

CITY OF LUFKIN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2016

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INTRODUCTORY SECTION



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July 10, 2017

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, 2016 is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the City of Lufkin issue annually a report on its financial position and activities in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

Alexander, Lankford & Hiers, Inc., Certified Public Accountants, have issued an unmodified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2016. This is the highest opinion auditors are able to issue. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

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

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

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

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

The annual budget serves as the foundation for the City of Lufkin's financial planning and control. All City departments are required to submit requests for appropriation to the City Manager prior to the end of May each year. The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager presents this proposed budget to City Council for review prior to September 1. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than September 27, three days before the close of the City of Lufkin's fiscal year.

The final adopted budget is available for viewing online at www.cityoflufkin.com/finance/budget.htm. The appropriated budget is prepared by fund, function (e.g., public safety), department (e.g., police) and division (e.g., patrol). The City Manager may make transfers of budgeted amounts within a department. Any revisions that alter the total appropriated budget of any department must be approved by the City Council. Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the combining and individual fund statements and schedules.

Local economy

The City had seen significant growth in sales tax revenues from fiscal years 2014 and 2015, but has begun to decline in 2016. As internet shopping trends increase, sales tax revenues have declined. However, due to the diversity of our economy, the continued growth of our medical and aerospace industries, our status as a regional hub has helped to sustain other revenues. The expected trend is for sales tax revenues to continue to decline.

The planning and zoning and permitting processes are two other tools used to monitor the local economy. The City of Lufkin Planning and Zoning office and the permitting office have seen consistent activity in residential permitting but no significant growth or commercial permitting activities to boost the economy.

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

The 1990 census recorded Lufkin's population at 30,206 and Angelina County's population at 69,884. The 2000 census recorded populations of 32,709 and 80,130 for the City of Lufkin and Angelina County respectively. The 2015 estimates reflect Lufkin's current population at 36,333 and the County's population at 88,255. The unemployment rate for the City, as of September 2016, according to Texas Workforce statistics, is 6.4 percent compared to 5.6 percent the previous year. The unemployment rate for Angelina County was 6.6 percent and 4.8 percent for the state. The national unemployment rate is 4.9%.

Long-term financial planning

City Council established the following goals and objectives to be carried out through the 2010 and 2012 Capital Improvements Projects. The majority of these projects have already been completed and additional projects listed below have been added and are in progress. City Council approved funding for a new comprehensive plan and a new Capital Improvements Plan should be developed for Fiscal Year 2019 or 2020 based on the recommendations of the comprehensive plan.

- Improve long range water availability for the City of Lufkin
 - Complete planning and development of water rights infrastructure.
- Capital Improvement Plan (CIP)

➤ Phases 1 & 2

- City Hall Renovations and Security Upgrade (under construction)
- Denman Avenue Drainage (complete)
- Atkinson Drive Reconditioning (complete)
- New Comprehensive Plan (in progress)
- Leach Street Conditioning (in progress)
- Lufkin Avenue Reconditioning (complete)
- Zoo Master Plan (in progress)
- Kurth Memorial Library Strategic Planning (in progress)

- Provide increase quality of Life Projects

- 2012 Statewide Transportation Enhancement Program adding sidewalks and a walking trail around Ellen Trout Lake (nearing completion)

- Utility Reconstruction and Expansion

- Infiltration/Inflow sewer improvement projects (under construction)
- Installation of 24" water line from Hwy 103 East to Hwy 59 South (nearing completion)
- Water Plant #3 Construction (nearing completion)

Financial Policies

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

At September 30, 2016 the City of Lufkin has accumulated the following amounts in support of these policies:

FUND	POLICY AMOUNT	FUND TOTAL
Governmental Funds: (fund balance)		
General Fund - 25%	\$ 8,147,990	\$ 10,480,400
Hotel/Motel Tax Fund - 12.5%	147,439	(15,584)
Recreation Fund - 12.5%	43,473	92,769
	<u>8,338,902</u>	<u>10,557,585</u>
Proprietary Funds: (working capital)		
Water/Wastewater Fund - 12.5%	\$ 2,077,521	\$ 5,667,689
Solid Waste/Recycling Fund - 12.5%	771,584	4,868,571
	<u>2,849,105</u>	<u>10,536,260</u>

Major initiatives

City management has completed comprehensive analysis of the rolling equipment stock, and developed a fleet services and replacement policy that has been adopted by City Council. This project resulted in developing a planned replacement schedule of the vehicles and equipment used in our daily operation. High cost, long life equipment such as fire trucks and road equipment will be funded separately. During FY 2016 the City purchased \$2,170,236 in new/ replacement equipment and is planning to replace approximately \$1,093,485 of equipment in FY 2017.


The City is working to expand its water supply capacity with the addition of the 24" water line from Hwy 103 East to Hwy 59 South.

Awards and Acknowledgments

The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated September 20, 2016. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device. The City also received the Texas Comptroller's Gold Circle Leadership Award, which recognizes the City for meeting a high standard for financial transparency online.

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

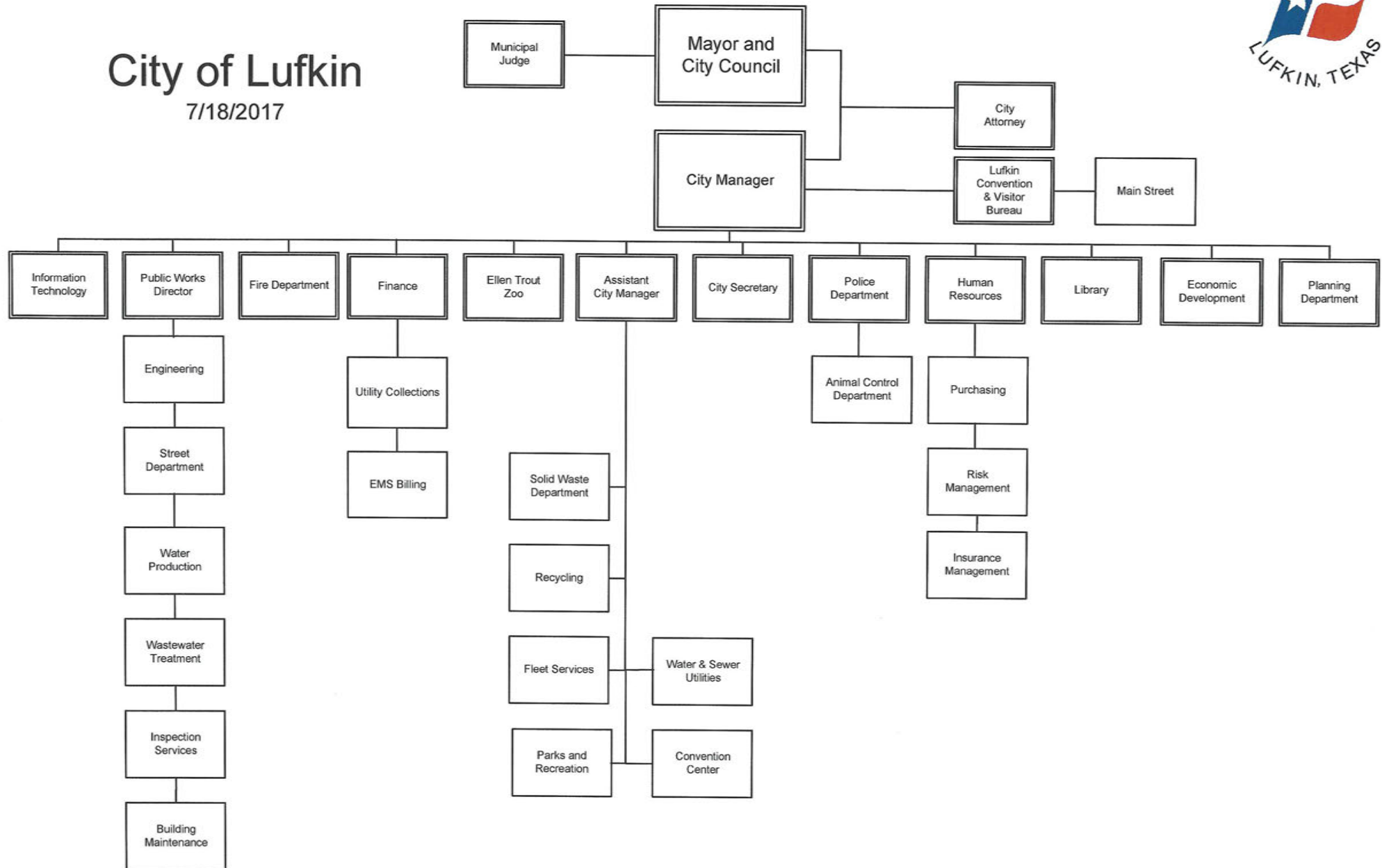
Respectively submitted,



Keith N. Wright, P.E.
City Manager

City of Lufkin

7/18/2017



**City of Lufkin, Texas
List of Principal Officials
September 30, 2016**

Governing Body

Honorable Bob F. Brown, Mayor

City Council

Guessipina Bonner.....	Ward No. 1
Robert Shankle.....	Ward No. 2
Lynn Torres.....	Ward No. 3
Mark Hicks.....	Ward No. 4
Rocky Thigpen.....	Ward No. 5
Sarah Murray.....	Ward No. 6

Other Principal Officials

Keith Wright.....	City Manager
Steven Floyd.....	Assistant City Manager
Rodney Ivy	Director of Human Resources
Gerald Williamson	Police Chief
Ted Lovett	Fire Chief
Belinda Southern	Director of Finance
Kara Atwood.....	City Secretary
Bruce Green.....	City Attorney
Chuck Walker	Director of Public Works and City Engineer

FINANCIAL SECTION

Ted A. Lankford, CPA
Glenda J. Hiers, CPA
Richard A. Rudel, CPA

Wilbur E. Alexander, CPA
(1940 - 2009)



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Yvette Sidnell, CPA
Jennifer L. Webster, CPA
Kimber R. Jones, CPA
Susan L. Murrell, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lufkin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lufkin as of September 30, 2016, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund, for the year ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Report on the Financial Statements - Continued

Emphasis of Matter

Prior Period Adjustments

As described in detail notes on all funds J. 7. on page 81 in the notes to the financial statements, the 2015 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Condition Rating of the City's Street System and Comparison of Needed-to-Actual Maintenance/Preservation, Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System, Schedule of Contributions – Texas Municipal Retirement System, Schedule of Funding Progress for Retiree Health Insurance Plan, Schedule of Changes in Net Pension Liability and Related Ratios – Lufkin Firemen's Relief and Retirement Fund, and Schedule of Contributions – Lufkin Firemen's Relief and Retirement Fund on pages 15 through 25 and pages 82 through 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lufkin's basic financial statements. The introductory section, supplemental information, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditure of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplemental information and the schedule of expenditure of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information and the schedule of expenditure of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

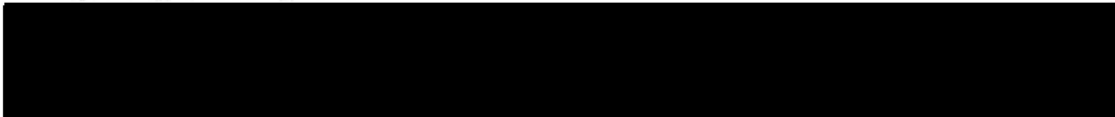
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Report on the Financial Statements - Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, on our consideration of City of Lufkin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lufkin, Texas' internal control over financial reporting and compliance.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
July 10, 2017



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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, 2016. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$127,469 (*net position*). The unrestricted net position component is \$(8,390). The unrestricted net position decrease of \$11,583 from the prior year was primarily the result of changes in the net pension obligation, the reclassification of restricted net position, the current year change in net position and prior period adjustments.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,227, a decrease of \$1,298 over the prior year. The decrease is the result of the completion of capital projects associated with the Certificates of Obligation issued in the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,690 or 5% of total general fund expenditures.
- The City's total debt decreased by \$4,865 (8%) during the fiscal year. The key factors in this decrease were \$4,535 for the retirement of general obligation debt, \$9,080 for issuance of general obligation refunding bonds, \$8,965 for refunded general obligation debt and \$445 for general obligation debt refunded in the prior year.
- A prior period adjustment of \$2,454 was recorded primarily to adjust beginning liabilities for additional compensated absences and other postemployment benefits.

Overview of the Financial Statements

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

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

The *statement of net position* presents all of the City's assets, deferred inflows of resources, deferred outflows of resources, and liabilities, with the difference between these reported as *net position*. Over time, increases or decreases in net position 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 City's net position changed during the most recent fiscal year. All changes in net position 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 period.

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

The management of the City has reviewed other entities and activities for possible inclusion in the reporting entity. The City has determined that the City of Lufkin Economic Development Corporation and Lufkin Convention and Visitors Bureau should be reported as discretely presented component units.

The government-wide financial statements can be found on pages 27 – 29 of this report.

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 funds financial statements focus on how cash resources flow into and out of those funds and balances remaining at the year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, that requires the recognition of revenue when earned, only so long as the funds are collected within the period or soon enough afterwards to be used to pay liabilities of the current period. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

The governmental funds financial statements can be found on pages 30 - 32 of this report.

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

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

The proprietary funds financial statements can be found on pages 39 – 41 of this report.

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. The notes to financial statements can be found on pages 42 – 80 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the condition rating of the City of Lufkin's street system. Required supplementary information can be found on pages 82 - 88 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 89 - 119 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$127,469 at the close of fiscal year 2016. The following table reflects the condensed Statement of Net Position.

