



# 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, 2003**

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

**CITY OF LUFKIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

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# **INTRODUCTORY SECTION**

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



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Lufkin, Texas 75902-0190  
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December 19, 2003

### **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, 2003 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, 2003, 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, 2003, 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. The Lufkin/Angelina County Economic Development Partnership and the City Council have discussed the idea of implementation of an economic development tax as a method of further stimulating the local economy. 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 2003, according to Texas Workforce statistics, is 5.8 percent compared to a 6.1 percent unemployment rate for Angelina County and 6.6 percent for the state. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 5.8 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 1.4683%, and the City earned interest revenue of \$717,429 on all investments for the year ended September 30, 2003.

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, 2003 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 \$400,000. 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 \$60,000 each individual. Reinsurance agreements provide for a stop loss per individual of \$60,000 and an aggregate stop loss amount of \$653.83 per individual per month for medical and prescription card service. At September 30, net assets of the Fund were \$1,734,278, a decrease of \$187,497 from the previous year. Insurance claims and related expenses for fiscal 2003 were \$2,783,599.

**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

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

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 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, 2002. 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.

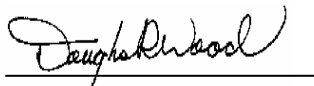
In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated September 15, 2002. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, 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,



C. G. Maclin  
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, 2002

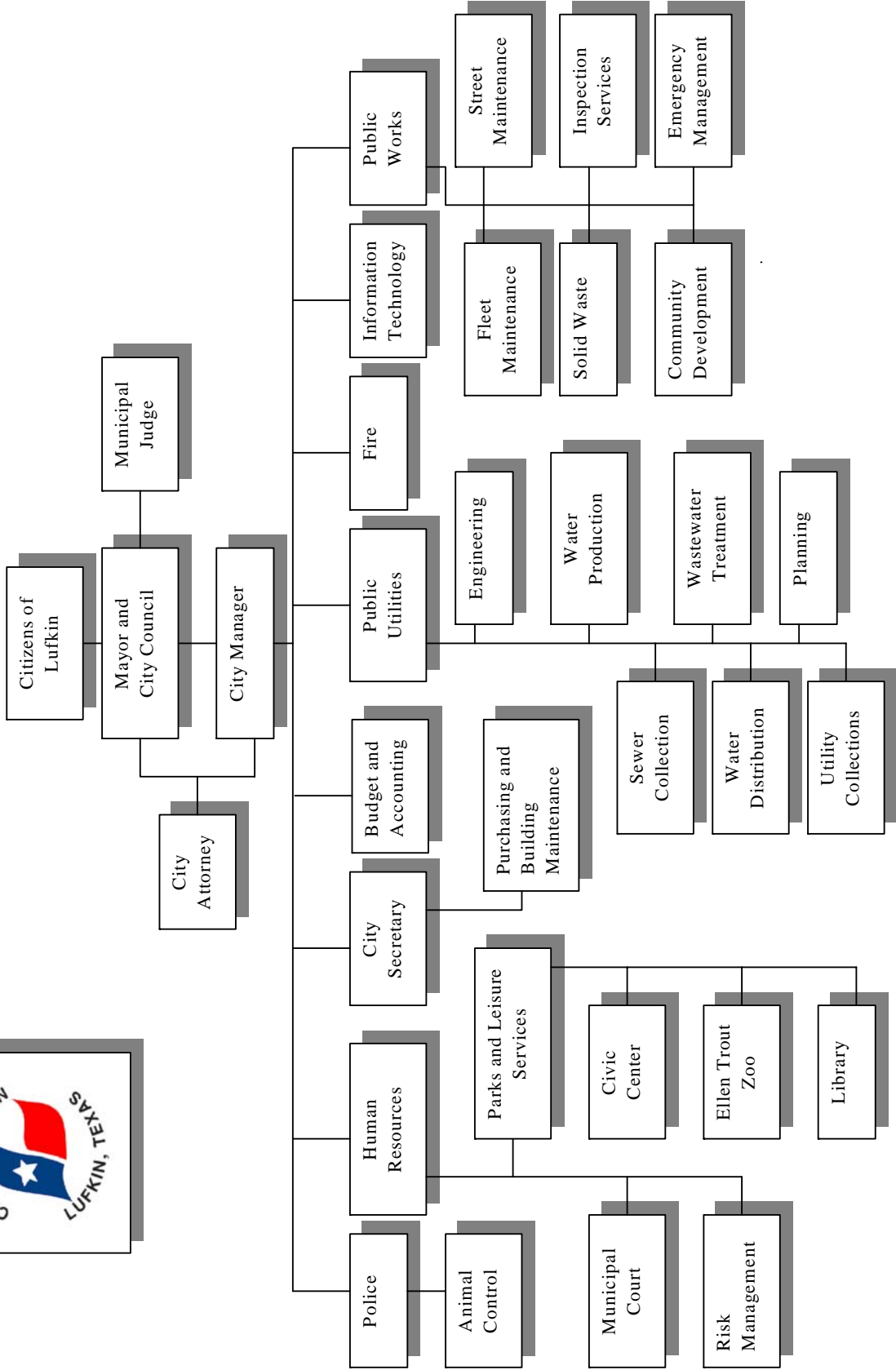
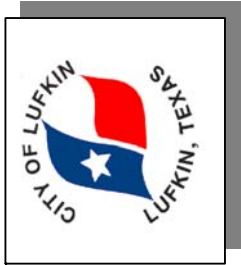
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards 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, 2003**

**Governing Body**

Honorable Louis A. Bronaugh, Mayor

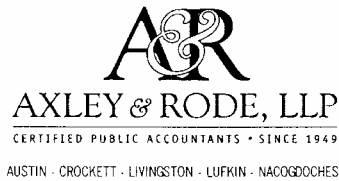
**City Council**

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

**Other Principal Officials**

C. G. Maclin.....	City Manager
Keith Wright .....	City Engineer
David Koonce .....	Director of Human Resources
Atha Martin .....	City Secretary
Kenneth Williams .....	Director of Public Works
Douglas R. Wood .....	Director of Accounting

## **FINANCIAL SECTION**



UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND OTHER SCHEDULES - GOVERNMENTAL ENTITY

Honorable Mayor and City Council  
City of Lufkin, Texas

We have audited the 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, 2003, 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, 2003, 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.

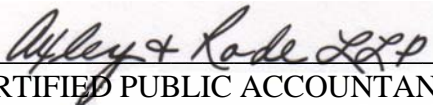
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2003, 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, 2003, 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.

The management's discussion and analysis and required supplementary information on pages 12 through 21 and 66 are not a required part of the basic financial statements but are supplementary information required by the 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 performed 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003 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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
December 19, 2003



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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, 2003. 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 \$103,186 (*net assets*). Of this amount, \$17,757 (*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 \$18,270, a decrease of \$81 from the prior year. The decrease is the result of expenditure of proceeds from the issuance of long-term debt for capital assets being less than proceeds from current year issuance of long-term debt and the general fund current year expenditures exceeding revenues.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,582 or 33.5% of total general fund expenditures.
- The City's total debt increased by \$7,770 (19%) during the fiscal year. The key factors in this increase were the issuance of \$5,450 in general obligation debt and \$4,935 in revenue supported debt and the retirement of \$1,295 general obligation debt and \$1,320 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 or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental

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

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-one 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 seventeen 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 66 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found of pages 68-84 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 \$103,186 at the close of fiscal year 2003.

