,563)</u>
Fire:				
Payroll costs	4,627,308	4,507,303	4,355,182	152,121
Supplies	225,967	468,750	372,033	96,717
Maintenance	112,050	126,000	101,540	24,460
Miscellaneous services	172,310	163,608	145,193	18,415
Sundry charges	600	400	57	343
Capital outlay	-	51,000	158,730	(107,730)
Total fire	<u>5,138,235</u>	<u>5,317,061</u>	<u>5,132,735</u>	<u>184,326</u>
Inspection:				
Payroll costs	407,923	374,900	373,421	1,479
Supplies	24,240	20,818	16,446	4,372
Maintenance	4,200	2,550	645	1,905
Miscellaneous services	59,108	53,108	36,165	16,943
Sundry charges	-	-	45	(45)
Total inspection	<u>495,471</u>	<u>451,376</u>	<u>426,722</u>	<u>24,654</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Animal control:				
Payroll costs	305,017	290,340	286,845	3,495
Supplies	36,400	33,200	31,041	2,159
Maintenance	5,000	9,468	9,372	96
Miscellaneous services	51,782	54,778	45,210	9,568
Total animal control	<u>398,199</u>	<u>387,786</u>	<u>372,468</u>	<u>15,318</u>
Total public safety	<u>12,111,913</u>	<u>12,213,318</u>	<u>12,006,502</u>	<u>206,816</u>
Cultural and recreation:				
Parks:				
Payroll costs	804,207	705,166	688,922	16,244
Supplies	88,394	80,499	70,011	10,488
Maintenance	56,175	48,908	48,060	848
Miscellaneous services	216,694	339,371	318,455	20,916
Capital outlay	26,500	109,890	109,888	2
Total parks	<u>1,191,970</u>	<u>1,283,834</u>	<u>1,235,336</u>	<u>48,498</u>
Zoo:				
Payroll costs	767,249	727,252	715,513	11,739
Supplies	108,685	107,893	112,885	(4,992)
Maintenance	5,625	5,425	2,096	3,329
Miscellaneous services	80,742	106,138	104,652	1,486
Sundry charges	80	-	-	-
Total zoo	<u>962,381</u>	<u>946,708</u>	<u>935,146</u>	<u>11,562</u>
Library:				
Payroll costs	359,920	346,482	332,792	13,690
Supplies	19,200	17,975	13,067	4,908
Maintenance	23,745	14,065	7,766	6,299
Miscellaneous services	89,183	82,795	61,841	20,954
Total library	<u>492,048</u>	<u>461,317</u>	<u>415,466</u>	<u>45,851</u>
Total cultural and recreation	<u>2,646,399</u>	<u>2,691,859</u>	<u>2,585,948</u>	<u>105,911</u>
Planning and community development:				
Community development:				
Payroll costs	87,134	99,347	98,990	357
Supplies	3,750	3,221	3,304	(83)
Maintenance	2,500	2,500	11	2,489
Miscellaneous services	6,066	6,091	6,708	(617)
Total community development	<u>99,450</u>	<u>111,159</u>	<u>109,013</u>	<u>2,146</u>
Planning and Zoning:				
Payroll costs	174,116	174,933	157,885	17,048
Supplies	10,075	8,980	2,920	6,060
Maintenance	760	400	97	303
Miscellaneous services	41,360	30,160	16,988	13,172
Total planning and zoning	<u>226,311</u>	<u>214,473</u>	<u>177,890</u>	<u>36,583</u>
Total planning and community development	<u>325,761</u>	<u>325,632</u>	<u>286,903</u>	<u>38,729</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Public works:				
Administration:				
Payroll costs	126,819	127,407	127,437	(30)
Supplies	3,600	2,400	2,270	130
Maintenance	1,050	850	147	703
Miscellaneous services	16,838	18,443	18,636	(193)
Sundry charges	-	-	4	(4)
Total administration	<u>148,307</u>	<u>149,100</u>	<u>148,494</u>	<u>606</u>
Engineering:				
Payroll costs	444,799	404,520	374,884	29,636
Supplies	12,405	11,905	8,683	3,222
Maintenance	13,343	13,343	10,766	2,577
Miscellaneous services	98,798	89,785	82,324	7,461
Capital outlay	3,000	-	-	-
Total engineering	<u>572,345</u>	<u>519,553</u>	<u>476,657</u>	<u>42,896</u>
Street:				
Payroll costs	1,184,660	1,181,155	1,130,407	50,748
Supplies	119,689	136,504	129,778	6,726
Maintenance	766,725	839,054	559,544	279,510
Miscellaneous services	610,685	610,319	580,559	29,760
Capital outlay	20,000	29,875	16,590	13,285
Total street	<u>2,701,759</u>	<u>2,796,907</u>	<u>2,416,878</u>	<u>380,029</u>
Fleet management:				
Payroll costs	192,954	196,256	197,549	(1,293)
Supplies	11,490	11,305	15,099	(3,794)
Maintenance	5,250	3,150	2,844	306
Miscellaneous services	25,760	22,699	20,072	2,627
Sundry charges	-	-	26,787	(26,787)
Total fleet management	<u>235,454</u>	<u>233,410</u>	<u>262,352</u>	<u>(28,942)</u>
Total public works	<u>3,657,865</u>	<u>3,698,970</u>	<u>3,304,381</u>	<u>394,589</u>
Non-departmental:				
Payroll costs	50,000	35,000	15,856	19,144
Supplies	3,000	3,000	748	2,252
Miscellaneous services	89,235	89,235	81,223	8,012
Sundry charges	-	800	406	394
Total non-departmental	<u>142,235</u>	<u>128,035</u>	<u>98,233</u>	<u>29,802</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, 2004**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Debt Service:				
Capital leases:				
Principal	367,472	367,472	352,281	15,191
Interest	13,796	13,796	13,452	344
Total debt service	<u>381,268</u>	<u>381,268</u>	<u>365,733</u>	<u>15,535</u>
 Total expenditures	 <u>21,865,973</u>	 <u>22,111,339</u>	 <u>21,240,410</u>	 <u>870,929</u>
 Deficiency of revenues under expenditures	 <u>(600,603)</u>	 <u>(845,969)</u>	 <u>1,004,297</u>	 <u>1,850,266</u>
 Other financing sources (uses)				
Transfers out	(224,500)	(272,692)	(272,692)	-
Capital lease proceeds	135,000	135,000	120,300	(14,700)
Total other financing sources (uses)	<u>(89,500)</u>	<u>(137,692)</u>	<u>(152,392)</u>	<u>(14,700)</u>
 Net change in fund balances	 (690,103)	 (983,661)	 851,905	 1,835,566
 Fund balances - beginning	 5,811,096	 7,582,184	 7,582,184	 -
Fund balances - ending	<u>\$ 5,120,993</u>	<u>\$ 6,598,523</u>	<u>\$ 8,434,089</u>	<u>\$ 1,835,566</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, 2004**