City of Lufkin's Combined Net Positions

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 23,533	\$ 26,531	\$ 19,539	\$ 20,016	\$ 43,072	\$ 46,547
Capital assets	113,175	112,899	67,677	67,034	180,852	179,933
Total Assets	<u>136,708</u>	<u>139,430</u>	<u>87,216</u>	<u>87,050</u>	<u>223,924</u>	<u>226,480</u>
Deferred outflow	<u>9,451</u>	<u>3,547</u>	<u>1,371</u>	<u>485</u>	<u>10,822</u>	<u>4,032</u>
Long-term liabilities	63,747	62,265	725	543	64,472	62,808
Net pension liability	35,530	26,591	3,856	2,819	39,356	29,410
Other liabilities	2,156	8,879	712	883	2,868	9,762
Total Liabilities	<u>101,433</u>	<u>97,735</u>	<u>5,293</u>	<u>4,245</u>	<u>106,726</u>	<u>101,980</u>
Deferred inflows	<u>441</u>	<u>472</u>	<u>110</u>	<u>117</u>	<u>551</u>	<u>589</u>
Net Position:						
Invested in capital assets, net	56,575	51,434	67,655	67,005	124,230	118,439
Restricted	2,263	5,016	9,366	1,294	11,629	6,310
Unrestricted	(14,553)	(11,680)	6,163	14,874	(8,390)	3,194
Total Net Position	<u>\$ 44,285</u>	<u>\$ 44,770</u>	<u>\$ 83,184</u>	<u>\$ 83,173</u>	<u>\$ 127,469</u>	<u>\$ 127,943</u>

By far the largest portion of the City's net position (97%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lufkin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining negative balance of unrestricted net position (6%) represents unrestricted financial resources available for future operations.

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

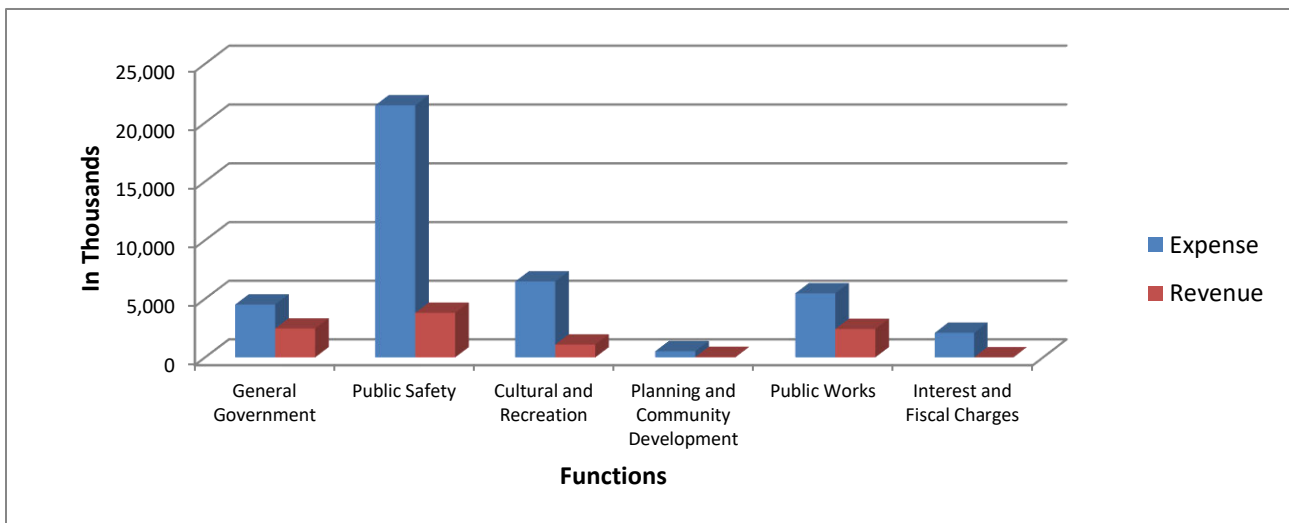
City of Lufkin's Change in Net Position

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for services	\$ 8,605	\$ 8,000	\$ 23,116	\$ 22,546	\$ 31,721	\$ 30,546
Operating grants and contributions	248	410	-	-	248	410
Capital grants and contributions	965	702	104	102	1,069	804
General Revenues:						
Property taxes	10,685	10,802	-	-	10,685	10,802
Other taxes	16,921	16,408	-	-	16,921	16,408
Other	1,340	666	212	90	1,552	756
Total Revenues	<u>38,764</u>	<u>36,988</u>	<u>23,432</u>	<u>22,738</u>	<u>62,196</u>	<u>59,726</u>
Expenses:						
General government	4,509	2,786	-	-	4,509	2,786
Public safety	21,465	19,893	-	-	21,465	19,893
Cultural and recreation	6,475	6,381	-	-	6,475	6,381
Planning and community development	528	97	-	-	528	97
Public works	5,447	1,678	-	-	5,447	1,678
Interest and fiscal charges	2,094	2,323	-	-	2,094	2,323
Water and sewer	-	-	13,451	12,277	13,451	12,277
Solid waste disposal	-	-	6,247	5,750	6,247	5,750
Total Expenses	<u>40,518</u>	<u>33,158</u>	<u>19,698</u>	<u>18,027</u>	<u>60,216</u>	<u>51,185</u>
Change in Net Position Before Transfers	(1,754)	3,830	3,734	4,711	1,980	8,541
Transfers	<u>3,723</u>	<u>4,023</u>	<u>(3,723)</u>	<u>(4,023)</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>1,969</u>	<u>7,853</u>	<u>11</u>	<u>688</u>	<u>1,980</u>	<u>8,541</u>
Net Position, Beginning	44,770	61,059	83,173	85,171	127,943	146,230
Prior Period Adjustments	(2,454)	(24,142)	-	(2,686)	(2,454)	(26,828)
Net Position, Restated	<u>42,316</u>	<u>36,917</u>	<u>83,173</u>	<u>82,485</u>	<u>125,489</u>	<u>119,402</u>
Net Position, Ending	<u>\$ 44,285</u>	<u>\$ 44,770</u>	<u>\$ 83,184</u>	<u>\$ 83,173</u>	<u>\$ 127,469</u>	<u>\$ 127,943</u>

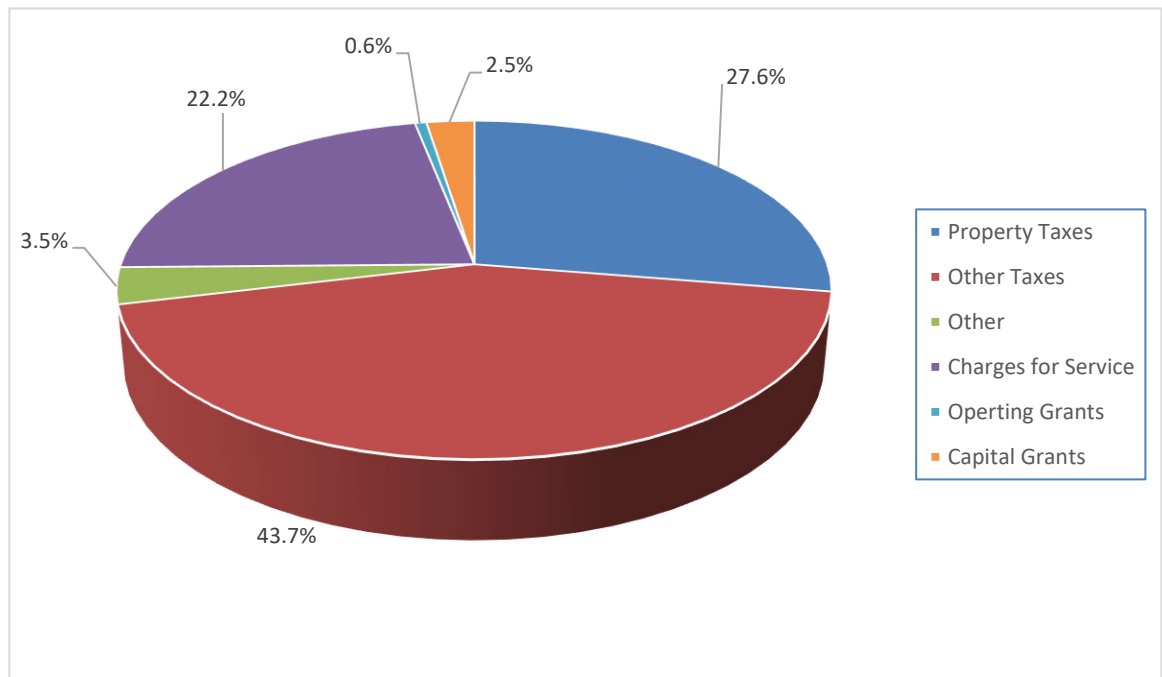
Governmental Activities. Governmental activities increased the City of Lufkin's net position by \$1,969. Key elements of this increase are as follows:

- Charges for services increased by \$605 (7%).
- Other taxes for governmental activities increased by \$513 (3%).
- Other revenues for governmental activities increased by \$674 (101%).
- General government expenditures increased by \$1,723 (62%).
- Public Safety expenditures increased by \$1,572 (8%).
- Public works expenditures increased by \$3,769 (225%).

Expenses and Program Revenues - Governmental Activities

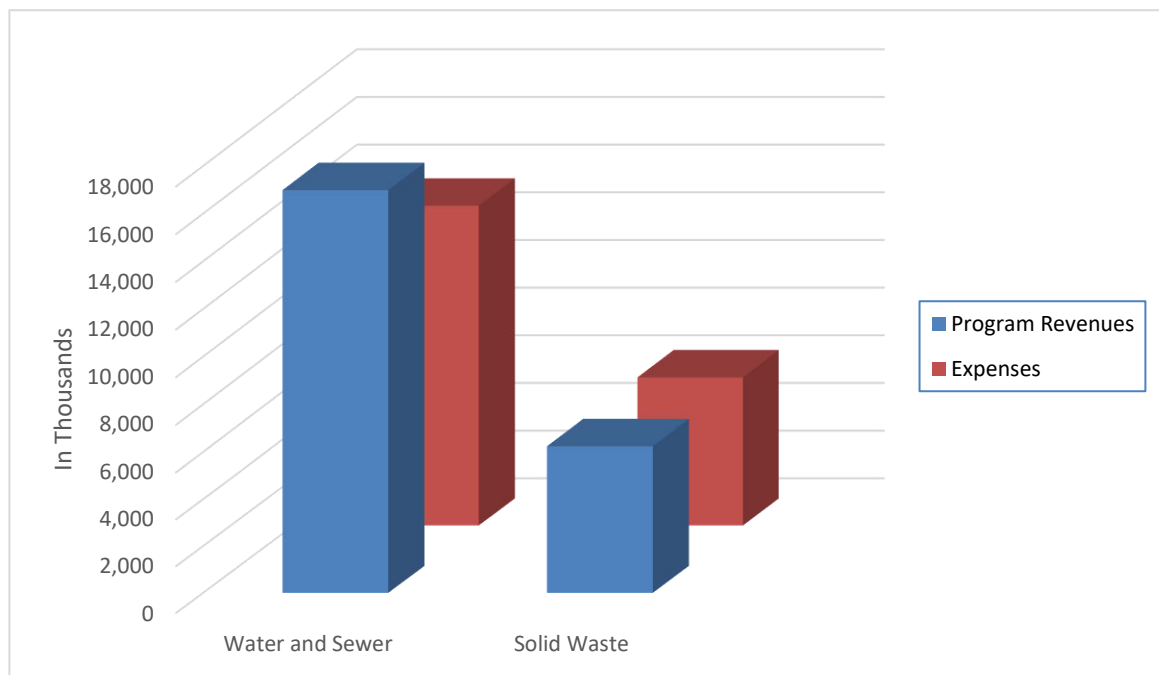


Revenues by Source - Governmental Activities

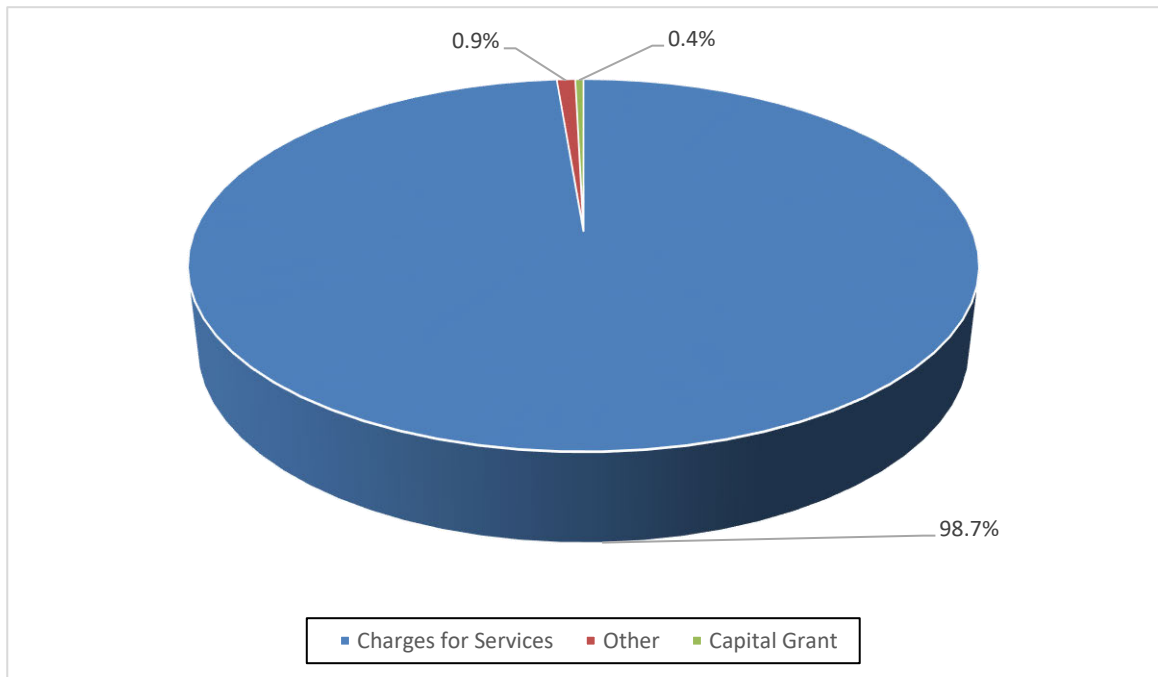


Business-type Activities. Business-type activities increased the City's net position by \$11. Key elements of this decrease are as follows:

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lufkin's governmental funds reported combined ending fund balances of \$15,227, a decrease of \$1,298 from the prior year.