By far the largest portion of the City's net assets 63.3% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less a 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	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 23,726	\$ 23,961	\$ 20,485	\$ 17,552	\$ 44,212	\$ 41,513
Capital assets	70,356	65,249	44,717	41,770	115,073	107,019
Total assets	<u>94,082</u>	<u>89,210</u>	<u>65,202</u>	<u>59,322</u>	<u>159,284</u>	<u>148,532</u>
Long-term liabilities outstanding	38,647	34,473	11,259	6,351	49,906	40,824
Other liabilities	3,756	3,340	2,435	3,700	6,191	7,040
Total liabilities	<u>42,404</u>	<u>37,813</u>	<u>13,694</u>	<u>10,051</u>	<u>56,097</u>	<u>47,864</u>
Net assets:						
Invested in capital assets, net of related debt	32,837	29,190	32,879	33,534	65,716	62,724
Restricted	8,944	8,359	10,769	10,096	19,713	18,455
Unrestricted	9,897	13,848	7,860	5,641	17,757	19,489
Total net assets <sup>(1)</sup>	<u>\$ 51,678</u>	<u>\$ 51,397</u>	<u>\$ 51,508</u>	<u>\$ 49,271</u>	<u>\$ 103,186</u>	<u>\$ 100,668</u>

<sup>(1)</sup> See Notes To The Financial Statements note II on page 46 for details of the restatement for FY 2002.

An additional portion of the City's net assets 19.1% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$17,757 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 an increase of \$585 in restricted net assets reported in connection with the City of Lufkin's governmental activities. Most of this increase resulted from the increase in unspent debt proceeds in capital projects funds.

The government's net assets increased by \$2,518 during the current fiscal year. This increase is attributable to the additional investment in capital assets \$2,993 and in increase in restricted assets of \$1,258 for additional debt services payments in the business-type activities, less reductions in unrestricted assets of \$1,732 for business-type activities resulting from reduced requirements for renewal and replacement funding.

**Governmental activities.** Governmental activities increased the City of Lufkin's net assets by \$748, accounting for 30% of the total growth in the net assets of the City. Key elements of this increase are as follows:

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

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

	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 3,391	\$ 3,938	\$ 17,547	\$ 21,788	\$ 20,938	\$ 25,726
Operating grants and contributions	1,078	489	-	-	1,078	489
Capital grants and contributions	541	-	115	-	656	-
General revenues:						
Property taxes	7,280	6,746	-	-	7,280	6,746
Other taxes	11,364	11,844	-	-	11,364	11,844
Other	985	1,354	254	349	1,239	1,703
Total revenues	24,639	24,371	17,916	22,137	42,555	46,508
Expenses:						
General government	1,759	1,633	-	-	1,759	1,633
Public safety	13,087	12,681	-	-	13,087	12,681
Culture and recreation	3,994	3,960	-	-	3,994	3,960
Planning and community development	390	374	-	-	390	374
Public works	3,280	3,017	-	-	3,280	3,017
Non-departmental	195	216	-	-	195	216
Interest on long-term debt	1,560	1,144	-	-	1,560	1,144
Loss on retirement of assets	139	-	400	-	539	-
Water and Sewer	-	-	10,318	10,631	10,318	10,631
Solid Waste Disposal	-	-	4,448	4,246	4,448	4,246
Total expenses	24,404	23,025	15,166	14,877	39,570	37,902
Increase in net assets before transfers and capital contributions	235	1,346	2,750	7,260	2,985	8,606
Transfers	513	202	(513)	(202)	-	-
Capital contributions	-	(1,900)	-	1,900	-	-
Increase in net assets	748	(352)	2,237	8,958	2,985	8,606
Net assets, beginning (restated <sup>1</sup> )	50,930	51,749	49,271	40,313	100,201	92,062
Net assets, ending	\$ 51,678	\$ 51,397	\$ 51,508	\$ 49,271	\$ 103,186	\$ 100,668

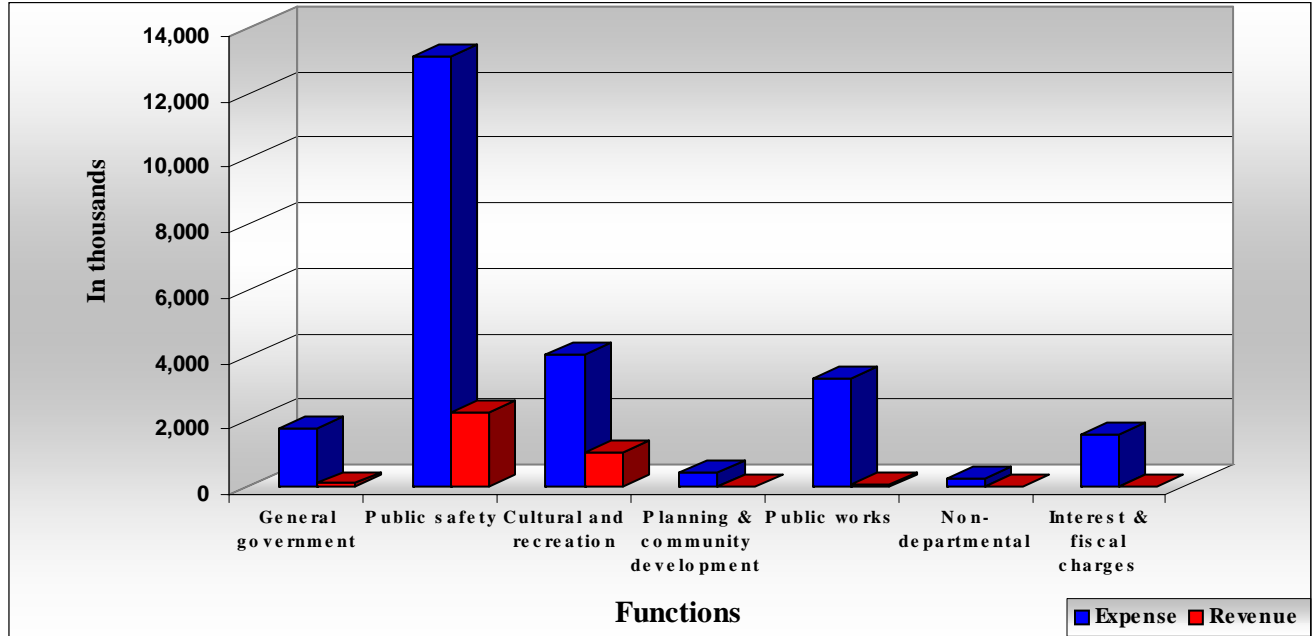
<sup>1</sup> See Notes To The Financial Statements note II on page 46 for details of the restatement for FY 2002.

Property taxes increased by \$534 (7.9%) during the year. About half of this increase resulted from a voter approved rate increase of 2.2 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.