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>GROUP HEALTH INSURANCE FUND</u>
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 1,335,748	\$ 1,754,423	\$ 3,090,171	\$ 331,816
Investments	1,400,592	3,212,238	4,612,830	574,505
Accounts receivable (net of allowance for uncollectibles)	1,721,139	721,597	2,442,736	378,889
Inventories	26,761	62,020	88,781	-
<b>Total current assets</b>	<u>4,484,240</u>	<u>5,750,278</u>	<u>10,234,518</u>	<u>1,285,210</u>
<b>Noncurrent assets:</b>				
<b>Restricted Assets:</b>				
Cash and cash equivalents	2,164,353	503,698	2,668,051	-
Investments	4,058,551	2,023,742	6,082,293	-
Due from other funds	704,305	-	704,305	-
Accounts receivable (net of allowance for uncollectibles)	31,038	15,804	46,842	-
<b>Total restricted assets</b>	<u>6,958,247</u>	<u>2,543,244</u>	<u>9,501,491</u>	<u>-</u>
<b>Capital assets:</b>				
Land	297,085	116,000	413,085	-
Storage space in Sam Rayburn Reservoir	1,103,648	-	1,103,648	-
Buildings	3,051,842	1,032,846	4,084,688	-
Machinery and equipment	11,730,241	2,005,003	13,735,244	-
Vehicles	1,364,857	3,317,818	4,682,675	-
Improvements	48,584,778	258,796	48,843,574	-
Construction in progress	5,898,639	-	5,898,639	-
Less accumulated depreciation	(27,629,200)	(3,980,992)	(31,610,192)	-
<b>Total capital assets (net of accumulated depreciation)</b>	<u>44,401,890</u>	<u>2,749,471</u>	<u>47,151,361</u>	<u>-</u>
<b>Total noncurrent assets</b>	<u>51,360,137</u>	<u>5,292,715</u>	<u>56,652,852</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 55,844,377</u>	<u>\$ 11,042,993</u>	<u>\$ 66,887,370</u>	<u>\$ 1,285,210</u>