Of the combined governmental funds ending fund balance, \$1,690 is unassigned which is available for spending at the government's discretion. The portions of fund balance that are not available for new spending because it has already been assigned, committed, or restricted are \$1,883, \$9,177 and \$2,263, respectively. The remaining amount of fund balance is nonspendable due to the items not being expected to be converted to cash. The nonspendable fund balance, \$214, relates to inventory and prepaid items.

The general fund is the chief operating fund of the City of Lufkin. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$1,690. The portion of fund balance that is not available for new spending because it has already been assigned or committed is \$428 and \$8,148, respectively. The remaining amount, \$214, was nonspendable. Total fund balance was \$10,480. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 5% of total general fund expenditures, while total fund balance represents 32% of the same amount.

The fund balance of the City's general fund decreased by \$689 during the current fiscal year.

The debt service fund has a total fund balance of \$1,407, all of which is restricted for the payment of debt service. The net decrease in fund balance in the debt service fund during the current year was \$405.

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 position of the Water and Sewer Utility Fund at the end of the current fiscal year amounted to \$2,424, and the Solid Waste Disposal Fund amounted to \$3,739. The total net position increased for Water and Sewer Utility by \$95 while the Solid Waste Disposal Fund decreased by \$84. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's financial plan is controlled at the fund and department level with Manager authorized to make transfers of budgeted amounts between the City departments.

The General Fund budget was amended several times during the year. Differences between the original budget and the final budget for the General Fund were significant (\$538 increase in revenues and \$600 increase in expenditures). The major adjustments were:

- Increase of \$465 in tax revenue was primarily due to higher anticipated collections for ad valorem and sales taxes.
- Increase of \$122 in intergovernmental revenues was primarily due to increase in grant revenues.
- Decrease of \$362 for general government expenditures was primarily due to a reduction in non-departmental expenditures.
- Increase of \$666 for public safety expenditures was primarily due to an increase in police and fire expenditures.
- Increase of \$308 for public work expenditures was primarily due to an increase in street expenditures.

Differences between the actual results and the final budget for the General Fund were significant (\$370 increase in actual revenues and \$167 decrease in actual expenditures) and can be briefly summarized as follows:

- Increase of \$213 in taxes was primarily due to higher tax collections than the City anticipated.
- Increase of \$113 in other revenues was primarily due to higher sales and auction revenue and miscellaneous revenue.
- Decrease of \$110 in general government expenditures was primarily due to less general, legal, and building services expenditures.
- Increase of \$496 in public safety expenditures was primarily due to more police and fire expenditures.
- Decrease of \$64 in culture and recreation was primarily due to less zoo expenditures.
- Decrease of \$445 in public works expenditures was primarily due to less street expenditures.

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 \$180,942 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, water rights, buildings, improvements, machinery and equipment, roads, and bridges.

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

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

The City's policy is to achieve an average rating of 56 for all streets. The City performed a complete inventory and conditions assessment during 2015. This condition assessment is performed every two years. The average rating for the City's streets at September 30, 2015 was 65; this rating remained flat from the previous year assessment. 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, 2016 was \$4,132 as compared to \$3,650 for the previous year. Actual expenditures were \$3,678 for FY 2016, reflecting an increase of \$392 from FY 2015.

Condition Rating of the City's Street System

		PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION		
		2016	2015	2014
Collector Streets		55%	56%	11%
Residential Streets		29%	29%	27%
		PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION		
		2016	2015	2014
Collector Streets		19%	18%	3%
Residential Streets		27%	29%	19%

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

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

Governmental

- 2012 TxDOT Side Walk Project - \$1,157
- Zoo Commissary - \$768
- Denman Avenue Drainage - \$333
- Martin Luther King Drive Drainage - \$208

Business-type

- Water line – Hwy 103E to Hwy 59S - \$1,117
- Water plant #3 - \$2,069
- Kit McConnico I & I projects - \$165
- Water line upgrade - \$140

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

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2016	2015	2016	2015	2016	2015
Land	\$ 4,451	\$ 4,451	\$ 4,323	\$ 4,323	\$ 8,774	\$ 8,774
Water rights	-	-	3,971	3,958	3,971	3,958
Works of art	278	278	-	-	278	278
Buildings	14,777	15,233	3,045	3,103	17,822	18,336
Machinery and equipment	5,668	5,646	2,969	2,746	8,637	8,392
Vehicles	4,604	4,996	14	7	4,618	5,003
Improvements other than building	13,526	13,898	49,043	49,248	62,569	63,146
Infrastructure	67,688	67,535	-	-	67,688	67,535
Construction in progress	2,183	861	4,312	3,649	6,495	4,510
Total	\$ 113,175	\$ 112,898	\$ 67,677	\$ 67,034	\$ 180,852	\$ 179,932

Additional information on the City of Lufkin's capital assets can be found in Detail Notes on All Funds, E. on pages 59 - 62 of this report.

Long-term Debt. At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$56,600. Of this amount \$56,600 is backed by the full faith and credit of the government.

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

	GOVERNMENTAL			
	ACTIVITIES		TOTAL	
	2016	2015	2016	2015
General obligation bonds	\$ 56,600	\$ 61,465	\$ 56,600	\$ 61,465
TOTAL	\$ 56,600	\$ 61,465	\$ 56,000	\$ 61,465

The City of Lufkin maintains an "Aa2" rating from Moody's and an "AA-" rating from Standard & Poor's for general obligation debt and the revenue bonds of the Water and Sewer Utility.

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

Additional information on the City's long-term debt can be found in in Detail Notes on All Funds, G. on pages 63 - 65 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City, according to Texas Workforce statistics, is 6.4%, a 0.8% decrease from last year. The 6.6% unemployment rate for Angelina County is an increase of 1.0% from last year. The Texas unemployment rate is 4.8%. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 4.9%.
- The state sales tax revenue for the current fiscal year totaled \$13,270, an increase of \$361 from the previous year indicating a moderate increase in the retail economy.
- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the City of Lufkin's budget for the 2017 fiscal year.

The Water and Sewer Utility rates have not increased for the 2017 budget.

Requests for Information

This financial report is designed to provide a general overview of the City of Lufkin's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, P. O. Box 190, 300 East Shepherd, City of Lufkin, Texas 75902-0190.

BASIC FINANCIAL STATEMENTS

CITY OF LUFKIN, TEXAS
STATEMENT OF NET POSITION
September 30, 2016

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
ASSETS				
Cash and cash equivalents	\$ 5,089,146	\$ 415,366	\$ 5,504,512	\$ 398,208
Investments	14,488,501	6,228,644	20,717,145	7,282,792
Receivables - Net	3,741,679	3,083,038	6,824,717	225,202
Notes receivable	-	-	-	2,051,855
Inventories	211,768	76,289	288,057	-
Restricted Assets:				
Cash and cash equivalents	-	1,291,165	1,291,165	-
Investments	-	8,271,356	8,271,356	-
Receivables - Net	-	172,957	172,957	-
Prepaid items	2,324	-	2,324	-
Capital Assets (Net of Accumulated Depreciation):				
Land	4,451,060	4,323,326	8,774,386	-
Water rights	-	3,971,336	3,971,336	-
Infrastructure	67,687,649	-	67,687,649	-
Works of art	278,500	-	278,500	-
Buildings	14,776,730	3,045,094	17,821,824	-
Improvements other than buildings	13,525,849	49,042,417	62,568,266	-
Machinery and equipment	5,668,177	2,968,706	8,636,883	-
Vehicles	4,603,442	14,600	4,618,042	-
Construction in progress	2,183,028	4,311,792	6,494,820	-
Total Assets	136,707,853	87,216,086	223,923,939	9,958,057
DEFERRED OUTFLOWS				
Deferred loss on refundings	1,282,354	-	1,282,354	-
Deferred pension outflow	8,168,280	1,371,353	9,539,633	65,185
Total Deferred Outflows	9,450,634	1,371,353	10,821,987	65,185
LIABILITIES				
Accounts/claims payable	1,129,645	222,843	1,352,488	1,685
Accrued interest	227,410	-	227,410	8,411
Accrued liabilities	764,867	120,035	884,902	2,630
Customer deposits	34,567	-	34,567	20,000
Payable from restricted assets	-	369,876	369,876	-
Noncurrent Liabilities:				
Due within one year	6,075,767	132,623	6,208,390	146,339
Due in more than one year	57,670,777	592,277	58,263,054	839,696
Net pension obligation	35,530,004	3,855,557	39,385,561	180,110
Total Liabilities	101,433,037	5,293,211	106,726,248	1,198,871
DEFERRED INFLOWS				
Deferred pension inflows	440,853	110,245	551,098	5,100
Total Deferred Inflows	440,853	110,245	551,098	5,100
NET POSITION				
Invested in capital assets, net	56,574,435	67,655,164	124,229,599	-
Restricted for:				
Retirement of debt	1,406,542	1,303,944	2,710,486	-
Capital projects	639,147	1,974,682	2,613,829	-
Renewal and replacement	-	6,086,976	6,086,976	-
Other	217,112	-	217,112	-
Unrestricted	(14,552,639)	6,163,217	(8,389,422)	8,819,271
Total Net Position	\$ 44,284,597	\$ 83,183,983	\$ 127,468,580	\$ 8,819,271

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, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 4,508,942	\$ 2,385,895	\$ 75,241	\$ -
Public safety	21,464,814	3,626,594	173,043	-
Cultural and recreation	6,475,209	1,090,762	-	-
Planning and community development	528,425	39,394	-	-
Public works	5,446,886	1,461,454	-	964,536
Interest and fiscal charges	2,093,835	-	-	-
Total Governmental Activities	<u>40,518,111</u>	<u>8,604,099</u>	<u>248,284</u>	<u>964,536</u>
Business-Type Activities:				
Water and sewer	13,450,399	16,880,445	-	104,420
Solid waste disposal	<u>6,247,001</u>	<u>6,235,917</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>19,697,400</u>	<u>23,116,362</u>	<u>-</u>	<u>104,420</u>
Total Primary Government	\$ <u>60,215,511</u>	\$ <u>31,720,461</u>	\$ <u>248,284</u>	\$ <u>1,068,956</u>
Component Units	\$ <u>1,388,551</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
General Revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel taxes				
Other taxes				
Unrestricted investment earnings				
Gain on retirement of capital assets				
Miscellaneous revenues				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net Position - Beginning				
Prior Period Adjustment				
Net Position - Restated				
Net Position - Ending				

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

NET (EXPENSES) REVENUES AND CHANGES IN NET POSITIONS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
\$ (2,047,806)	\$ -	\$ (2,047,806)	\$ -
(17,665,177)	-	(17,665,177)	-
(5,384,447)	-	(5,384,447)	-
(489,031)	-	(489,031)	-
(3,020,896)	-	(3,020,896)	-
(2,093,835)	-	(2,093,835)	-
(30,701,192)	-	(30,701,192)	-
-	3,534,466	3,534,466	-
-	(11,084)	(11,084)	-
-	3,523,382	3,523,382	-
(30,701,192)	3,523,382	(27,177,810)	-
			(1,388,551)
10,685,441	-	10,685,441	-
13,270,129	-	13,270,129	1,206,375
2,382,981	-	2,382,981	-
1,150,722	-	1,150,722	-
116,873	-	116,873	387,451
251,795	167,948	419,743	114,020
74,625	43,255	117,880	-
1,014,393	-	1,014,393	76,923
3,723,210	(3,723,210)	-	-
32,670,169	(3,512,007)	29,158,162	1,784,769
1,968,977	11,375	1,980,352	396,218
44,769,917	83,172,608	127,942,525	9,992,369
(2,454,297)	-	(2,454,297)	(1,569,316)
42,315,620	83,172,608	125,488,228	8,423,053
\$ 44,284,597	\$ 83,183,983	\$ 127,468,580	\$ 8,819,271

CITY OF LUFKIN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2016

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Assets:				
Cash and cash equivalents	\$ 1,755,375	\$ 406,542	\$ 1,904,988	\$ 4,066,905
Investments	7,988,501	1,000,000	1,500,000	10,488,501
Receivables:				
Taxes	562,928	262,850	-	825,778
Accounts	11,691,660	-	163,936	11,855,596
Intergovernmental	1,098,312	-	337,696	1,436,008
Other	88,942	10,375	257,982	357,299
Allowance for uncollectibles	(10,437,188)	(193,287)	(139,575)	(10,770,050)
Due from other funds	590,690	-	-	590,690
Inventories	211,768	-	-	211,768
Prepaid items	2,324	-	-	2,324
Total Assets	<u>\$ 13,553,312</u>	<u>\$ 1,486,480</u>	<u>\$ 4,025,027</u>	<u>\$ 19,064,819</u>
Liabilities:				
Account/claims payable	\$ 515,695	\$ -	\$ 166,754	\$ 682,449
Accrued liabilities	661,241	-	103,626	764,867
Due to other funds	-	-	348,692	348,692
Customer deposits	4,975	-	29,592	34,567
Total Liabilities	<u>1,181,911</u>	<u>-</u>	<u>648,664</u>	<u>1,830,575</u>
Deferred Inflows of Resources:				
Unavailable revenues	<u>1,891,001</u>	<u>79,938</u>	<u>36,040</u>	<u>2,006,979</u>
Total Deferred Inflows of Resources	<u>1,891,001</u>	<u>79,938</u>	<u>36,040</u>	<u>2,006,979</u>
Fund Balances:				
Nonspendable	214,092	-	-	214,092
Restricted	-	1,406,542	856,259	2,262,801
Committed	8,147,990	-	1,028,906	9,176,896
Assigned	428,146	-	1,455,158	1,883,304
Unassigned	1,690,172	-	-	1,690,172
Total Fund Balances	<u>10,480,400</u>	<u>1,406,542</u>	<u>3,340,323</u>	<u>15,227,265</u>
Total Liabilities, Deferred Inflows of Resource and Fund Balances	<u>\$ 13,553,312</u>	<u>\$ 1,486,480</u>	<u>\$ 4,025,027</u>	<u>\$ 19,064,819</u>

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

CITY OF LUFKIN, TEXAS
RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION
September 30, 2016