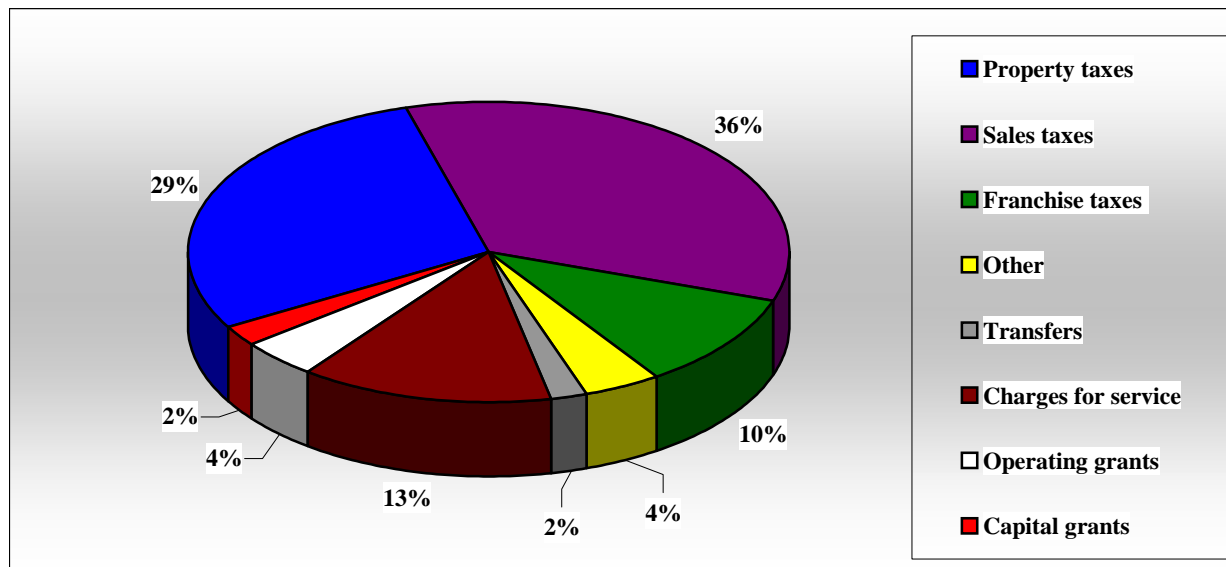
Operating grants for governmental activities increased by \$589 (120%). The new and continuing grant awards provided resources to support the public safety, culture & recreation, public works and planning & community development functions of the City of Lufkin.

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### Expenses and Program Revenues – Governmental Activities



### Revenues by Source– Governmental Activities

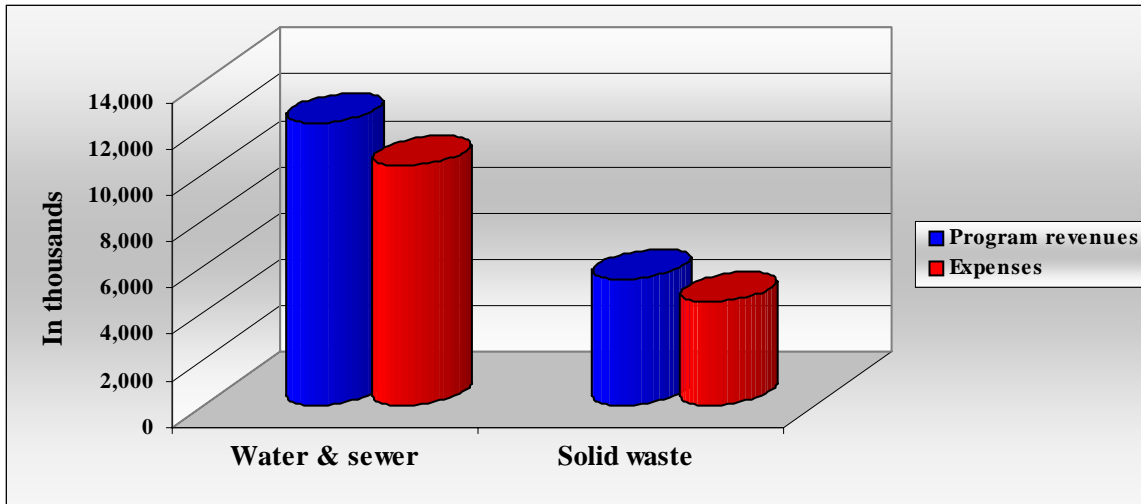


**Business-type activities.** Business-type activities increased the City’s net assets by \$2,237, accounting for 75% of the total growth in the government’s net assets. Key elements of this increase are as follows:

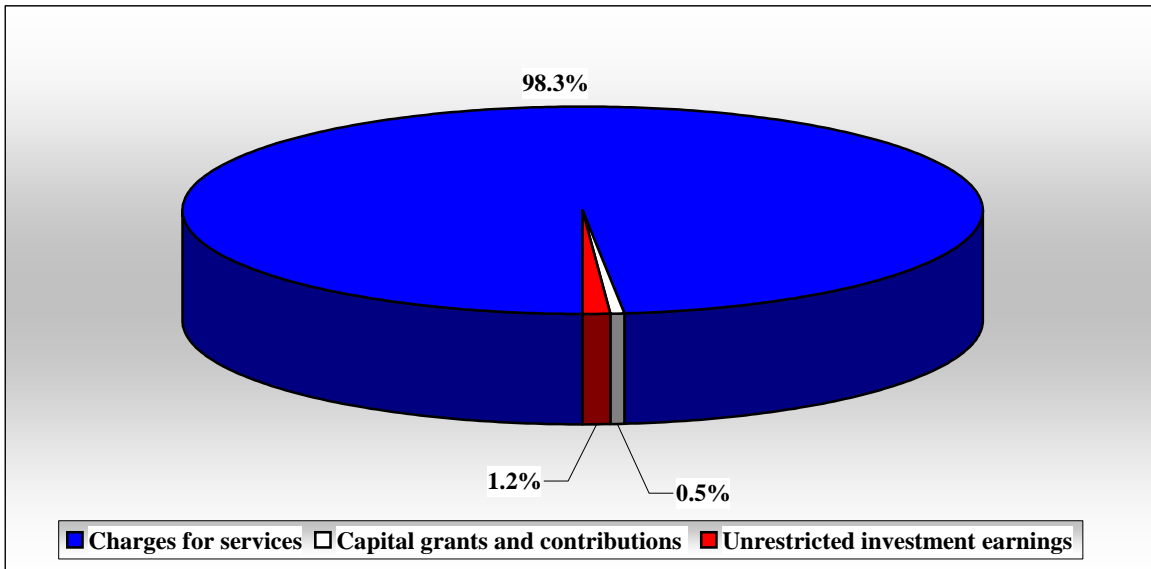
- Charges for services for business-type activities exceeded expenses by \$2,781. Charges for services decreased by 18.6% from last year and expenses were 15.5% less than current year revenues. Revenues decreased as a result of a cooler summer and an increase in rainfall compared to the previous year. Expenses remained relatively flat with only a .2% increase over the previous year.
- The City increased water rates, system wide, by approximately 4% and increased sewer rates, system wide, by approximately 12%.
- Transfers from the business-type activities to governmental activities totaled \$513 an increase of 153% over the previous year. This increase is primarily the result of the business-type activities additional share of general obligation debt service.

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

### 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 \$18,270, a decrease of \$81 from the prior year.

Approximately 89% of this total amount, \$16,334 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 \$54 and 2) to pay debt service, \$1,882.

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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 \$7,528, while total fund balance was \$7,582. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 33% of total general fund expenditures, while total fund balance represents 34% of the same amount.

The fund balance of the City's general fund decreased by \$1,011 during the current fiscal year. The decrease was slightly less than planned due to reductions in budgeted expenditures in general government, public safety, culture & recreation, and public works.

The debt service fund has a total fund balance of \$1,882, 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 minimal \$11.

**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 \$2,989, and the Solid Waste Disposal Fund amounted to \$4,474. The total growth for both funds was \$1,270 and \$990, respectively. 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 \$189 in increased appropriations. The major adjustments were:

- \$85 increase in general government for a computer upgrade from capital outlay
- (\$323) decrease in public safety for payroll costs, miscellaneous services and capital outlay
- \$276 increase culture and recreation for capital outlay for items carried forward from the prior year.
- \$123 increase public works for maintenance and miscellaneous services.