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

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>GROUP HEALTH INSURANCE FUND</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts/claims payable	\$ 216,176	\$ 129,501	\$ 345,677	\$ 384,199
Accrued compensated absences	144,148	29,957	174,105	-
Accrued interest payable	3,966	-	3,966	-
Accrued liabilities	421,000	97,347	518,347	-
Notes payable - current maturities	14,340	-	14,340	-
Total current liabilities	<u>799,630</u>	<u>256,805</u>	<u>1,056,435</u>	<u>384,199</u>
Current liabilities payable from restricted assets:				
Accounts payable - construction/capital	189,768	464	190,232	-
Accrued interest payable - revenue bonds	213,505	-	213,505	-
Revenue bonds payable - current	880,000	-	880,000	-
Total current liabilities payable from restricted assets	<u>1,283,273</u>	<u>464</u>	<u>1,283,737</u>	<u>-</u>
Noncurrent liabilities:				
Notes payable	194,404	-	194,404	-
Revenue bonds payable (net of unamortized discounts of \$529,454)	10,575,546	-	10,575,546	-
Total noncurrent liabilities	<u>10,769,950</u>	<u>-</u>	<u>10,769,950</u>	<u>-</u>
Total liabilities	<u>12,852,853</u>	<u>257,269</u>	<u>13,110,122</u>	<u>384,199</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	32,874,641	2,749,471	35,624,112	-
Restricted for retirement of debt	1,525,346	-	1,525,346	-
Restricted for construction	(1,259,422)	-	(1,259,422)	-
Restricted for renewal and replacement	5,409,050	2,542,780	7,951,830	-
Unrestricted	4,441,909	5,493,473	9,935,382	901,011
Total net assets	<u>\$ 42,991,524</u>	<u>\$ 10,785,724</u>	<u>53,777,248</u>	<u>\$ 901,011</u>

An internal service fund is used to charge the cost of health insurance to individual funds. The proportionate share of assets and liabilities of the internal service fund are included in business-type activities in the Statement of Net Assets.

214,891

Net assets of business-type activities \$ 53,992,139

**CITY OF LUFKIN, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For The Year Ended September 30, 2004**

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>GROUP HEALTH INSURANCE FUND</u>
Operating Revenues:				
Water sales	\$ 6,139,467	\$ -	\$ 6,139,467	\$ -
Sewer service charges	5,877,942	-	5,877,942	-
Sanitation collections	-	5,650,534	5,650,534	-
Provision for bad debts	(77,066)	(39,104)	(116,170)	-
Service revenue	338,488	-	338,488	-
General and administrative	84,790	-	84,790	-
Employee premiums	-	-	-	652,182
Employer premiums	-	-	-	2,041,739
Miscellaneous	119,477	69,654	189,131	459,902
Total operating revenues	<u>12,483,098</u>	<u>5,681,084</u>	<u>18,164,182</u>	<u>3,153,823</u>
Operating Expenses:				
Utility collections	1,171,878	-	1,171,878	-
Water utilities	1,146,889	-	1,146,889	-
Sewer utilities	1,246,528	-	1,246,528	-
Wastewater treatment plant	1,483,817	-	1,483,817	-
Water production	1,406,082	-	1,406,082	-
Sanitation department	-	2,611,329	2,611,329	-
Recycling department	-	591,941	591,941	-
Insurance claims and related expenses	-	-	-	4,012,031
Depreciation and amortization	1,848,595	677,993	2,526,588	-
General and administrative	1,515,049	818,769	2,333,818	-
Non-departmental	99,312	17,473	116,785	-
Total operating expenses	<u>9,918,150</u>	<u>4,717,505</u>	<u>14,635,655</u>	<u>4,012,031</u>
Operating income (loss)	<u>2,564,948</u>	<u>963,579</u>	<u>3,528,527</u>	<u>(858,208)</u>
Nonoperating Revenues (Expenses):				
Interest income	92,439	59,727	152,166	24,941
Interest expense	(506,761)	-	(506,761)	-
Bond fees and issuance costs	(50,672)	-	(50,672)	-
Gain on sale of asset	-	111,677	111,677	-
Loss on retirement of assets	(272,010)	-	(272,010)	-
Total nonoperating revenues (expenses)	<u>(737,004)</u>	<u>171,404</u>	<u>(565,600)</u>	<u>24,941</u>
Income (loss) before contributions and transfers	1,827,944	1,134,983	2,962,927	(833,267)
Capital contributions	851,119	38,769	889,888	-
Transfers out	(1,091,115)	(94,686)	(1,185,801)	-
Change in net assets	1,587,948	1,079,066	2,667,014	(833,267)
Total net assets - beginning	41,403,576	9,706,658	51,110,234	1,734,278
Total net assets - ending	<u>\$ 42,991,524</u>	<u>\$ 10,785,724</u>	<u>\$ 53,777,248</u>	<u>\$ 901,011</u>