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Fund balance - Total governmental funds	\$ 15,227,265
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	106,811,431
Certain unavailable revenues are not available to pay current-period expenditures and therefore, are deferred in the funds.	2,006,979
An internal service fund is used to charge the cost of health insurance to individual funds. The funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	3,585,271
An internal service fund is used for equipment acquisition and replacement. The governmental funds' share of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	7,147,828
Long-term liabilities (bonds, notes, and leases) are not due and payable in the current period and therefore are not reported in the funds.	(62,691,600)
The City's deferred outflows of resources related to pension plans is not reported in the governmental funds.	8,168,280
The City's net pension liability is not reported in the governmental funds.	(35,530,004)
The City's deferred inflows of resources related to pension plans is not reported in the governmental funds.	<u>(440,853)</u>
Net Position of Governmental Activities	\$ <u><u>44,284,597</u></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, 2016

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Revenues:				
Taxes:				
Property	\$ 7,649,632	\$ 2,987,208	\$ -	\$ 10,636,840
Sales	13,270,129	-	-	13,270,129
Franchise	2,382,981	-	-	2,382,981
Other	116,873	-	1,150,722	1,267,595
Licenses and permits	321,834	-	-	321,834
Fines and forfeitures	1,063,801	-	-	1,063,801
Charges for services	2,813,903	-	1,090,762	3,904,665
Investment earnings	72,696	18,182	19,634	110,512
Intergovernmental	4,245,973	-	1,106,618	5,352,591
Other revenues	480,863	13,447	544,767	1,039,077
Total Revenues	<u>32,418,685</u>	<u>3,018,837</u>	<u>3,912,503</u>	<u>39,350,025</u>
Expenditures:				
Current:				
General government	4,111,494	-	83,724	4,195,218
Public safety	19,372,984	-	169,576	19,542,560
Cultural and recreation	3,898,418	-	2,546,404	6,444,822
Planning and community development	420,860	-	-	420,860
Public works	4,788,204	-	-	4,788,204
Debt Service:				
Principal	-	4,535,000	-	4,535,000
Interest and fiscal charges	-	1,925,691	-	1,925,691
Bond issuance costs	-	233,265	-	233,265
Capital outlay	-	-	2,153,183	2,153,183
Total Expenditures	<u>32,591,960</u>	<u>6,693,956</u>	<u>4,952,887</u>	<u>44,238,803</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(173,275)</u>	<u>(3,675,119)</u>	<u>(1,040,384)</u>	<u>(4,888,778)</u>
Other Financing Sources (Uses):				
Refunding bond proceeds	-	9,080,000	-	9,080,000
Refunding bond premium	-	897,901	-	897,901
Payment to refunded bond escrow agent	-	(9,892,626)	-	(9,892,626)
Transfers in	651,733	3,184,448	1,119,750	4,955,931
Transfers out	<u>(1,167,416)</u>	<u>-</u>	<u>(282,805)</u>	<u>(1,450,221)</u>
Total Other Financing Sources (Uses)	<u>(515,683)</u>	<u>3,269,723</u>	<u>836,945</u>	<u>3,590,985</u>
Net Change in Fund Balances	<u>(688,958)</u>	<u>(405,396)</u>	<u>(203,439)</u>	<u>(1,297,793)</u>
Fund Balances - Beginning	<u>11,169,358</u>	<u>1,811,938</u>	<u>3,543,762</u>	<u>16,525,058</u>
Fund Balances - Ending	<u>\$ 10,480,400</u>	<u>\$ 1,406,542</u>	<u>\$ 3,340,323</u>	<u>\$ 15,227,265</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, 2016

Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Net change in fund balances - Total governmental funds	\$ (1,297,793)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(699,679)
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	348,323
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period and the donation of used assets.	807,412
The issuance of or acquisition of long-term debt (e.g. bonds, leases, notes) 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.	4,022,411
Current year pension expenditures are reported on the fiscal year basis in the funds, and as actuarially determined in the statement of activities.	(1,211,697)
Change in Net Position Of Governmental Activities	\$ <u><u>1,968,977</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, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:				
Taxes:				
Ad valorem	\$ 7,542,243	\$ 7,625,000	\$ 7,649,632	\$ 24,632
Sales	12,649,861	13,139,221	13,270,129	130,908
Franchise	2,466,089	2,351,090	2,382,981	31,891
Other	83,500	91,000	116,873	25,873
Total Taxes	<u>22,741,693</u>	<u>23,206,311</u>	<u>23,419,615</u>	<u>213,304</u>
Licenses and Permits:				
Building permits and inspections	180,000	180,000	189,317	9,317
Plumbing permits and inspections	14,000	22,621	19,627	(2,994)
Electric permits and inspections	20,000	21,164	24,227	3,063
Heat and vent permits	16,000	19,630	19,599	(31)
Other permits	63,700	67,127	65,205	(1,922)
Licenses	4,420	3,899	3,859	(40)
Total Licenses and Permits	<u>298,120</u>	<u>314,441</u>	<u>321,834</u>	<u>7,393</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	888,500	821,210	772,619	(48,591)
Red light fines	282,000	288,000	291,182	3,182
Parking fines	250	30	-	(30)
Total Fines and Forfeitures	<u>1,170,750</u>	<u>1,109,240</u>	<u>1,063,801</u>	<u>(45,439)</u>
Charges for Services:				
Emergency medical services	2,350,000	2,466,500	2,545,333	78,833
Emergency medical services - County	236,147	236,265	236,265	-
Mowing lots	-	-	998	998
False alarm fees	-	-	9,660	9,660
Other	70,500	36,234	21,647	(14,587)
Total Charges for Services	<u>2,656,647</u>	<u>2,738,999</u>	<u>2,813,903</u>	<u>74,904</u>
Investment earnings	<u>50,000</u>	<u>50,000</u>	<u>72,696</u>	<u>22,696</u>
Intergovernmental:				
Grant revenues	-	121,903	106,202	(15,701)
General and administrative services	4,139,771	4,139,771	4,139,771	-
Total Intergovernmental	<u>4,139,771</u>	<u>4,261,674</u>	<u>4,245,973</u>	<u>(15,701)</u>
Other Revenues:				
Parks	26,000	27,057	27,158	101
Library	27,000	23,175	22,674	(501)
Zoo admission fees	103,675	103,675	104,015	340
Animal shelter collects	86,550	69,318	78,270	8,952
Zone change fees	2,300	2,000	2,100	100
Rent on city property	25,260	45,475	44,044	(1,431)
Salvage and auction	-	31,530	75,559	44,029
Miscellaneous	173,000	55,802	118,571	62,769
Salary reimbursements	10,000	10,000	8,472	(1,528)
Total Other Revenue	<u>453,785</u>	<u>368,032</u>	<u>480,863</u>	<u>112,831</u>
Total Revenue	<u>31,510,766</u>	<u>32,048,697</u>	<u>32,418,685</u>	<u>369,988</u>

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Expenditures:				
Current:				
General Government:				
General:				
Payroll costs	131,122	133,858	132,580	1,278
Supplies	20,100	20,822	17,401	3,421
Miscellaneous services	92,915	92,315	73,794	18,521
Sundry charges	112,970	112,970	106,432	6,538
Total General	357,107	359,965	330,207	29,758
City Administration:				
Payroll costs	451,143	459,801	467,191	(7,390)
Supplies	16,060	15,060	11,172	3,888
Miscellaneous services	34,275	31,275	25,512	5,763
Sundry charges	500	500	-	500
Total City Administration	501,978	506,636	503,875	2,761
Finance:				
Payroll costs	545,758	547,682	554,498	(6,816)
Supplies	34,850	34,739	29,127	5,612
Maintenance	27,455	27,455	25,954	1,501
Miscellaneous services	151,875	154,140	144,891	9,249
Sundry charges	-	174	239	(65)
Total Finance	759,938	764,190	754,709	9,481
Legal:				
Payroll costs	235,517	237,744	239,261	(1,517)
Supplies	4,820	4,655	4,025	630
Miscellaneous services	50,605	50,770	27,650	23,120
Total Legal	290,942	293,169	270,936	22,233
Tax:				
Miscellaneous services	189,650	189,650	197,426	(7,776)
Total Tax	189,650	189,650	197,426	(7,776)
Human Resources:				
Payroll costs	312,607	334,986	339,944	(4,958)
Supplies	9,950	9,950	7,774	2,176
Miscellaneous services	49,115	46,895	45,197	1,698
Sundry charges	32,000	32,000	28,969	3,031
Total Human Resources	403,672	423,831	421,884	1,947
Building Services:				
Payroll costs	83,277	84,278	85,539	(1,261)
Supplies	24,100	23,100	20,404	2,696
Maintenance	72,500	66,500	54,834	11,666
Miscellaneous services	131,300	133,920	123,906	10,014
Total Building Services	311,177	307,798	284,683	23,115

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Information Technology:				
Payroll costs	590,194	595,564	606,295	(10,731)
Supplies	100,630	178,682	176,543	2,139
Maintenance	234,850	235,587	234,352	1,235
Miscellaneous services	151,010	145,010	128,187	16,823
Total Information Technology	1,076,684	1,154,843	1,145,377	9,466
Non-departmental:				
Payroll costs	444,911	5,000	298	4,702
Miscellaneous services	247,233	215,988	202,099	13,889
Total Non-departmental	692,144	220,988	202,397	18,591
Total General Government	4,583,292	4,221,070	4,111,494	109,576
Public Safety:				
Municipal Court:				
Payroll costs	399,588	399,865	400,937	(1,072)
Supplies	22,095	16,767	16,252	515
Maintenance	300	300	211	89
Miscellaneous services	73,510	76,313	67,194	9,119
Total Municipal Court	495,493	493,245	484,594	8,651
Police:				
Payroll costs	7,680,604	7,947,566	8,340,935	(393,369)
Supplies	479,730	580,080	499,944	80,136
Maintenance	150,085	156,870	133,698	23,172
Miscellaneous services	538,468	596,413	548,658	47,755
Sundry charges	1,000	1,000	-	1,000
Total Police	8,849,887	9,281,929	9,523,235	(241,306)
Fire:				
Payroll costs	6,625,843	6,754,991	7,090,419	(335,428)
Supplies	397,775	410,661	370,020	40,641
Maintenance	128,360	233,260	221,038	12,222
Miscellaneous services	411,675	384,814	368,062	16,752
Sundry charges	100	100	27	73
Capital outlay	-	15,000	13,187	1,813
Total Fire	7,563,753	7,798,826	8,062,753	(263,927)
Inspection:				
Payroll costs	467,933	473,715	480,423	(6,708)
Supplies	21,700	19,200	17,478	1,722
Maintenance	2,000	1,500	1,007	493
Miscellaneous services	51,827	50,152	44,456	5,696
Total Inspection	543,460	544,567	543,364	1,203
Emergency Management:				
Supplies	250	2,820	2,570	250
Miscellaneous services	49,300	47,070	42,672	4,398
Total Emergency Management	49,550	49,890	45,242	4,648
City Marshall:				
Payroll costs	-	-	533	(533)
Total City Marshall	-	-	533	(533)

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Animal Control:				
Payroll costs	501,014	512,885	537,078	(24,193)
Supplies	65,300	59,420	55,711	3,709
Maintenance	17,700	16,700	12,890	3,810
Miscellaneous services	124,760	119,760	107,584	12,176
Total Animal Control	708,774	708,765	713,263	(4,498)
Total Public Safety	18,210,917	18,877,222	19,372,984	(495,762)
Cultural and Recreation:				
Parks:				
Payroll costs	1,081,558	998,059	1,086,787	(88,728)
Supplies	123,761	100,171	84,112	16,059
Maintenance	104,300	179,990	173,707	6,283
Miscellaneous services	421,203	423,383	401,202	22,181
Sundry charges	80	80	-	80
Total Parks	1,730,902	1,701,683	1,745,808	(44,125)
Zoo:				
Payroll costs	1,197,573	1,225,434	1,167,602	57,832
Supplies	202,400	202,210	191,454	10,756
Maintenance	4,200	4,830	4,405	425
Miscellaneous services	197,957	189,522	157,697	31,825
Total Zoo	1,602,130	1,621,996	1,521,158	100,838
Library:				
Payroll costs	503,474	505,066	514,582	(9,516)
Supplies	23,500	22,200	17,759	4,441
Maintenance	37,100	35,600	31,492	4,108
Miscellaneous services	76,110	75,910	67,619	8,291
Total Library	640,184	638,776	631,452	7,324
Total Cultural and Recreation	3,973,216	3,962,455	3,898,418	64,037
Planning and Community Development:				
Main Street:				
Payroll costs	163,219	164,138	168,029	(3,891)
Supplies	3,995	4,703	3,565	1,138
Miscellaneous services	11,850	11,350	8,919	2,431
Total Main Street	179,064	180,191	180,513	(322)
Planning and Zoning:				
Payroll costs	214,082	212,723	218,834	(6,111)
Supplies	7,050	5,950	5,593	357
Maintenance	4,900	6,010	-	6,010
Miscellaneous services	20,390	18,775	14,920	3,855
Sundry charges	500	1,000	1,000	-
Total Planning and Zoning	246,922	244,458	240,347	4,111
Total Planning and Community Development	425,986	424,649	420,860	3,789

CITY OF LUFKIN, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Public Works:				
Engineering:				
Payroll costs	631,035	628,276	650,583	(22,307)
Supplies	15,905	13,103	11,506	1,597
Maintenance	19,950	19,700	17,809	1,891
Miscellaneous services	76,242	67,834	63,222	4,612
Capital outlay	-	10,460	10,460	-
Total Engineering	743,132	739,373	753,580	(14,207)
Street:				
Payroll costs	1,557,892	1,558,068	1,565,160	(7,092)
Supplies	221,330	195,140	173,718	21,422
Maintenance	1,049,500	1,372,655	973,779	398,876
Miscellaneous services	995,773	1,002,433	961,762	40,671
Capital outlay	-	4,400	4,400	-
Total Street	3,824,495	4,132,696	3,678,819	453,877
Fleet Services:				
Payroll costs	305,601	301,945	314,540	(12,595)
Supplies	22,900	21,510	20,186	1,324
Maintenance	7,350	19,600	18,254	1,346
Miscellaneous services	22,438	18,388	16,551	1,837
Sundry charges	-	-	(13,726)	13,726
Total Fleet Services	358,289	361,443	355,805	5,638
Total Public Works	4,925,916	5,233,512	4,788,204	445,308
Debt Service:				
Debt Payable:				
Principal	38,711	38,248	-	38,248
Interest	1,088	1,551	-	1,551
Total Debt Service	39,799	39,799	-	39,799
Total Expenditures	32,159,126	32,758,707	32,591,960	166,747
Excess (Deficiency) of Revenues Over (Under) Expenditure	(648,360)	(710,010)	(173,275)	536,735
Other Financing Sources (Uses):				
Transfer in	653,106	651,023	651,733	710
Transfer out	(217,500)	(1,097,416)	(1,167,416)	(70,000)
Total Other Financing Sources (Uses)	435,606	(446,393)	(515,683)	(69,290)
Net Change in Fund Balance	(212,754)	(1,156,403)	(688,958)	467,445
Fund Balance - Beginning	10,501,665	11,169,358	11,169,358	-
Fund Balance - Ending	\$ 10,288,911	\$ 10,012,955	\$ 10,480,400	\$ 467,445