### 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 \$115,073 (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, 2003 was 82, a one 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 activities such as pothole patching and street sweeping. The City's budget for street maintenance for the fiscal year ended September 30, 2003 was \$ 2,769 as compared to \$3,103 for the previous year. Actual expenditures were \$2,482 for FY 2003, a decrease of \$250 from FY 2002. \$118 was carried forward to FY 2004 to complete projects

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

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	
	2003	2002
	Major thoroughfares	87.0%
Collector Streets	87.7%	85.3%
Residential Streets	78.0%	83.7%

	Percentage of lane miles in Substandard Condition	
	2003	2002
	Major thoroughfares	0.8%
Collector Streets	1.6%	2.2%
Residential Streets	1.3%	2.1%

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 a portion of Washington Street - \$102
- Completed the reconstruction of Culverhouse Street - \$1,183
- Started the reconstruction of Copeland Street - \$1,179
- Continued the reconstruction of Angelina Street - \$1,379
- Completed the enhancements to Jones Park and tennis facilities - \$356
- Continued the Kit McConnico Park improvements - \$1,104
- Completed replacement of bleachers in the Civic Center - \$350
- Continued construction of Hurricane Creek Detention Pond #8 - \$1,007
- Started the construction of Whitehouse Dr. – phase 1 - \$431

#### Business-type

- Asbestos pipe replacement – completed, Project #1- \$1,757
- Asbestos pipe replacement – completed, Project # 3 - \$1,172
- Asbestos pipe replacement – completed, Project #10 - \$1,052
- Asbestos pipe replacement – completed, Project #11 - \$761
- Asbestos pipe replacement – in progress, Project #4 - \$1,124
- Asbestos pipe replacement – in progress, Project #6 - \$ 257
- Water Well # 15 – in progress, - \$638
- Began downtown utility line replacement - \$410
- Began The Settlement sewer line addition - \$516

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

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Land and storage space	\$ 2,509	\$ 2,509	\$ 1,433	\$ 1,335	\$ 3,942	\$ 3,844
Works of Art	376	376	-	-	376	376
Buildings	8,764	9,009	2,748	2,830	11,512	11,839
Machinery and equipment	3,460	3,617	3,596	3,975	7,056	7,592
Vehicles	1,739	1,614	1,617	1,638	3,356	3,252
Improvements other than buildings	1,691	1,398	29,710	26,161	31,401	27,559
Infrastructure	44,760	43,630	-	-	44,760	43,630
Construction in progress	7,056	3,095	5,613	5,831	12,669	8,926
Total	<u>\$ 70,355</u>	<u>\$ 65,248</u>	<u>\$ 44,717</u>	<u>\$ 41,770</u>	<u>\$ 115,072</u>	<u>\$ 107,018</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	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 37,035	\$ 32,880	\$ -	\$ -	\$ 37,035	\$ 32,880
Revenue bonds	-	-	11,615	8,000	11,615	8,000
Total	<u>\$ 37,035</u>	<u>\$ 32,880</u>	<u>\$ 11,615</u>	<u>\$ 8,000</u>	<u>\$ 48,650</u>	<u>\$ 40,880</u>

The City's bonded debt increased by \$7,770 (19%) during the current year. The key factors in this increase were an issue of \$5,450 general obligation bonds and \$4,935 in revenue bonds.

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 56-59.

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

- The unemployment rate for the City, according to Texas Workforce statistics, is 5.8%, a decrease of 0.3% from last year. The 6.1% unemployment rate for Angelina County is a decrease of 0.3% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 5.8 %.
- The state sales tax receipts for the current fiscal year totaled \$8,717, a decrease of \$194 or (2%) from the previous year indicating a slight reduction in the retail economy.

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

- 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 2004 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$7,582. The City has appropriated \$940 of this amount for spending in the 2004 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes during the 2004 fiscal year.

Both the Water and Sewer Utility rates were increased for the 2004 budget. The water rates increased an average of 2% for all customers and the sewer rates increased 15% for residential and 24.5% for commercial customers. These rate increases were necessary to reallocate the cost of service between residential 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, 2003**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,793,007	\$ 4,155,042	\$ 17,948,049
Investments	7,546,370	1,987,718	9,534,088
Receivables - net	2,329,809	2,124,619	4,454,428
Internal balances			-
Inventories	54,007	56,877	110,884
Prepaid items	2,995	-	2,995
Restricted Assets:			
Cash and cash equivalents		8,199,696	8,199,696
Investments		3,803,337	3,803,337
Other receivables		63,045	63,045
Due from other governments		95,016	95,016
Capital assets (net of accumulated depreciation):			
Land	2,508,649	342,759	2,851,408
Storage space in Sam Rayburn Reservoir		1,089,670	1,089,670
Infrastructure	44,759,992	-	44,759,992
Works of art	376,450	-	376,450
Buildings	8,764,212	2,747,537	11,511,749
Improvements other than buildings	1,691,279	29,710,473	31,401,752
Machinery and equipment	3,460,007	3,596,002	7,056,009
Vehicles	1,738,814	1,617,222	3,356,036
Construction in progress	7,056,441	5,613,045	12,669,486
Total assets	<u>\$ 94,082,032</u>	<u>\$ 65,202,058</u>	<u>\$ 159,284,090</u>
<b>LIABILITIES</b>			
Accounts/claims payable	\$ 1,558,392	\$ 429,274	\$ 1,987,666
Accrued interest	199,566	4,329	203,895
Accrued liabilities	1,936,953	640,964	2,577,917
Notes payable	-	13,977	13,977
Unearned revenues	61,336	-	61,336
Payable from restricted assets:			
Accounts payable	-	1,174,387	1,174,387
Accrued interest	-	171,943	171,943
Noncurrent liabilities:			
Due within one year	2,449,389	840,000	3,289,389
Due in more than one year	36,197,902	10,419,454	46,617,356
Total liabilities	<u>42,403,538</u>	<u>13,694,328</u>	<u>56,097,866</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	32,837,688	32,878,987	65,716,675
Restricted for:			
Retirement of debt	1,882,470	1,563,637	3,446,107
Capital projects	7,061,179	545,226	7,606,405
Renewal and replacement	-	8,705,893	8,705,893
Unrestricted	9,897,157	7,813,987	17,711,144
Total net assets	<u>\$ 51,678,494</u>	<u>\$ 51,507,730</u>	<u>\$ 103,186,224</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, 2003**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Governmental activities:							
General government	\$ 1,758,505	\$ 71,477	\$ -	\$ -	\$ (1,687,028)	\$ -	\$ (1,687,028)
Public safety	13,087,315	2,252,776	137,829		(10,696,710)	-	(10,696,710)
Culture and recreation	3,993,606	1,017,774	205,832		(2,770,000)	-	(2,770,000)
Planning and community development	390,482	2,550	333,487		(54,445)	-	(54,445)
Public works	3,280,003	46,588	401,304	541,339	(2,290,772)	-	(2,290,772)
Non-departmental	195,249	-	-		(195,249)	-	(195,249)
Interest and fiscal charges	1,560,452	-	-		(1,560,452)	-	(1,560,452)
Total governmental activities	24,265,612	3,391,165	1,078,452	541,339	(19,254,656)	-	(19,254,656)
Business-type activities:							
Water and Sewer	10,317,610	12,140,824	-	95,016	-	1,918,230	1,918,230
Solid Waste Disposal	4,448,399	5,406,185	-	20,000	-	977,786	977,786
Total business-type activities	14,766,009	17,547,009	-	115,016	-	2,896,016	2,896,016
Total government	\$ 39,031,621	\$ 20,938,174	\$ 1,078,452	\$ 656,355	\$ (19,254,656)	\$ 2,896,016	\$ (16,358,640)
General revenues:							
Property taxes					7,280,477	-	7,280,477
Sales taxes					8,716,674	-	8,716,674
Franchise taxes					2,586,317	-	2,586,317
Mixed beverage tax					60,735	-	60,735
Other					647,050	-	647,050
Unrestricted investment earnings					337,994	254,108	592,102
Loss on retirement of capital assets					(139,354)	(400,411)	(539,765)
Transfers					513,064	(513,064)	-
Total general revenues and transfers					20,002,957	(659,367)	19,343,590
Change in net assets					748,301	2,236,649	2,984,950
Net assets - beginning (restated)					50,930,193	49,271,081	100,201,274
Net assets - ending					\$ 51,678,494	\$ 51,507,730	\$ 103,186,224