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

**CITY OF LUFKIN, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN FUND NET ASSETS OF BUSINESS-TYPE ACTIVITIES  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2004**

Amounts reported for business-type activities in the statement of activities are different because:

Change in net assets – total business-type funds	\$ 2,667,014
Internal service net revenues are reported with business-type activities and the expenses not recovered through user charges are allocated to the participating funds.	<u>(182,606)</u>
Change in net assets of business-type activities	<u>\$ 2,484,408</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, 2004**

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>WATER AND SEWER UTILITY FUND</u>	<u>SOLID WASTE DISPOSAL FUND</u>	<u>TOTALS</u>	<u>GROUP HEALTH INSURANCE FUND</u>
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers and users	\$ 12,225,065	\$ 5,594,869	\$ 17,819,934	\$ 835,611
Receipts from interfund services provided	-	-	-	2,041,739
Payments to suppliers	(5,322,903)	(2,903,050)	(8,225,953)	(3,846,435)
Payments to employees	(2,456,061)	(953,998)	(3,410,059)	-
Payments for interfund services used	(323,003)	(163,952)	(486,955)	-
Net cash provided (used) by operating activities	<u>4,123,098</u>	<u>1,573,869</u>	<u>5,696,967</u>	<u>(969,085)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Interfund advance	(704,305)	-	(704,305)	-
Transfer to other funds	(1,091,115)	(94,686)	(1,185,801)	-
Net cash used by noncapital and financing activities	<u>(1,795,420)</u>	<u>(94,686)</u>	<u>(1,890,106)</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Proceeds from capital debt	1,210,000	-	1,210,000	-
Capital contributions	238,800	38,769	277,569	-
Purchase of capital assets	(521,667)	(784,654)	(1,306,321)	-
Acquisition and construction of capital assets	(4,203,653)	-	(4,203,653)	-
Principal paid on capital debt	(853,977)	-	(853,977)	-
Interest and fees paid on capital debt	(481,498)	-	(481,498)	-
Proceeds from sale of capital assets	-	111,677	111,677	-
Net cash used by capital and related financing activities	<u>(4,611,995)</u>	<u>(634,208)</u>	<u>(5,246,203)</u>	<u>-</u>
<b>Cash Flows From Investing Activities:</b>				
Proceeds from sale and maturities of investments	397,870	535,675	933,545	785,703
Purchase of investments	(3,256,454)	(2,824,159)	(6,080,613)	(300,000)
Interest and dividends received	104,543	63,826	168,369	36,511
Net cash used by investing activities	<u>(2,754,041)</u>	<u>(2,224,658)</u>	<u>(4,978,699)</u>	<u>522,214</u>
Net decrease in cash and equivalents	(5,038,358)	(1,379,683)	(6,418,041)	(446,871)
Cash and cash equivalents - beginning	8,538,459	3,637,804	12,176,263	778,687
Cash and cash equivalents - ending	<u>\$ 3,500,101</u>	<u>\$ 2,258,121</u>	<u>\$ 5,758,222</u>	<u>\$ 331,816</u>

(Continued)

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, 2004**

	<b>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</b>			<b>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</b>
	<b>WATER AND SEWER UTILITY FUND</b>	<b>SOLID WASTE DISPOSAL FUND</b>	<b>TOTALS</b>	<b>GROUP HEALTH INSURANCE FUND</b>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,564,948	\$ 963,579	\$ 3,528,527	\$ (858,208)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	1,848,595	677,993	2,526,588	-
(Increase) in accounts receivable-net	(258,033)	(86,215)	(344,248)	(276,473)
(Increase) in inventories	(11,493)	(20,411)	(31,904)	-
Increase(decrease) in accounts/claims payable	(48,601)	15,117	(33,484)	165,596
Increase in accrued compensated absences	16,527	7,755	24,282	-
(Decrease) in customer deposits	(5,174)	-	(5,174)	-
Increase in accrued liabilities	16,329	16,051	32,380	-
Total adjustments	1,558,150	610,290	2,168,440	(110,877)
Net cash provided (used) by operating activities	\$ 4,123,098	\$ 1,573,869	\$ 5,696,967	\$ (969,085)
Noncash investing, capital, and financing activities:				
Contribution of capital assets from government	\$ 707,335	\$ -	\$ 707,335	\$ -
Capital asset trade-ins	12,246	192,762	205,008	-

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