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

CITY OF LUFKIN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2016

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERN- MENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 166,908	\$ 248,458	\$ 415,366	\$ 1,022,241
Investments	2,228,644	4,000,000	6,228,644	4,000,000
Restricted Assets:				
Cash and cash equivalents	294,396	-	294,396	-
Investments	1,000,000	-	1,000,000	-
Investments - customer deposits	271,356	-	271,356	-
Interest receivable	9,548	-	9,548	-
Accounts receivable (net of allowance for uncollectibles)	2,262,290	769,750	3,032,040	-
Interest receivable	19,660	31,338	50,998	37,048
Inventories	70,320	5,969	76,289	-
Total Current Assets	6,323,122	5,055,515	11,378,637	5,059,289
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	720,304	276,465	996,769	-
Investments	6,500,000	500,000	7,000,000	-
Intergovernmental receivables	104,420	-	104,420	-
Interest receivable	53,261	5,728	58,989	-
Total Restricted Noncurrent Assets	7,377,985	782,193	8,160,178	-
Capital Assets:				
Land	4,161,962	161,364	4,323,326	-
Water rights	3,971,336	-	3,971,336	-
Buildings	3,326,288	2,379,772	5,706,060	-
Machinery and equipment	15,828,960	1,258,133	17,087,093	5,471,135
Vehicles	542,950	865,393	1,408,343	8,805,433
Improvements	81,125,649	784,023	81,909,672	-
Construction in progress	4,311,792	-	4,311,792	-
Less accumulated depreciation	(48,175,293)	(2,865,058)	(51,040,351)	(7,913,564)
Total Capital Assets (Net of Accumulated Depreciation)	65,093,644	2,583,627	67,677,271	6,363,004
Total Noncurrent Assets	72,471,629	3,365,820	75,837,449	6,363,004
Total Assets	78,794,751	8,421,335	87,216,086	11,422,293
DEFERRED OUTFLOW				
Deferred pension outflow	951,621	419,732	1,371,353	-
Total Deferred Outflows	951,621	419,732	1,371,353	-
LIABILITIES				
Current Liabilities:				
Accounts/claims payable	104,846	117,997	222,843	447,196
Accrued compensated absences	90,518	34,975	125,493	-
Accrued liabilities	86,063	33,972	120,035	-
Due to other funds	-	-	-	241,998
Current Liabilities Payable from Restricted Assets:				
Accounts/claims payable	98,520	-	98,520	-
Customer deposits	271,356	-	271,356	-
Notes payable - Current maturities	7,130	-	7,130	-
Total Current Liabilities	658,433	186,944	845,377	689,194
Noncurrent Liabilities:				
Accrued compensated absences	158,436	34,631	193,067	-
Notes payable	14,977	-	14,977	-
Other post-employment benefits	267,039	117,194	384,233	-
Net pension obligation	2,499,556	1,356,001	3,855,557	-
Total Noncurrent Liabilities	2,940,008	1,507,826	4,447,834	-
Total Liabilities	3,598,441	1,694,770	5,293,211	689,194
DEFERRED INFLOWS				
Deferred pension inflow	68,789	41,456	110,245	-
Total Deferred Inflows	68,789	41,456	110,245	-
NET POSITION				
Invested in capital assets, net	65,071,537	2,583,627	67,655,164	6,363,004
Restricted for retirement of debt	1,303,944	-	1,303,944	--
Restricted for construction	1,974,682	-	1,974,682	-
Restricted for renewal and replacement	5,304,783	782,193	6,086,976	-
Unrestricted	2,424,196	3,739,021	6,163,217	4,370,095
Total Net Position	\$ 76,079,142	\$ 7,104,841	\$ 83,183,983	\$ 10,733,099

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

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERN- MENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Operating Revenues:				
Water sales	\$ 9,119,140	\$ -	\$ 9,119,140	\$ -
Sewer service charges	7,688,632	-	7,688,632	-
Sanitation collections	-	6,443,717	6,443,717	-
Provision for bad debts	(408,523)	(196,852)	(605,375)	-
Service revenue	291,882	-	291,882	-
General and administrative	119,803	-	119,803	-
Employee premiums	-	-	-	932,783
Employer premiums	-	-	-	3,499,396
Equipment rental	-	-	-	1,787,287
Miscellaneous	69,511	(10,948)	58,563	570,962
Total Operating Revenues	<u>16,880,445</u>	<u>6,235,917</u>	<u>23,116,362</u>	<u>6,790,428</u>
Operating Expenses:				
Utility collections	857,234	-	857,234	-
Water/Sewer utilities	3,313,745	-	3,313,745	-
Wastewater treatment plant	2,225,129	-	2,225,129	-
Water production	1,841,950	-	1,841,950	-
Sanitation department	-	3,707,470	3,707,470	-
Recycling department	-	474,902	474,902	-
Insurance claims and related expenses	-	-	-	5,070,798
Depreciation and amortization	2,374,591	108,663	2,483,254	1,696,733
General and administrative	2,385,669	1,858,875	4,244,544	-
Non-departmental	451,332	97,091	548,423	60,067
Total Operating Expenses	<u>13,449,650</u>	<u>6,247,001</u>	<u>19,696,651</u>	<u>6,827,598</u>
Operation Income (Loss)	<u>3,430,795</u>	<u>(11,084)</u>	<u>3,419,711</u>	<u>(37,170)</u>
Nonoperating Revenues (Expenses):				
Investment earnings	112,577	55,371	167,948	63,591
Interest expense	(749)	-	(749)	-
Gain (loss) on sale of assets	31,692	11,563	43,255	104,402
Total Nonoperation Revenues (Expenses)	<u>143,520</u>	<u>66,934</u>	<u>210,454</u>	<u>167,993</u>
Income (Loss) Before Contributions and Transfers	<u>3,574,315</u>	<u>55,850</u>	<u>3,630,165</u>	<u>130,823</u>
Capital contributions	104,420	-	104,420	-
Transfers in	2,290,012	-	2,290,012	217,500
Transfers out	(5,873,305)	(139,917)	(6,013,222)	-
Total Contributions and Transfers	<u>(3,478,873)</u>	<u>(139,917)</u>	<u>(3,618,790)</u>	<u>217,500</u>
Change in Net Position	<u>95,442</u>	<u>(84,067)</u>	<u>11,375</u>	<u>348,323</u>
Net Position - Beginning	75,983,700	7,188,908	83,172,608	10,623,483
Prior Period Adjustment	-	-	-	(238,707)
Net Position - Restated	<u>75,983,700</u>	<u>7,188,908</u>	<u>83,172,608</u>	<u>10,384,776</u>
Net Position - Ending	<u>\$ 76,079,142</u>	<u>\$ 7,104,841</u>	<u>\$ 83,183,983</u>	<u>\$ 10,733,099</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, 2016

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERN- MENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 17,088,347	\$ 6,361,950	\$ 23,450,297	\$ 1,503,745
Receipts from interfund services provided	119,803	-	119,803	5,286,683
Payments to suppliers	(4,311,523)	(1,693,001)	(6,004,524)	(5,050,214)
Payments to employees	(3,514,970)	(1,496,100)	(5,011,070)	-
Payments for interfund services used	(3,180,770)	(2,888,438)	(6,069,208)	-
Net Cash Provided (Used) by Operating Activities	6,200,887	284,411	6,485,298	1,740,214
Cash Flows from Noncapital Financing Activities:				
Transfer from other funds	2,290,012	-	2,290,012	217,500
Transfer to other funds	(5,873,305)	(139,917)	(6,013,222)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(3,583,293)	(139,917)	(3,723,210)	217,500
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(3,139,403)	(30,874)	(3,170,277)	(2,042,547)
Principal paid on capital debt	(6,950)	-	(6,950)	-
Interest and fees paid on capital debt	(749)	-	(749)	-
Proceeds from sale of capital assets	31,692	55,316	87,008	116,185
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,115,410)	24,442	(3,090,968)	(1,926,362)
Cash Flows from Investing Activities:				
Investment earnings received	54,016	25,159	79,175	27,582
Purchase of investments	(10,000,000)	(4,500,000)	(14,500,000)	(4,000,000)
Net Cash Provided (Used) by Investing Activities	(9,945,984)	(4,474,841)	(14,420,825)	(3,972,418)
Net Increase (Decrease) In Cash and Cash Equivalents	(10,443,800)	(4,305,905)	(14,749,705)	(3,941,066)
Cash and Cash Equivalents - Beginning	11,625,408	4,830,828	16,456,236	4,963,307
Cash and Cash Equivalents - Ending	\$ 1,181,608	\$ 524,923	\$ 1,706,531	\$ 1,022,241
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 3,430,795	\$ (11,084)	\$ 3,419,711	\$ (37,170)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and amortization	2,374,591	108,663	2,483,254	1,696,733
Decrease in accounts receivable - Net	324,726	124,627	449,353	-
(Increase) in inventories	(29,134)	(1)	(29,135)	-
(Increase) in deferred outflow	(646,112)	(239,459)	(885,571)	-
Increase in accounts/claims payable	83,418	41,749	125,167	80,651
Increase in accrued compensated absences	19,446	13,021	32,467	-
Increase in customer deposits	6,401	-	6,401	-
(Decrease) in accrued liabilities	(117,389)	(64,493)	(181,882)	-
(Decrease) in deferred inflow	(5,276)	(2,248)	(7,524)	-
Increase in other postemployment benefits	32,494	3,614	36,108	-
Increase in net pension obligation	726,927	310,022	1,036,949	-
Total Adjustments	2,770,092	295,495	3,065,587	1,777,384
Net Cash Provided (Used) by Operating Activities	\$ 6,200,887	\$ 284,411	\$ 6,485,298	\$ 1,740,214

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

The Lufkin Industrial Development Authority (Authority) was created by the Development Corporation Act of 1979 and the approval of the City Council and has been in operation since August 1979. The Authority was created to encourage industrial development in the City of Lufkin. As of September 30, 2016, there were no assets, liabilities, fund equities, revenues or expenditures of the Authority.

The Texas Housing Finance Corporation Act and the approval of the City Council created Lufkin Housing Finance Corporation. The Corporation was created to encourage safe, decent housing in the City. As of September 30, 2016 there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Housing Finance Corporation.

The Texas Health Facilities Development Act and the approval of the City Council created Lufkin Health Facilities Development Corporation. The Corporation's purpose is to encourage health care, research, and education and to assist with the maintenance of public health. As of September 30, 2016, there were no assets, liabilities, fund equity, revenues or expenditures of Lufkin Health Facilities Development Corporation.

During fiscal year 2004, the citizens of Lufkin voted to create a 4B Economic Development Corporation (EDC) effective October 1, 2004. The EDC is funded using one-eighth of one cent of the City's local sales tax rate of 1.5%. This equals 1/12 of the revenue from this revenue source. The City Council appoints the board members of the EDC. The City reports the EDC as a discretely presented component unit.

The Lufkin Convention and Visitors Bureau (LCVB) was formed in 2010 with the primary objective to create maximum hotel occupancy within the City through a marketing program aimed at attracting and securing overnight visitors who will spend money in the Lufkin area. The LCVB is funded with a portion of the City's local hotel/motel taxes restricted for the promotion of tourism. The City Council appoints the board members of the LCVB. The City reports the LCVB as a discretely presented component unit.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The government reports the following major governmental funds:

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following fund type:

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

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

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City agent bank approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair market value of an investment is significantly affected by the impairment of the credit standing of the issuer or by the factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The City, as well as the component units, is authorized to invest in U.S. Treasury securities maturing in less than two (2) years, short-term obligations of U.S. Government Agencies and Instrumentalities excluding principal only and interest only mortgage backed securities, fully insured and collateralized deposits at eligible depositories, repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement, money market mutual funds registered with and regulated by the Securities & Exchange Commission with a dollar-weighted average portfolio maturity of 90 days or less that invest dollar for dollar without sales commissions or loads and in an amount not to exceed 10% of the total assets of any individual money market mutual fund, and if authorized by the City Council and Board of Directors, eligible investment pools as defined by and in compliance with the Public Funds Investment Act that maintain a rating of at least AAA or AAAM and whose investment philosophy and strategy seek to maintain a stable net asset value of \$1.00.

The City invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board member review the investment policy and management fee structure. TexPool is rated AAAM by Standard and Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the fair value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

TexStar is also a government investment pool. The pool is administered by J P Morgan Chase and First Southwest Asset Management, Inc. TexStar operates in a manner consistent with the Public Funds Investment Act and portions of the SEC's Rule 2a-7 of the Investment Company Act of 1940. Accordingly, it seeks to maintain a stable net asset value of \$1.00 per share. All investments are at amortized cost, which usually approximates the fair value of the securities.

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

2. Receivables and Payables

The City believes that additional details of certain receivable and payable balances in the financial statements are needed to avoid the obscuring of significant components by aggregation. Therefore, disclosures are provided to disaggregate significant balances in detail notes on all funds (C).

There are no significant receivables which are not scheduled for collection within one year of year end.

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The trade accounts receivable allowance for uncollectibles is based on an aging of past due accounts and historical collections. The property tax receivable allowance is equal to 69% and 74% of outstanding taxes at September 30, 2016, for the General Fund and Debt Service Fund, respectively.