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

**CITY OF LUFKIN, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2003**

	GENERAL	DEBT SERVICE FUND	1999 CIP BOND PROGRAM FUND	2001 CIP STREET BOND PROGRAM	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,259,098	\$ 826,692	\$ 2,945,151	\$ 4,484,560	\$ 1,677,294	\$ 13,192,795
Investments	5,329,346	1,043,207	-	-	356,609	6,729,162
Receivables:						
Taxes	510,847	228,307	-	-	-	739,154
Accounts	1,764,779	-	-	-	37,928	1,802,707
Other	97,553	13,035	-	-	131,073	241,661
Allowance for uncollectibles	(1,751,284)	(223,170)	-	-	(7,386)	(1,981,840)
Due from other funds	101,690	-	-	-	-	101,690
Intergovernmental receivable	736,090	-	365,661	-	338,516	1,440,267
Inventories	54,007	-	-	-	-	54,007
Prepaid items	2,995	-	-	-	-	2,995
	<u>\$ 10,105,121</u>	<u>\$ 1,888,071</u>	<u>\$ 3,310,812</u>	<u>\$ 4,484,560</u>	<u>\$ 2,534,034</u>	<u>\$ 22,322,598</u>
<b>LIABILITIES</b>						
Accounts/claims payable	\$ 306,667	\$ 463	\$ 629,531	\$ 212,086	\$ 241,146	\$ 1,389,893
Due to other funds	-	-	-	-	101,690	101,690
Accrued compensated absences	755,174	-	-	-	5,135	760,309
Accrued liabilities	925,225	-	161,582	49,560	40,277	1,176,644
Deferred revenues	535,871	5,138	-	-	82,763	623,772
Total liabilities	<u>2,522,937</u>	<u>5,601</u>	<u>791,113</u>	<u>261,646</u>	<u>471,011</u>	<u>4,052,308</u>
<b>FUND BALANCES</b>						
Reserved:						
For inventory	54,007	-	-	-	-	54,007
Debt service	-	1,882,470	-	-	-	1,882,470
Unreserved, reported in:						
General fund	7,528,177	-	-	-	-	7,528,177
Special revenue funds	-	-	-	-	1,744,457	1,744,457
Capital projects funds	-	-	2,519,699	4,222,914	318,566	7,061,179
Total fund balances	<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>
Total liabilities and fund balances	<u>\$ 10,105,121</u>	<u>\$ 1,888,071</u>	<u>\$ 3,310,812</u>	<u>\$ 4,484,560</u>	<u>\$ 2,534,034</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.						70,355,844
Certain receivables are not available to pay current-period expenditures and therefore, are deferred in the funds.						545,805
Certain deferred charges are amortized over the life of related debt and therefore, do not consume available financial resources.						511,301
Certain deferred revenues are not available to pay current-period expenditures and therefore are deferred in the funds.						16,631
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.						1,336,781
Long-term liabilities (bonds, notes, leases) are not due and payable in the current period and therefore are not reported in the funds.						(39,358,158)
Net assets of governmental activities						<u>\$ 51,678,494</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, 2003**

	<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>Revenues</b>						
Taxes	\$ 16,269,798	\$ 2,491,062	\$ -	\$ -	\$ 548,996	\$ 19,309,856
Licenses and permits	277,416	-	-	-	-	277,416
Fines and forfeitures	709,007	-	-	-	-	709,007
Charges for services	1,046,523	-	-	-	429,473	1,475,996
Interest income	169,478	54,910	44,923	21,163	22,076	312,550
Intergovernmental	2,547,032	-	541,339	-	938,995	4,027,366
Other revenues	321,535	-	-	-	256,293	577,828
Total revenues	<u>21,340,789</u>	<u>2,545,972</u>	<u>586,262</u>	<u>21,163</u>	<u>2,195,833</u>	<u>26,690,019</u>
<b>Expenditures</b>						
<b>Current:</b>						
General government	2,685,800	-	-	-	-	2,685,800
Public safety	12,090,063	-	-	-	498,849	12,588,912
Culture and recreation	2,870,104	-	-	-	928,957	3,799,061
Planning and community development	378,786	-	-	-	-	378,786
Public works	4,031,019	-	-	-	369,443	4,400,462
Non-departmental	112,821	-	-	-	82,428	195,249
<b>Debt service:</b>						
Principal	434,516	1,295,000	-	-	100,000	1,829,516
Interest and fiscal charges	18,004	1,677,774	33,160	53,267	5,500	1,787,705
Capital outlay	-	-	4,229,049	1,309,293	72,715	5,611,057
Total expenditures	<u>22,621,113</u>	<u>2,972,774</u>	<u>4,262,209</u>	<u>1,362,560</u>	<u>2,057,892</u>	<u>33,276,548</u>
Deficiency of revenues under expenditures	<u>(1,280,324)</u>	<u>(426,802)</u>	<u>(3,675,947)</u>	<u>(1,341,397)</u>	<u>137,941</u>	<u>(6,586,529)</u>
<b>Other Financing Sources (Uses)</b>						
Capital lease proceeds	542,888	-	-	-	-	542,888
Bond proceeds	-	-	1,700,000	3,750,000	-	5,450,000
Transfers in	-	438,064	-	-	348,918	786,982
Transfers out	<u>(273,918)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(273,918)</u>
Total other financing sources (uses)	<u>268,970</u>	<u>438,064</u>	<u>1,700,000</u>	<u>3,750,000</u>	<u>348,918</u>	<u>6,505,952</u>
Net change in fund balances	(1,011,354)	11,262	(1,975,947)	2,408,603	486,859	(80,577)
Fund balances - beginning	<u>8,593,538</u>	<u>1,871,208</u>	<u>4,495,646</u>	<u>1,814,311</u>	<u>1,576,164</u>	<u>18,350,867</u>
Fund balances - ending	<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>

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, 2003**

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

Net change in fund balances – total governmental funds	\$	(80,577)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		(122,535)
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.		(164,510)
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.		5,246,243
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.		(139,354)
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>(3,990,966)</u>
Change in net assets of governmental activities	\$	<u><u>748,301</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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Revenues				
Taxes:				
Ad valorem	\$ 4,912,219	\$ 4,912,219	\$ 4,904,179	\$ (8,040)
Sales	9,200,000	9,200,000	8,716,674	(483,326)
Franchise	2,870,526	2,870,526	2,586,317	(284,209)
Other	62,000	62,000	62,628	628
Total taxes	<u>17,044,745</u>	<u>17,044,745</u>	<u>16,269,798</u>	<u>(774,947)</u>
Licenses and Permits:				
Building permits and inspections	150,000	150,000	199,025	49,025
Plumbing permits and inspections	14,000	14,000	13,496	(504)
Electric permits and inspections	17,000	17,000	24,439	7,439
Heat and vent permits	13,000	13,000	19,043	6,043
Other permits	4,300	4,300	10,069	5,769
Licenses	9,000	9,000	11,344	2,344
Total licenses and permits	<u>207,300</u>	<u>207,300</u>	<u>277,416</u>	<u>70,116</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	890,600	890,600	707,026	(183,574)
Parking fines	3,000	3,000	1,981	(1,019)
Total fines and forfeitures	<u>893,600</u>	<u>893,600</u>	<u>709,007</u>	<u>(184,593)</u>
Charges for Services:				
Emergency medical services	892,600	892,600	816,196	(76,404)
Emergency medical service - County	175,560	175,560	175,560	0
Mowing lots	2,000	2,000	2,952	952
False alarm fees	24,000	24,000	18,240	(5,760)
Other	70,353	70,353	33,575	(36,778)
Total charges for services	<u>1,164,513</u>	<u>1,164,513</u>	<u>1,046,523</u>	<u>(117,990)</u>
Interest income	<u>80,673</u>	<u>80,673</u>	<u>169,478</u>	<u>88,805</u>
Intergovernmental:				
Grant revenues	95,300	95,300	139,457	44,157
General and administrative services	2,461,817	2,461,817	2,407,575	(54,242)
Total intergovernmental	<u>2,557,117</u>	<u>2,557,117</u>	<u>2,547,032</u>	<u>(10,085)</u>
Other Revenues:				
Parks	15,100	15,100	17,310	2,210
Library	12,500	12,500	21,995	9,495
Animal shelter collections	63,000	63,000	66,800	3,800
Zone change fees	3,000	3,000	2,550	(450)
Salvage and auction	-	-	364	364
Rent on city property	27,800	27,800	52,903	25,103
Salary reimbursements	80,000	80,000	116,756	36,756
Miscellaneous	-	-	42,857	42,857
Total other revenues	<u>201,400</u>	<u>201,400</u>	<u>321,535</u>	<u>120,135</u>
Total revenues	<u>\$ 22,149,348</u>	<u>\$ 22,149,348</u>	<u>\$ 21,340,789</u>	<u>\$ (808,559)</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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Expenditures				
Current:				
General government:				
General:				
Payroll costs	\$ 93,335	\$ 91,923	\$ 90,415	\$ 1,508
Supplies	31,604	28,785	24,507	4,278
Maintenance	1,300	4,400	4,069	331
Miscellaneous services	117,261	130,184	111,700	18,484
Sundry charges	140,000	139,800	136,503	3,297
Total general	<u>383,500</u>	<u>395,092</u>	<u>367,194</u>	<u>27,898</u>
Administration:				
Payroll costs	214,035	215,259	213,580	1,679
Supplies	15,300	15,000	11,610	3,390
Maintenance	11,450	8,450	8,370	80
Miscellaneous services	30,875	30,875	25,720	5,155
Capital outlay	-	1,325	1,325	0
Total administration	<u>271,660</u>	<u>270,909</u>	<u>260,605</u>	<u>10,304</u>
Accounting:				
Payroll costs	478,875	433,453	423,489	9,964
Supplies	20,400	17,079	17,173	(94)
Maintenance	2,775	4,357	3,404	953
Miscellaneous services	80,705	95,556	90,525	5,031
Total accounting	<u>582,755</u>	<u>550,445</u>	<u>534,591</u>	<u>15,854</u>
Legal:				
Miscellaneous services	130,000	130,000	125,014	4,986
Total legal	<u>130,000</u>	<u>130,000</u>	<u>125,014</u>	<u>4,986</u>
Tax:				
Miscellaneous services	115,000	123,485	123,484	1
Total tax	<u>115,000</u>	<u>123,485</u>	<u>123,484</u>	<u>1</u>
Human resources:				
Payroll costs	191,215	187,197	185,607	1,590
Supplies	21,250	20,000	18,326	1,674
Maintenance	13,031	2,581	329	2,252
Miscellaneous services	45,478	51,750	44,355	7,395
Sundry charges	14,385	15,185	15,356	(171)
Total human resources	<u>285,359</u>	<u>276,713</u>	<u>263,973</u>	<u>12,740</u>
Municipal building:				
Payroll costs	31,475	31,475	29,563	1,912
Supplies	9,910	9,910	10,350	(440)
Maintenance	41,345	35,295	27,942	7,353
Miscellaneous services	208,026	215,090	199,719	15,371
Total municipal building	<u>290,756</u>	<u>291,770</u>	<u>267,574</u>	<u>24,196</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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Information technology:				
Payroll costs	253,564	253,564	260,568	(7,004)
Supplies	25,990	23,193	22,141	1,052
Maintenance	179,600	230,003	229,977	26
Miscellaneous services	74,049	63,540	61,015	2,525
Capital outlay	13,000	83,718	83,718	0
Total information technology	<u>546,203</u>	<u>654,018</u>	<u>657,419</u>	<u>(3,401)</u>
Purchasing:				
Payroll costs	90,146	90,146	82,841	7,305
Supplies	1,689	1,000	575	425
Maintenance	200	200	-	200
Miscellaneous services	6,969	5,089	2,530	2,559
Total purchasing	<u>99,004</u>	<u>96,435</u>	<u>85,946</u>	<u>10,489</u>
Total general government	<u>2,704,237</u>	<u>2,788,867</u>	<u>2,685,800</u>	<u>103,067</u>
Public safety:				
Municipal court:				
Payroll costs	233,356	223,428	222,129	1,299
Supplies	15,025	11,285	8,747	2,538
Maintenance	500	100	22	78
Miscellaneous services	7,776	8,391	7,988	403
Total municipal court	<u>256,657</u>	<u>243,204</u>	<u>238,886</u>	<u>4,318</u>
Police:				
Payroll costs	5,149,115	5,126,378	5,160,276	(33,898)
Supplies	283,219	283,446	265,258	18,188
Maintenance	133,615	107,009	83,264	23,745
Miscellaneous services	302,976	308,863	281,944	26,919
Sundry charges	4,000	4,109	644	3,465
Capital outlay	220,350	204,355	204,065	290
Total police	<u>6,093,275</u>	<u>6,034,160</u>	<u>5,995,451</u>	<u>38,709</u>
Fire:				
Payroll costs	4,699,651	4,471,367	4,320,737	150,630
Supplies	230,717	208,976	216,150	(7,174)
Maintenance	131,750	109,906	123,679	(13,773)
Miscellaneous services	171,749	156,360	144,685	11,675
Sundry charges	1,100	450	98	352
Capital outlay	-	39,592	38,539	1,053
Total fire	<u>5,234,967</u>	<u>4,986,651</u>	<u>4,843,888</u>	<u>142,763</u>
Inspection:				
Payroll costs	443,543	441,035	423,427	17,608
Supplies	27,875	25,880	21,889	3,991
Maintenance	6,510	4,375	2,705	1,670
Miscellaneous services	52,855	43,841	33,936	9,905
Sundry charges	-	39,376	49,592	(10,216)
Capital outlay	46,500	41,838	41,838	-
Total inspection	<u>577,283</u>	<u>596,345</u>	<u>573,387</u>	<u>22,958</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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>Animal control:</b>				
Payroll costs	342,323	327,130	344,917	(17,787)
Supplies	40,200	35,300	33,571	1,729
Maintenance	6,200	4,700	5,023	(323)
Miscellaneous services	53,810	54,641	54,940	(299)
Total animal control	<u>442,533</u>	<u>421,771</u>	<u>438,451</u>	<u>(16,680)</u>
Total public safety	<u>12,604,715</u>	<u>12,282,131</u>	<u>12,090,063</u>	<u>192,068</u>
<b>Cultural and recreation:</b>				
<b>Parks:</b>				
Payroll costs	833,228	822,170	780,149	42,021
Supplies	86,180	75,435	66,829	8,606
Maintenance	85,750	135,844	118,797	17,047
Miscellaneous services	211,150	197,011	207,488	(10,477)
Sundry charges	-	100	100	0
Capital outlay	50,200	384,599	317,128	67,471
Total parks	<u>1,266,508</u>	<u>1,615,159</u>	<u>1,490,491</u>	<u>124,668</u>
<b>Zoo:</b>				
Payroll costs	769,798	732,543	738,097	(5,554)
Supplies	110,240	113,124	116,694	(3,570)
Maintenance	18,422	4,040	4,693	(653)
Miscellaneous services	74,968	77,605	89,225	(11,620)
Sundry charges	80	70	64	6
Total zoo	<u>973,508</u>	<u>927,382</u>	<u>948,773</u>	<u>(21,391)</u>
<b>Library:</b>				
Payroll costs	377,500	375,633	352,615	23,018
Supplies	31,978	21,577	13,862	7,715
Maintenance	19,565	17,015	8,132	8,883
Miscellaneous services	103,271	91,471	56,231	35,240
Total library	<u>532,314</u>	<u>505,696</u>	<u>430,840</u>	<u>74,856</u>
Total cultural and recreation	<u>2,772,330</u>	<u>3,048,237</u>	<u>2,870,104</u>	<u>178,133</u>
<b>Planning and community development:</b>				
<b>Community development:</b>				
Payroll costs	116,389	116,166	117,296	(1,130)
Supplies	5,515	3,346	2,984	362
Maintenance	600	2,975	2,112	863
Miscellaneous services	6,930	6,200	5,469	731
Total community development	<u>129,434</u>	<u>128,687</u>	<u>127,861</u>	<u>826</u>
<b>Planning and Zoning:</b>				
Payroll costs	173,879	173,879	174,820	(941)
Supplies	11,010	5,400	2,569	2,831
Maintenance	860	360	133	227
Miscellaneous services	69,897	82,762	73,403	9,359
Total planning and zoning	<u>255,646</u>	<u>262,401</u>	<u>250,925</u>	<u>11,476</u>
Total planning and community development	<u>385,080</u>	<u>391,088</u>	<u>378,786</u>	<u>12,302</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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Public works:				
Administration:				
Payroll costs	122,973	125,264	127,677	(2,413)
Supplies	5,419	3,000	1,631	1,369
Maintenance	1,125	1,050	958	92
Miscellaneous services	15,352	16,908	17,029	(121)
Sundry charges	100	50	-	50
Total administration	<u>144,969</u>	<u>146,272</u>	<u>147,295</u>	<u>(1,023)</u>
Engineering:				
Payroll costs	435,195	437,598	439,196	(1,598)
Supplies	11,485	16,345	16,761	(416)
Maintenance	21,478	12,388	10,857	1,531
Miscellaneous services	95,562	98,242	111,781	(13,539)
Capital outlay	27,600	25,111	25,111	0
Total engineering	<u>591,320</u>	<u>589,684</u>	<u>603,706</u>	<u>(14,022)</u>
Street:				
Payroll costs	1,259,448	1,199,739	1,188,759	10,980
Supplies	106,243	141,247	127,432	13,815
Maintenance	684,000	816,228	613,307	202,921
Miscellaneous services	562,761	612,430	575,419	37,011
Capital outlay	501,400	492,880	479,501	13,379
Total street	<u>3,113,852</u>	<u>3,262,524</u>	<u>2,984,418</u>	<u>278,106</u>
Fleet management:				
Payroll costs	252,815	229,269	229,619	(350)
Supplies	11,639	12,439	11,693	746
Maintenance	6,750	6,000	4,430	1,570
Miscellaneous services	23,860	26,673	35,912	(9,239)
Capital outlay	18,000	13,946	13,946	0
Total fleet management	<u>313,064</u>	<u>288,327</u>	<u>295,600</u>	<u>(7,273)</u>
Total public works	<u>4,163,205</u>	<u>4,286,807</u>	<u>4,031,019</u>	<u>255,788</u>
Non-departmental:				
Payroll costs	25,000	26,000	16,605	9,395
Supplies	3,700	1,500	729	771
Miscellaneous services	99,086	109,859	95,487	14,372
Total non-departmental	<u>127,786</u>	<u>137,359</u>	<u>112,821</u>	<u>24,538</u>