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

The City is permitted by the City Charter (Article VI, Section 1) to levy taxes up to \$1.75 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2016, was .529942 per \$100 of assessed valuation. The adjusted total tax levy for fiscal year 2016 was \$10,551,727 and \$10,307,189 was collected for a current collection rate of 98%.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Inventories and Prepaid Items

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

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

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial, individual cost greater than or equal to \$5,000 for tangible personal property, \$50,000 for infrastructure and \$10,000 for improvements to buildings, machinery and equipment, and vehicles. Improvements to buildings must extend the useful life by ten years or be greater than ten percent of the original cost of the asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

ASSETS	YEARS
Buildings, improvements and fixed equipment	20-50
Vehicles and equipment	5-20

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary fund Statements of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

For the year ended September 30, 2016, the City has items that qualify for reporting as deferred outflows of resources and deferred inflows of resources. The City reports the deferred outflows related to deferred loss on refundings and the TMRS and Fireman's Retirement Fund inflows related to the TMRS and Fireman's retirement fund net pension obligation on the government-wide and proprietary fund statements of net position. Those items are detailed in detail notes on all funds (H) and (I). On the governmental funds balance sheet, unavailable revenue is reported as deferred inflows of resources. Those items are detailed in detail notes on all funds (I).

7. Compensated Absences

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

8. Long-Term Obligations

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal balances" line of the government-wide statement of net position.

10. Fund Balances

As of September 30, 2016 fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

	GENERAL FUND	DEBT SERVICE FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable:				
Inventories	\$ 211,768	\$ -	\$ -	\$ 211,768
Prepaid items	2,324	-	-	2,324
Restricted:				
Public safety	-	-	87,337	87,337
Debt service	-	1,406,542	-	1,406,542
Capital projects	-	-	639,147	639,147
Other purposes	-	-	129,775	129,775
Committed:				
Financial operations	8,147,990	-	-	8,147,990
Capital projects	-	-	979,750	979,750
Other purposes	-	-	49,156	49,156
Assigned:				
2017 budget deficit	428,146	-	-	428,146
Other purposes	-	-	1,455,158	1,455,158
Unassigned	1,690,172	-	-	1,690,172
Total Fund Balances	<u>\$ 10,480,400</u>	<u>\$ 1,406,542</u>	<u>\$ 3,340,323</u>	<u>\$ 15,227,265</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or the finance committee has provided otherwise in its commitment or assignment actions.

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

At September 30, the City of Lufkin has accumulated the following amounts in support of these policies:

FUND	POLICY AMOUNT	FUND TOTAL
Governmental Funds:		
General Fund - 25%	\$ 8,147,990	\$ 10,480,400
Hotel/Motel Tax Fund - 12.5%	147,439	(15,584)
Recreation Fund - 12.5%	43,473	92,769
Total Policy Reserves and Fund Balances	<u>\$ 8,338,902</u>	<u>\$ 10,557,585</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Net Position and Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

13. Statement of Cash Flows

For the purpose of the statement of cash flows, the enterprise funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and the Firemen's Relief and Retirement Fund of Lufkin, Texas and additions to/deductions from both plans' fiduciary net position have been determined on the same basis as they are reported by TMRS and the Fireman's Relief and Retirement Fund of Lufkin, Texas. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The governmental funds balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of the \$62,691,600 distinction are as follows:

Bonds payable	\$ 56,600,000
Bond premiums	1,653,315
Deferred loss on refundings	(1,282,354)
Accrued interest payable	227,410
Compensated absences	4,173,845
Other postemployment benefits	<u>1,319,384</u>
Net Adjustment to Reduce Fund Balance - Total	
Governmental Funds to Arrive at Net Position -	
Governmental Activities	<u>\$ 62,691,600</u>

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the \$807,412 difference are as follows:

Capital outlay	\$ 2,688,638
Depreciation expense	<u>(1,881,226)</u>
Net Adjustment to Increase Net Changes in Fund	
Balances - Total Governmental Funds to Arrive	
at Changes in Net Position of Governmental	
Activities	<u>\$ 807,412</u>

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - CONTINUED

Another element of that reconciliation explains that "Current year pension expenditures are reported on the fiscal year basis in the funds, but as actuarially determined in the statement of activities." The details of the \$1,211,697 difference are as follows:

Fiscal year 2016 contributions before December 31, 2015	\$ 783,992
Fiscal year 2016 contributions after December 31, 2015	2,390,297
Amortization of deferred outflows and inflows of resources	(1,868,710)
Recognition of pension plan expense	<u>(2,517,276)</u>
Net Adjustment to Decrease Fund Balance - Total	
Governmental Funds to Arrive at Net Position -	
Governmental Activities	<u>\$ (1,211,697)</u>

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Accounting

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

B. Excess Expenditures over Appropriations in Individual Departments

Total expenditures did not exceed the budget in the General Fund, however, certain departments exceeded their appropriations as follows:

Department	Amount
Tax	\$ (7,776)
Police	(241,306)
Fire	(263,927)
City Marshall	(533)
Animal Control	(4,498)
Parks	(44,125)
Main Street	(322)
Engineering	(14,207)

C. Deficit Fund Balance or Fund Net Position of Individual Funds

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

FUND NAME	DEFICIT AMOUNT	REMARKS
Hotel/Motel Tax Fund	\$ 15,584	Additional expenditures for the Exposition Center and Lufkin Convention and Visitors Bureau.
Pines Theater Special Events Fund	14,887	Less revenue than anticipated.
Insurance Loss Fund	43,613	Insurance costs were higher than planned for the year.
Fire Grants Fund	407	Preliminary unreimbursed grant expenditures.

D. Compliance with Debt Ordinances

Debt ordinances on all general obligation bonds require that income from tax revenues be segregated and deposited into the Debt Service Fund annually. The amount required is the next anticipated bond interest and principal payment, but such annual deposits shall never be less than 2% of the original bond principal. The City satisfactorily complied with the bond ordinance requirements during the year ended September 30, 2016 and had restricted debt service funds of \$1,406,542 at year end.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS

A. Deposits and Investments

1. Primary Government

At September 30, 2016, the City's carrying amount for cash deposits including certificates of deposit was \$36,552,135 and the bank balance was \$37,600,436. The City's deposits were entirely insured or collateralized with securities held by the pledging financial institution's agent bank in the City's name and letters of credit.

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2016, the City invested in certificates of deposit, money market accounts, external investment pools and land and improvements. The value for TexPool and TexStar at September 30, 2016 was obtained from TexPool and TexStar.

The City's investments at September 30, 2016 consisted of the following:

<u>INVESTMENT TYPE</u>	<u>AMOUNT</u>	<u>FAIR VALUE</u>	<u>MATURITY</u>	<u>CREDIT RATINGS</u>
Certificates of deposit - Non-Negotiable	\$ 28,988,501	\$ 28,988,501	11/16 - 9/18	
Cash Equivalents - Investment Pools:				
TexPool	2,332,498	2,332,498	44 days	AAAm
TexStar	139,474	139,474	41 days	AAAm
Total Investments	<u>\$ 31,460,473</u>	<u>\$ 31,460,473</u>		

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS – CONTINUED

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

Custodial Credit Risk: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. All deposits of the City of Lufkin shall be secured by pledged collateral with a market value equal to or greater than 102% of the deposits, less any amount insured by the FDIC. Collateral pledged by City depositories is held by an independent third-party custodian with pledge and release of collateral securities at the discretion of the City. Collateral securities market value is reviewed at least monthly to ensure it equals or exceeds the related City of Lufkin deposit.

Concentration of Credit Risk: The risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5% of the City's investments are in TexPool (6%).

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

2. Component Units

Economic Development Corporation (EDC)

The EDC is authorized to invest in U.S. Treasury securities maturing in less than two (2) years, short-term obligations of U.S. Government Agencies and Instrumentalities excluding principal only and interest only mortgage backed securities, fully insured and collateralized deposits at eligible depositories, repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement, money market mutual funds registered with and regulated by the Securities & Exchange Commission with a dollar-weighted average portfolio maturity of 90 days or less that invest dollar for dollar without sales commissions or loads and in an amount not to exceed 10% of the total assets of any individual money market mutual fund, and if authorized by the EDC's Board of Directors, eligible investment pools as defined by and in compliance with the Public Funds Investment Act that maintain a rating of at least AAA or AAAM and whose investment philosophy and strategy seek to maintain a stable net asset value of \$1.00. The EDC is also authorized to invest in land and improvements for economic development.

The EDC's investments at September 30, 2016 consisted of the following:

INVESTMENT TYPE	AMOUNT	FAIR VALUE	MATURITY	CREDIT RATINGS
Certificates of deposit -				
Non-Negotiable	\$ 3,000,000	\$ 3,000,000	11/16 – 9/18	
Land and improvements	4,282,792	4,282,792		
Cash Equivalents -				
Investment Pools:				
TexPool	50,558	50,558	44 days	AAAM
TexStar	3,023	3,023	41 days	AAAM
Total Investments	<u>\$ 7,336,373</u>	<u>\$ 7,336,373</u>		

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

The Economic Development Corporation has land and improvements held for economic development incentives with a fair value measurement of \$4,282,792, categorized as Level 2 (inputs that are observable for the asset-either directly or indirectly) of the fair value hierarchy.

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value. The EDC concentrates its investments on short-term investments in order to limit market risk caused by changes in interest rates. The maximum allowed maturity of an investment by the EDC is two years.

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The EDC's depository fully collateralizes the EDC's deposits as outlined above.

Lufkin Convention & Visitor Bureau (LCVB)

The LCVB is authorized to invest in U.S. Treasury securities maturing in less than two (2) years, short-term obligations of U.S. Government Agencies and Instrumentalities excluding principal only and interest only mortgage backed securities, fully insured and collateralized deposits at eligible depositories, repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities in accordance with a master repurchase agreement, money market mutual funds registered with and regulated by the Securities & Exchange Commission with a dollar-weighted average portfolio maturity of 90 days or less that invest dollar for dollar without sales commissions or loads and in an amount not to exceed 10% of the total assets of any individual money market mutual fund, and if authorized by the LCVB's Board of Directors, eligible investment pools as defined by and in compliance with the Public Funds Investment Act that maintain a rating of at least AAA or AAAM and whose investment philosophy and strategy seek to maintain a stable net asset value of \$1.00.

The LCVB's investments at September 30, 2016 consisted of the following:

INVESTMENT TYPE	AMOUNT	FAIR VALUE	MATURITY	CREDIT RATINGS
Cash Equivalents -				
Investment Pools:				
TexPool	86,120	86,120	44 days	AAAm
TexStar	5,150	5,150	41 days	AAAm
Total Investments	\$ 91,270	\$ 91,270		

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value. The LCVB concentrates its investments on short-term investments in order to limit market risk caused by changes in interest rates. The maximum allowed maturity of an investment by the LCVB is two years.

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The LCVB's depository fully collateralizes the LCVB's deposits as outlined above.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

B. Receivables

Receivables as of September 30, 2016 for the government's individual major funds, and nonmajor and internal service funds in the aggregate, including the related allowances for uncollectible accounts are as follows:

	GENERAL FUND	DEBT SERVICE FUND	WATER AND SEWER FUND	SOLID WASTE DISPOSAL FUND	NONMAJOR AND INTERNAL SERVICE FUNDS	TOTAL
Receivables:						
Taxes	\$ 562,928	\$ 262,850	\$ -	\$ -	\$ -	\$ 825,778
Accounts	11,691,660	-	2,905,686	938,814	163,936	15,700,096
Other	88,942	10,375	82,469	37,066	295,030	513,882
Intergovernmental	1,098,312	-	104,420	-	337,696	1,540,428
Less allowance for uncollectibles	(10,437,188)	(193,287)	(643,396)	(169,064)	(139,575)	(11,582,510)
	<u>\$ 3,004,654</u>	<u>\$ 79,938</u>	<u>\$ 2,449,179</u>	<u>\$ 806,816</u>	<u>\$ 657,087</u>	<u>\$ 6,997,674</u>

Receivables as of September 30, 2016 for the City's component units, including the related allowances for uncollectible accounts are as follows:

	EDC	LCVB	TOTAL
Receivables:			
Notes	\$ 2,051,855	\$ -	\$ 2,051,855
Taxes	96,859	98,182	195,041
Other	28,217	1,944	30,161
Less allowance for uncollectibles	-	-	-
	<u>\$ 2,176,931</u>	<u>\$ 100,126</u>	<u>\$ 2,277,057</u>

C. Interfund Receivables, Payables and Transfers

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

Due from and to other funds at September 30, 2016 consisted of the following:

DUE FROM	DUE TO	AMOUNT	PURPOSE
General Fund	Special Revenue Funds: Hotel/Motel Funds	\$ 79,887	Short-term advances
	Internal Service Funds: Pines Theater Special		
General Fund	Events Fund	12,456	Short-term advances
General Fund	Insurance Loss Fund	43,429	Short-term advances
General Fund	Fire Grant Fund	407	Short-term advances
General Fund	Health Insurance Fund	241,998	Short-term advances
	Capital Projects Fund: 2010 Capital		
General Fund	Improvement Fund	212,513	Short-term advances
		<u>\$ 590,690</u>	

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

Transfers at September 30, 2016 consisted of the following:

TRANSFER OUT	TRANSFER IN					TOTAL
	GENERAL FUND	DEBT SERVICE FUND	NONMAJOR GOVERNMENTAL FUNDS	INTERNAL SERVICE FUND	WATER AND SEWER UTILITY FUND	
General Fund	\$ -	\$ -	\$ 949,916	\$ 217,500	\$ -	\$ 1,167,416
Nonmajor Governmental	282,805	-	-	-	-	282,805
Water and Sewer Utility Fund	368,928	3,129,448	84,917	-	2,290,012	5,873,305
Solid Waste Disposal Fund	-	55,000	84,917	-	-	139,917
TOTAL	\$ 651,733	\$ 3,184,448	\$ 1,119,750	\$ 217,500	\$ 2,290,012	\$ 7,463,443

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

D. Restricted Assets

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

	BOND RESERVE	CON-STRUCTION	RENEWAL AND REPLACEMENT	OPERATIONS	TOTAL
Cash and cash equivalents	\$ 294,396	\$ 525,580	\$ 471,189	\$ -	\$ 1,291,165
Investments	1,000,000	1,500,000	5,500,000	-	8,000,000
Customer deposits	-	-	-	271,356	271,356
Intergovernmental receivables	-	-	104,420	-	104,420
Interest receivable	9,548	14,942	44,047	-	68,537
Total Restricted Assets	\$ 1,303,944	\$ 2,040,522	\$ 6,119,656	\$ 271,356	\$ 9,735,478

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

E. Capital Assets

1. Water Rights in Sam Rayburn Reservoir

In order to secure a firm supply of 28,000 acre-feet of water annually from the Sam Rayburn Reservoir for municipal and industrial use, the City entered into a contract with the Lower Neches Valley Authority. Under the terms of the contract, the City agreed to pay the Authority \$16,189 annually for a period of forty-six years beginning December 1, 1968, whether or not the City withdraws any amounts of water from the Sam Rayburn Reservoir. The City did not withdraw any water during the year ended September 30, 2016.