**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, 2003**

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Debt Service:				
Capital leases:				
Principal	448,228	460,488	434,516	25,972
Interest	18,073	18,073	18,004	69
Total debt service	<u>466,301</u>	<u>478,561</u>	<u>452,520</u>	<u>26,041</u>
Total expenditures	<u>23,223,654</u>	<u>23,413,050</u>	<u>22,621,113</u>	<u>791,937</u>
Deficiency of revenues under expenditures	<u>(1,074,306)</u>	<u>(1,263,702)</u>	<u>(1,280,324)</u>	<u>(16,622)</u>
Other financing sources (uses)				
Transfers out	(688,200)	(324,500)	(273,918)	50,582
Capital lease proceeds	668,000	668,000	542,888	(125,112)
Total other financing sources (uses)	<u>(20,200)</u>	<u>343,500</u>	<u>268,970</u>	<u>(74,530)</u>
Net change in fund balances	(1,094,506)	(920,202)	(1,011,354)	(91,152)
Fund balances - beginning	<u>8,593,538</u>	<u>8,593,538</u>	<u>8,593,538</u>	<u>-</u>
Fund balances - ending	<u>\$ 7,499,032</u>	<u>\$ 7,673,336</u>	<u>\$ 7,582,184</u>	<u>\$ (91,152)</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, 2003**

	<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>				
Current assets:				
Cash and cash equivalents	\$ 1,609,883	\$ 2,366,684	\$ 3,976,567	\$ 778,686
Investments	96,805	1,647,913	1,744,718	1,060,208
Accounts receivable (net of allowance for uncollectibles)	1,463,111	635,382	2,098,493	113,986
Inventories	15,268	41,609	56,877	-
Total current assets	<u>3,185,067</u>	<u>4,691,588</u>	<u>7,876,655</u>	<u>1,952,880</u>
Noncurrent assets:				
Restricted Assets:				
Cash and cash equivalents	6,928,576	1,271,120	8,199,696	-
Investments	2,503,754	1,299,583	3,803,337	-
Accounts receivable (net of allowance for uncollectibles)	43,142	19,903	63,045	-
Intergovernmental receivable	95,016	-	95,016	-
Total restricted assets	<u>9,570,488</u>	<u>2,590,606</u>	<u>12,161,094</u>	<u>-</u>
Capital assets:				
Land	226,759	116,000	342,759	-
Storage space in Sam Rayburn Reservoir	1,089,670	-	1,089,670	-
Buildings	3,051,842	1,032,846	4,084,688	-
Machinery and equipment	11,494,367	1,968,558	13,462,925	-
Vehicles	1,296,651	3,054,640	4,351,291	-
Improvements	45,092,173	246,657	45,338,830	-
Construction in progress	5,613,045	-	5,613,045	-
Less accumulated depreciation	(26,071,179)	(3,495,321)	(29,566,500)	-
Total capital assets (net of accumulated depreciation)	<u>41,793,328</u>	<u>2,923,380</u>	<u>44,716,708</u>	<u>-</u>
Total noncurrent assets	<u>51,363,816</u>	<u>5,513,986</u>	<u>56,877,802</u>	<u>-</u>
Total assets	<u>\$ 54,548,883</u>	<u>\$ 10,205,574</u>	<u>\$ 64,754,457</u>	<u>\$ 1,952,880</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	\$ 264,777	\$ 114,384	\$ 379,161	\$ 218,603
Accrued compensated absences	127,621	22,202	149,823	-
Accrued interest payable	4,329	-	4,329	-
Accrued liabilities	409,845	81,296	491,141	-
Revenue bonds payable - current	840,000	-	840,000	-
Notes payable - current maturities	13,977	-	13,977	-
Total current liabilities	<u>1,660,549</u>	<u>217,882</u>	<u>1,878,431</u>	<u>218,603</u>
Liabilities payable from restricted assets:				
Accounts payable - construction/capital	893,361	281,034	1,174,395	-
Accrued interest payable - revenue bonds	171,943	-	171,943	-
Total liabilities payable from restricted assets	<u>1,065,304</u>	<u>281,034</u>	<u>1,346,338</u>	<u>-</u>
Noncurrent liabilities:				
Notes payable	208,744	-	208,744	-
Revenue bonds payable (net of unamortized discounts of \$564,290)	10,210,710	-	10,210,710	-
Total noncurrent liabilities	<u>10,419,454</u>	<u>-</u>	<u>10,419,454</u>	<u>-</u>
Total liabilities	<u>13,145,307</u>	<u>498,916</u>	<u>13,644,223</u>	<u>218,603</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	29,955,607	2,923,380	32,878,987	-
Restricted for retirement of debt	1,563,637	-	1,563,637	-
Restricted for construction	545,226	-	545,226	-
Restricted for renewal and replacement	6,396,321	2,309,572	8,705,893	-
Unrestricted	2,942,785	4,473,706	7,416,491	1,734,277
Total net assets	<u>\$ 41,403,576</u>	<u>\$ 9,706,658</u>	<u>51,110,234</u>	<u>\$ 1,734,277</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.