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

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

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

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

Capitalized payments for water supply	\$ 858,922
Capitalized Contract for Water Rights:	
50 year contract	220,000
40 year contract	305,600
Water Rights in Sam Rayburn Reservoir	<u>\$ 1,384,522</u>

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

2. Water Rights in Kurth Lake and Groundwater

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

3. Infrastructure Capital Assets

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

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

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

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	PRIOR PERIOD ADJUSTMENT	INCREASES	DECREASES	ENDING BALANCE
Capital Assets Not Being Depreciated:					
Land	\$ 4,451,060	\$ -	\$ -	\$ -	\$ 4,451,060
Infrastructure	67,535,409	(447,612)	754,321	(154,469)	67,687,649
Works of art	278,500	-	-	-	278,500
Construction in progress	861,087	(212,941)	2,688,638	(1,153,756)	2,183,028
Total Capital Assets Not Being Depreciated	73,126,056	(660,553)	3,442,959	(1,308,225)	74,600,237
Capital Assets Being Depreciated:					
Buildings	22,485,451	-	-	-	22,485,451
Improvements other than buildings	20,641,151	40,281	244,627	-	20,926,059
Machinery and equipment	15,695,253	5,883	1,240,324	(332,537)	16,608,923
Vehicles	12,541,359	(32,499)	957,029	(696,035)	12,769,854
Total Capital Assets Being Depreciated	71,363,214	13,665	2,441,980	(1,028,572)	72,790,287
Less Accumulated Depreciation for:					
Buildings	(7,252,422)	435	(456,734)	-	(7,708,721)
Improvements other than buildings	(6,743,273)	1,500	(658,437)	-	(7,400,210)
Machinery and equipment	(10,049,592)	(206,756)	(1,016,935)	332,537	(10,940,746)
Vehicles	(7,545,100)	(14,182)	(1,291,382)	684,252	(8,166,412)
Total Accumulated Depreciation	(31,590,387)	(219,003)	(3,423,488)	1,016,789	(34,216,089)
Total Capital Assets, Being Depreciated, Net	39,772,827	(205,338)	(981,508)	(11,783)	38,574,198
Governmental Activities Capital Assets, Net	\$ 112,898,883	\$ (865,891)	\$ 2,461,451	\$ (1,320,008)	113,174,435
Governmental activities, capital related debt					(56,600,000)
Governmental Activities, Net Investments in Capital Assets					\$ 56,574,435

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets Not Being Depreciated:				
Land	\$ 4,323,326	\$ -	\$ -	\$ 4,323,326
Water rights	3,957,457	13,879	-	3,971,336
Construction in progress	3,649,400	3,172,888	(2,510,496)	4,311,792
Total Capital Assets Not Being Depreciated	11,930,183	3,186,767	(2,510,496)	12,606,454
Capital Assets Being Depreciated:				
Buildings	5,638,560	67,500	-	5,706,060
Improvements other than buildings	80,308,335	1,601,337	-	81,909,672
Machinery and equipment	16,433,181	792,680	(138,768)	17,087,093
Vehicles	1,594,913	32,489	(219,059)	1,408,343
Total Capital Assets Being Depreciated	103,974,989	2,494,006	(357,827)	106,111,168
Less Accumulated Depreciation for:				
Buildings	(2,536,016)	(124,950)	-	(2,660,966)
Improvements other than buildings	(31,060,167)	(1,807,088)	-	(32,867,255)
Machinery and equipment	(13,687,485)	(525,917)	95,015	(14,118,387)
Vehicles	(1,587,503)	(25,299)	219,059	(1,393,743)
Total Accumulated Depreciation	(48,871,171)	(2,483,254)	314,074	(51,040,351)
Total Capital Assets, Being Depreciated, Net	55,103,818	10,752	(43,753)	55,070,817
Business-Type Activities Capital Assets, Net	\$ 67,034,001	\$ 3,197,519	\$ (2,554,249)	67,677,271
Business-type activities, capital related debt				(22,107)
Business-Type Activities, Net Investment in Capital Assets				\$ 67,655,164

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

	TOTAL
Governmental Activities:	
General government	\$ 248,182
Public safety	586,110
Cultural and recreation	487,185
Public works	405,278
Capital assets held by the government's internal service funds are charged to activities based on their equipment rental	1,696,733
Total Governmental Activities	\$ 3,423,488
Business-Type Activities:	
Water and sewer	\$ 2,374,591
Solid waste disposal	108,663
Total Business-Type Activities	\$ 2,483,254

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

4. Construction and Other Commitments

The government has active construction and maintenance projects as of September 30, 2016. The projects include utility construction in areas with newly developed housing, widening and construction of existing streets, the replacement of asbestos and old water lines, and various culture and recreation improvements. At year end the government's commitments with contractors are as follows:

PROJECT	EXPENDED TO DATE	REMAINING COMMITMENT	FUNDING SOURCE
City Hall renovation & security upgrade	\$ 66,211	\$ 733,271	Street Construction Fund
Façade Project	12,409	37,591	Convention Center Fund
2012 TxDOT Sidewalk Project	1,156,533	62,467	TxDOT grant
Police Department parking lot	-	26,980	2010 Capital Improvements Fund
Brandon Park restrooms	-	47,000	2012 Capital Improvements Fund
Skate park at Kiwanis Park	-	175,000	2012 Capital Improvements Fund
Knight Avenue drainage	13,849	106,151	2012 Capital Improvements Fund
Kurth Lake boat ramp and dam	-	46,200	2009 Certificate of Obligation Fund
Leach Street improvements	-	275,000	2013 Certificate of Obligation Fund
Water line - Hwy 103E to Hwy 59S	1,117,271	102,463	2013 Certificate of Obligation Fund
Kit McConnico I & I projects	164,747	1,395,253	2013 Certificate of Obligation Fund
Water plant #3	1,756,910	1,600	2013 Certificate of Obligation Fund
Central I & I Project	-	250,000	2013 Certificate of Obligation Fund
Water line upgrade	139,853	3,147	Water/Wastewater Depreciation Fund
Water plant #3	312,105	29,385	Water/Wastewater Depreciation Fund
Yard Piping to water plant	2,206	8,794	Water/Wastewater Depreciation Fund
Paint GS Tank #5	36,201	413,799	Water/Wastewater Depreciation Fund
PLC Upgrade AP & Abitibi	34,696	304	Water/Wastewater Depreciation Fund
Rehab 1 Well at Abitibi	19,849	80,151	Water/Wastewater Depreciation Fund
Water plant road resurface	18,736	14,264	Water/Wastewater Depreciation Fund
Pineywoods Academy sewer line	-	20,000	Water/Wastewater Depreciation Fund
Lift St. repair FM 1194	12,923	17,077	Water/Wastewater Depreciation Fund
Total	\$ 4,864,499	\$ 3,845,897	

F. Current Liabilities

1. Accounts/Claims Payable and Accrued Liabilities

Accounts/claims payable in the governmental activities is composed of amounts due vendors of \$1,075,963 and retainage of \$53,682. The governmental accrued liabilities are composed of accrued salaries and benefits of \$211,741 and other accrued liabilities of \$553,126. The business-type activities accounts/claims payable are composed of amounts due vendors, \$222,843. The business-type activities payable from restricted assets included accounts/claims payable of \$98,520 for retainage. The business-type accrued liabilities are composed of accrued salaries and benefits of \$35,253 and other accrued liabilities of \$84,782.

2. Compensated Absences

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

G. Long-term Debt

1. General Obligation Bonds Payable

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

\$1,740,000 Series 2007 General Obligation Bonds due in annual installments of \$55,000 to \$125,000 from August 15, 2008 through August 15, 2027; interest at 4.15% to 5.125%.	\$ 85,000
\$5,870,000 Series 2007 Tax and Waterworks and Sewer System Revenue Certificates of Obligations due in annual installments of \$150,000 to \$280,000 from August 15, 2008 through August 15, 2027; interest at 4.125% to 4.50%.	190,000
\$17,400,000 Series 2009 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation due in annual installments of \$600,000 to \$1,100,000 from February 15, 2013 through February 15, 2034; interest at 2.50% to 5.00%.	7,695,000
\$9,145,000 Series 2010 Tax and Waterworks and Sewer System Revenue Certificates of Obligation due in annual installments of \$305,000 to \$650,000 from August 15, 2012 through August 15, 2031; interest 15 2.00% to 4.00%.	5,975,000
\$12,130,000 Series 2010 General Obligation Refunding bonds due in annual installments of \$610,000 to \$1,340,000 from August 15, 2011 to August 15, 2021; interest at 2.00% to 4.00%.	7,495,000
\$9,680,000 Series 2011 General Obligation Refunding bonds due in annual installments of \$195,000 to \$1,125,000 from August 15, 2012 to August 15, 2024; interest at 2.00% to 2.50%.	5,995,000
\$7,100,000 Series 2012 Water and Sewer Certificates of Obligation due in annual installments of \$300,000 to \$425,000 from August 15, 2013 to August 15, 2034; interest at 1.00% to 2.25%.	6,200,000
\$5,100,000 Series 2013 Tax and Waterworks and Sewer System Revenue Certificates of Obligation due in annual installments of \$200,000 to \$335,000 from August 15, 2014 to August 15, 2033; interest at 2.50% to 2.75%.	4,460,000
\$5,350,000 Series 2014 General Obligation Refunding bonds due in annual installments of \$405,000 to \$580,000 from August 15, 2015 to August 15, 2025; interest at 2.00% to 3.00%.	4,525,000
\$4,900,000 Series 2015 General Obligation Refunding bonds due in annual installments of \$440,000 to \$650,000 from August 15, 2015 to August 15, 2027; interest at 2.00% to 4.00%.	4,900,000
\$9,080,000 Series 2016 General Obligation Refunding Bonds due in annual installments of \$50,000 to \$1,105,000 from February 15, 2017 through August 15, 2034; interest at 3.00% to 5.00%.	9,080,000
	\$ <u>56,600,000</u>

The City expended \$1,916,341 for interest on general obligation bonds for the year ended September 30.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

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

YEAR ENDING SEPTEMBER 30,	GOVERNMENTAL ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
2017	\$ 4,685,000	\$ 1,802,834	\$ 6,487,834
2018	5,020,000	1,657,083	6,677,083
2019	5,210,000	1,509,671	6,719,671
2020	5,345,000	1,352,745	6,697,745
2021	4,850,000	1,183,646	6,033,646
2022-2026	16,125,000	3,920,599	20,045,599
2027-2031	11,545,000	1,546,294	13,091,294
2032-2034	3,820,000	168,219	3,988,219
TOTAL	\$ 56,600,000	\$ 13,141,091	\$ 69,741,091

2. Notes Payable

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

YEAR ENDING SEPTEMBER 30,	BUSINESS-TYPE ACTIVITIES			COMPONENT UNITS		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2017	\$ 7,130	\$ 569	\$ 7,699	\$ 146,339	\$ 32,735	\$ 179,074
2018	7,315	384	7,699	151,870	27,204	179,074
2019	7,662	194	7,856	157,232	21,842	179,074
2020	-	-	-	162,782	16,292	179,074
2021	-	-	-	168,530	10,544	179,074
2022	-	-	-	174,479	4,595	179,074
TOTAL	\$ 22,107	\$ 1,147	\$ 23,254	\$ 961,232	\$ 113,212	\$ 1,074,444

The City has acquired storage space in Sam Rayburn Reservoir by issuing notes payable. The space purchased is pledged as collateral for the notes payable. The amount of the notes payable for storage space at September 30, 2016 was \$22,107.

The City expended \$749 for interest on notes payable for business-type activities for the year ended September 30, 2016.

The Economic Development Corporation (Component Unit) has entered into financing agreements with an industry. As a part of the agreement, the Economic Development Corporation has acquired notes for the improvements for this industry. The amount of the notes payable at September 30, 2016 was \$961,232.

The City expended \$37,025 for interest on notes payable for the component units for the year ended September 30, 2016.

3. Change in Long-term Liabilities

Primary Government

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	PRIOR PERIOD ADJUSTMENTS	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds Payable:						
General obligation bonds	\$ 61,465,000	\$ (445,000)	\$ 9,080,000	\$ (13,500,000)	\$ 56,600,000	\$ 4,685,000
Bond premiums	820,609	-	897,901	(65,195)	1,653,315	115,079
Compensated absences	2,580,420	1,215,228	378,197	-	4,173,845	1,275,688
Other postemployment benefits	-	1,205,149	114,235	-	1,319,384	-
Total	\$ 64,866,029	\$ 1,975,377	\$ 10,470,333	\$ (13,565,195)	\$ 63,746,544	\$ 6,075,767

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Notes payable	\$ 29,057	\$ -	\$ (6,950)	\$ 22,107	\$ 7,130
Compensated absences	286,093	32,467	-	318,560	125,493
Other postemployment benefits	348,125	36,108	-	384,233	-
Total	\$ 663,275	\$ 68,575	\$ (6,950)	\$ 724,900	\$ 132,623

Component Units

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Notes payable	\$ 1,103,273	\$ -	\$ (142,041)	\$ 961,232	\$ 146,339
Compensated absences	10,326	-	(301)	10,025	-
Other postemployment benefits	13,144	1,634	-	14,778	-
Total	\$ 1,126,743	\$ 1,634	\$ (142,342)	\$ 986,035	\$ 146,339

4. Advance Refundings

During the year, The City contributed \$151,591 and issued \$9,080,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payment on the refunded bonds. The net proceeds of \$9,892,626 (after issuance costs of \$236,866, plus premium of \$897,901) were used to advance refund the General Obligation Refunding Bonds Series 2006 of \$1,840,000 and the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2009 of \$7,125,000 with a total principal amount of \$8,965,000. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

This advance refunding was undertaken to reduce total debt service payments over the years by \$1,818,463 and resulted in an economic gain of \$1,466,431.