397,496

Net assets of business-type activities \$ 51,507,730

**CITY OF LUFKIN, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**

**For The Year Ended September 30, 2003**

	<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	\$ 6,178,184	\$ -	\$ 6,178,184	\$ -
Sewer service charges	5,265,449	-	5,265,449	-
Sanitation collections	-	5,201,125	5,201,125	-
Provision for bad debts	(62,755)	(34,278)	(97,033)	-
Service revenue	345,456	-	345,456	-
Employee premiums	-	-	-	557,504
Employer premiums	-	-	-	1,972,991
Miscellaneous	11,060	55,308	66,368	32,597
Total operating revenues	<u>11,737,394</u>	<u>5,222,155</u>	<u>16,959,549</u>	<u>2,563,092</u>
Operating Expenses:				
Utility collections	561,873	-	561,873	-
Water utilities	1,182,893	-	1,182,893	-
Sewer utilities	1,525,193	-	1,525,193	-
Wastewater treatment plant	1,681,368	-	1,681,368	-
Water production	1,270,896	-	1,270,896	-
Sanitation department	-	2,395,823	2,395,823	-
Recycling department	-	524,328	524,328	-
Insurance claims and related expenses	-	-	-	2,783,600
Depreciation and amortization	1,509,384	562,029	2,071,413	-
General and administrative	1,642,041	765,533	2,407,574	-
Non-departmental	81,769	8,810	90,579	-
Total operating expenses	<u>9,455,417</u>	<u>4,256,523</u>	<u>13,711,940</u>	<u>2,783,600</u>
Operating income (loss)	<u>2,281,977</u>	<u>965,632</u>	<u>3,247,609</u>	<u>(220,508)</u>
Nonoperating Revenues (Expenses):				
Interest income	145,813	100,729	246,542	33,010
Interest expense	(403,851)	-	(403,851)	-
Bond fees and issuance costs	(32,204)	-	(32,204)	-
Loss on retirement of assets	(400,411)	-	(400,411)	-
Total nonoperating revenues (expenses)	<u>(690,653)</u>	<u>100,729</u>	<u>(589,924)</u>	<u>33,010</u>
Income (loss) before contributions and transfers	1,591,324	1,066,361	2,657,685	(187,498)
Capital contributions	95,016	20,000	115,016	-
Transfers out	(416,296)	(96,768)	(513,064)	-
Change in net assets	1,270,044	989,593	2,259,637	(187,498)
Total net assets - beginning	40,133,532	8,717,065	48,850,597	1,921,775
Total net assets - ending	<u>\$ 41,403,576</u>	<u>\$ 9,706,658</u>	<u>\$ 51,110,234</u>	<u>\$ 1,734,277</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, 2003**

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

Change in net assets – total business-type funds	\$	2,259,637
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>(22,988)</u>
Change in net assets of business-type activities	\$	<u><u>2,236,649</u></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, 2003**

	<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>
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 11,214,111	\$ 5,172,107	\$ 16,386,218	\$ 825,073
Receipts from interfund services provided	-	-	-	1,972,991
Payments to suppliers	(5,204,442)	(2,746,296)	(7,950,738)	(2,685,904)
Payments to employees	(2,439,988)	(810,509)	(3,250,497)	-
Payments for interfund services used	(310,549)	(141,661)	(452,210)	-
Net cash provided (used) by operating activities	<u>3,259,132</u>	<u>1,473,641</u>	<u>4,732,773</u>	<u>112,160</u>
Cash Flows From Noncapital Financing Activities:				
Repayment of interfund advance	12,482	-	12,482	-
Transfer to other funds	(416,296)	(96,768)	(513,064)	-
Net cash used by noncapital and financing activities	<u>(403,814)</u>	<u>(96,768)</u>	<u>(500,582)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from capital debt	4,935,000	-	4,935,000	-
Capital contributions	29,006	20,000	49,006	-
Purchase of capital assets	(344,860)	(191,618)	(536,478)	-
Acquisition and construction of capital assets	(4,528,093)	-	(4,528,093)	-
Principal paid on capital debt	(1,346,449)	-	(1,346,449)	-
Interest and fees paid on capital debt	(396,680)	-	(396,680)	-
Net cash used by capital and related financing activities	<u>(1,652,076)</u>	<u>(171,618)</u>	<u>(1,823,694)</u>	<u>-</u>
Cash Flows From Investing Activities:				
Proceeds from sale and maturities of investments	1,357,178	2,465,983	3,823,161	1,303,686
Purchase of investments	(2,012,598)	(2,833,617)	(4,846,215)	(1,061,850)
Interest and dividends received	103,468	104,136	207,604	19,968
Net cash used by investing activities	<u>(551,952)</u>	<u>(263,498)</u>	<u>(815,450)</u>	<u>261,804</u>
Net decrease in cash and equivalents	651,290	941,757	1,593,047	373,964
Cash and cash equivalents - beginning	7,887,169	2,696,047	10,583,216	404,722
Cash and cash equivalents - ending	<u>\$ 8,538,459</u>	<u>\$ 3,637,804</u>	<u>\$ 12,176,263</u>	<u>\$ 778,686</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, 2003**

	<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>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 2,281,977	\$ 965,632	\$ 3,247,609	\$ (220,508)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	1,509,384	562,029	2,071,413	-
(Increase) decrease in accounts receivable-net	(158,933)	(56,913)	(215,846)	234,973
Increase in allowance for uncollectible accounts	201	6,865	7,066	-
(Increase) in inventories	(4,621)	(3,311)	(7,932)	-
Increase(decrease) in accounts/claims payable	(7,856)	(15,034)	(22,890)	97,695
Increase (decrease) in accrued compensated absences	(6,710)	8,319	1,609	-
(Decrease) in customer deposits	(364,551)	-	(364,551)	-
Increase in accrued liabilities	10,241	6,054	16,295	-
Total adjustments	<u>977,155</u>	<u>508,009</u>	<u>1,485,164</u>	<u>332,668</u>
Net cash provided (used) by operating activities	<u>\$ 3,259,132</u>	<u>\$ 1,473,641</u>	<u>\$ 4,732,773</u>	<u>\$ 112,160</u>
Noncash investing, capital, and financing activities:				
Increase in fair value of investments	\$ 3,661	\$ (23,310)	\$ (19,649)	\$ (12,236)
Capital asset trade-ins	-	5,500	5,500	-

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