5. Defeased Debt

Defeased debt at September 30, 2016 was \$3,545,000 related to the 2015 advance refunding and \$7,125,000 related to the 2016 advance refunding for a total defeased debt of \$10,670,000.

6. Debt Issuance Costs

In accordance with Statement No. 65 of the Governmental Accounting Standards Board, debt issuance costs, except for any portion related to prepaid issuance costs, should be recognized as an expense in the period incurred.

7. Deferred Loss on Refundings

For current and advance refundings, resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as deferred outflow of resources and reported as a component of interest expense in a systematic and rational manner over the shorter of the remaining life of the old debt or the life of the new debt.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

H. Deferred Outflows of Resources

Deferred outflows of resources at September 30, 2016 consisted of the following:

	<u>AMOUNT</u>
Governmental Activities:	
Deferred loss on refundings - net	\$ 1,282,354
Deferred pension outflows	<u>8,168,280</u>
Total	<u>\$ 9,450,634</u>
Business-Type Activities:	
Deferred pension outflows	\$ <u>1,371,353</u>
Total	<u>\$ 1,371,353</u>

I. Deferred Inflows of Resources

Deferred inflows of resources at September 30, 2016 consisted of the following:

	<u>AMOUNT</u>
Governmental Activities:	
Deferred pension inflows	\$ <u>440,853</u>
Total	<u>\$ 440,853</u>
Business-Type Activities:	
Deferred pension inflows	\$ <u>110,245</u>
Total	<u>\$ 110,245</u>
Governmental Funds:	
Unavailable ad valorem taxes	\$ 244,542
Unavailable fines and forfeitures	702,130
Unavailable EMS/Ambulance charges	883,964
Unavailable miscellaneous billings	69,063
Unavailable interest income	<u>107,280</u>
Total	<u>\$ 2,006,979</u>

DETAIL NOTES ON ALL FUNDS - CONTINUED

J. Other Information

1. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases workers' compensation insurance coverage from Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustaining through member contributions. The Fund reinsures through commercial companies for claims in excess of \$1,000,000 per occurrence. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. The City pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the City is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. The members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premiums. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to cover its liabilities. The Fund was solvent as of the most recent audited financial statements.

The City maintains insurance coverage covering liability and property risks of loss with Texas Municipal League Intergovernmental Risk Pool, a self-insurance pool created by its members to provide various coverages to participating members. Excess insurance is purchased to provide additional financial stability to the Pool. Catastrophic losses that exceed the Pool's self-insured retention are secured by excess insurance purchased from domestic A-rated companies. The Pool's retention is \$10,000,000 per occurrence in excess of member deductibles for property and auto physical damage insurance and \$3,000,000 per occurrence for liability insurance. City management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims did not exceed the coverage during each of the past three fiscal years.

The City has entered into agreements with outside firms to administer its employee health benefit plan for twelve (12) month periods. Under the terms of the agreement, the administrator (1) reviews claims for benefits under the plan and determines whether they have been properly filed and determines the amount, if any, which is due and payable with respect thereto, (2) on behalf of the City, disburses claim payments that it determines to be due in accordance with the provisions of the plan to the eligible individual or assignee of such eligible individual entitled thereto, and (3) takes all reasonable steps to process claims and disburse claim payments expeditiously.

The Plan provides coverage of up to \$125,000 for each individual. The City has reinsurance agreements for the plan years. Such agreements generally provide for a stop loss per individual. At September 30, 2016, the individual stop loss amount was \$125,000.

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

The City accounts for the transactions of the plan in the Group Health Insurance Fund, an Internal Service Fund. At September 30, 2016, the City had recorded a liability of \$447,196 for claims incurred but not paid at that date. This liability was based on an estimate of claims incurred but not reported provided by the outside claims administrator.

FOR THE YEAR ENDED SEPTEMBER 30,		CLAIMS PAYABLE OCTOBER 1,		CLAIMS INCURRED		CLAIMS PAID		CLAIMS PAYABLE SEPTEMBER 30,
2007	\$	303,540	\$	2,767,632	\$	2,720,711	\$	350,461
2008	\$	350,461	\$	2,903,818	\$	2,864,916	\$	389,363
2009	\$	389,363	\$	2,333,207	\$	2,473,586	\$	248,984
2010	\$	248,984	\$	2,360,264	\$	2,331,162	\$	278,086
2011	\$	278,086	\$	3,181,016	\$	3,096,777	\$	362,325
2012	\$	362,325	\$	4,773,998	\$	4,834,980	\$	301,343
2013	\$	301,343	\$	4,332,699	\$	4,277,541	\$	356,501
2014	\$	356,501	\$	2,947,657	\$	3,179,329	\$	124,829
2015	\$	124,829	\$	4,063,347	\$	3,827,111	\$	361,065
2016	\$	361,065	\$	4,015,172	\$	3,929,041	\$	447,196

2. Contingent Liabilities

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

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

The City of Lufkin entered into an agreement with The Board of Trustees of The Firemen's Relief and Retirement Fund (Fund) of Lufkin during FY 2004 stating that the City of Lufkin did not desire to opt out of the mandate stipulated by the Texas Legislature under Proposition XV requiring Cities to be responsible for insuring that the benefits payable under the fund are not reduced. The agreement allows the City of Lufkin to make provisions to the plan that will help to guarantee the financial soundness of it. Should the Fund become insolvent, the City of Lufkin will be responsible for the costs of the Fund. At September 30, 2016, the City has an estimated net pension obligation for the Fund of \$20,013,323.

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund that provides health care coverage, and other postemployment benefits, for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2016, the City has an estimated obligation for other postemployment benefits of \$1,319,384.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

3. Defined Benefit Pension Plans - TMRS

A. Plan Description

The City of Lufkin participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The contribution rate for the employees is 7%, and the City's matching percent is currently 2 to 1, both adopted by the governing body of the City.

Employees Covered by Benefit Terms:

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	207
Inactive employees entitled to but not yet receiving benefits	156
Active employees	360
	<u>723</u>

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lufkin were 16.20% and 15.72% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$2,606,843, and were equal to the required contribution.

D. Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the TMRS Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
TOTAL	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position (FNP) was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

Changes in the Net Pension Liability

The following table shows the changes in total pension liability, plan fiduciary net position and net pension liability for the period between the measurement dates.

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (A)	PLAN FIDUCIARY NET POSITION (B)	NET PENSION LIABILITY (A) - (B)
Balance at December 31, 2014	\$ 84,923,017	\$ 70,688,347	\$ 14,234,670
Changes for the Year:			
Service cost	2,299,919	-	2,299,919
Interest	5,894,713	-	5,894,713
Change of benefit terms	-	-	-
Difference between expected and actual experience	(192,026)	-	(192,026)
Changes of assumptions	948,593	-	948,593
Contributions - Employer	-	2,509,431	(2,509,431)
Contributions - Employee	-	1,086,453	(1,086,453)
Net investment income	-	104,308	(104,308)
Benefit payments, including refunds of employee	(3,725,580)	(3,725,580)	-
Administrative expense	-	(63,532)	63,532
Other changes	-	(3,138)	3,138
NET CHANGES	5,225,619	(92,058)	5,317,677
Balance at December 31, 2015	\$ 90,148,636	\$ 70,596,289	\$ 19,552,347

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% DECREASE IN DISCOUNT RATE (5.75%)	DISCOUNT RATE (6.75%)	1% INCREASE IN DISCOUNT RATE (7.75%)
Net pension liability	\$ 32,197,993	\$ 19,552,347	\$ 9,156,578

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the city recognized pension expense of \$3,378,509.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual economic experience	\$ -	556,198
Changes in actuarial assumptions	705,986	-
Difference between projected and actual investment earnings	4,388,259	-
Contributions subsequent to the measurement date	1,927,705	-
TOTAL	<u>\$ 7,021,950</u>	<u>556,198</u>

The City reported \$1,927,705 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>PLAN YEAR ENDED DECEMBER 31,</u>	
2016	\$ 1,151,844
2017	1,151,844
2018	1,265,583
2019	968,776
Total	<u>\$ 4,538,047</u>

F. Net Pension Obligation – TMRS

Net pension obligations-TMRS at September 30, 2016 are recorded as follows:

Governmental activities	\$ 15,516,681
Business-type activities	3,855,556
Component units	180,110
Total	<u>\$ 19,552,347</u>

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

4. Firemen Pension - Defined Benefit Pension Plans

A. Plan Description

The City sponsors the Firemen's Relief and Retirement Fund of Lufkin, Texas (the "Plan"). The Plan is a single-employer defined benefit pension plan covering all employees of the City's Fire Department. The Plan operates primarily under the "Texas Local Fire Fighters Retirement Act" (TLFFRA), Article 6243.3 Vernon's Texas Civil Statutes 45th Legislature as amended by the 75th Legislature. The plan issues a publicly available financial report that can be obtained by contacting the Plan or at lufkinfirepension.com.

B. Benefits Provided

The Plan provides retirement, disability, and death benefits. Benefit provisions are established by the Plan's Board of Trustees. The plan allows for retirement at various ages and years of service depending on the members date of hire. Members hired before September 1, 2005 are eligible to retire at age 50 with 10 years of services while members hired after September 1, 2005 but before June 25, 2013 are eligible to retire at age 50 with 15 years of service. For members hired on or after June 25, 2013, retirement age is 52 with 20 years of service.

At retirement, the benefit is calculated as a percentage of the member's highest 60-month salary plus an additional longevity benefit for years of service over 20 years.

Employees Covered by Benefit Terms:

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	56
Inactive employees entitled to but not yet receiving benefits	14
Active employees	79
	<u>149</u>

C. Contributions

The contribution rates for member are determined by the members, and the City rate is based on the City's rate for TMRS plus 6.20% as adopted by the governing body of the City.

Members were required to contribute 13.20% and 14.20% of their annual gross earnings for calendar years 2015 and 2016, respectively. The contributions rates for the City were 22.40% and 21.92% in calendar years 2015 and 2016, respectively. The City's contributions for the year ended September 30, 2016 were \$1,164,215 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of December 31, 2014.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Administrative Expense	0.2% per year
Inflation	2.5% per year
Salary Increases	4.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study for the period 2006 through 2014. Salary increases were based on historical comparison to similar plans; however, the Plan's Board of Trustees does not believe the actual rate increase to be substantially different from this assumption. Assumptions are reviewed annually. For the valuation as of December 31, 2014, the mortality assumption was based on the RP-2000 sex distinct mortality tables and updated to include two years of projected improvements in life expectancy, the interest rate assumption was adjusted to 7.5% net of investment expenses, the salary scale was updated to 4.5% and the payroll growth was updated to 3.0%. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2015 are summarized in the following table:

<u>ASSET CLASS</u>	<u>LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)</u>
Equity	6.0%
Fixed Income	4.0%
Cash	0.0%

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal 21.92% of payroll and that member contributions would equal 13.20% of compensation. Based on those assumptions, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

Changes in the Net Pension Liability

	INCREASE (DECREASE)		
	TOTAL PENSION LIABILITY (A)	PLAN FIDUCIARY NET POSITION (B)	NET PENSION LIABILITY (A) - (B)
Balance at December 31, 2014	\$ 32,640,551	\$ 14,264,481	\$ 18,376,070
Changes for the Year:			
Service cost	696,606	-	696,606
Interest	2,373,987	-	2,373,987
Contributions - Employer	-	1,146,462	(1,146,462)
Contributions - Employee	-	666,247	(666,247)
Net investment income	-	(336,255)	336,255
Benefit payments, including refunds of employee	(1,974,776)	(1,974,776)	-
Administrative expense	-	(43,114)	43,114
Net Changes	1,095,817	(541,436)	1,637,253
Balance at December 31, 2015	\$ 33,736,368	\$ 13,723,045	\$ 20,013,323

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the plan, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% DECREASE IN DISCOUNT RATE (6.5%)	DISCOUNT RATE (7.5%)	1% INCREASE IN DISCOUNT RATE (8.5%)
Net pension liability	\$ 23,913,746	\$ 20,013,323	\$ 16,743,473

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued financial report. That report may be obtained on the Internet at www.lufkinfirepension.com.

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$1,815,716.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual economic experience	\$ 151,464	-
Changes in actuarial assumptions	281,056	-
Difference between projected and actual investment earnings	1,293,926	-
Contributions subsequent to the measurement date	856,422	-
Total	<u>\$ 2,582,868</u>	<u>-</u>

The City reported \$856,422 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>PLAN YEAR ENDED DECEMBER 31,</u>	<u>AMOUNT</u>
2016	\$ 446,211
2017	446,211
2018	446,213
2019	387,811
Total	<u>\$ 1,726,446</u>

5. Other Postemployment Benefits (OPEB)

A. Retiree Health Insurance

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund (the Fund) that provides health care coverage for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2016, there were 23 retirees and 9 spouses receiving the postemployment health care benefit. The Fund does not issue a publicly available report. For financial reporting purposes, the Plan is accounted for in the Group Health Insurance Fund.

1. Funding Policy

The contribution requirements of the City and participants are established and may be amended by the City Council. The required contribution for the City's share is \$5,000 per retiree. The retirees pay premiums of \$341 for single coverage and \$793 for single plus spouse coverage. Retirees contributed \$12,704 for fiscal year 2016. The City has elected to use the Pay-As-You-Go option for funding and in previous years funding has been provided through the General Fund.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

2. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the City's annual OPEB cost, the amount actually contributed, and the changes in the City's net OPEB obligation for the fiscal year ended September 30, 2016 were as follows:

Annual required contribution	\$ 322,261
Interest on net OPEB obligation	62,657
Adjustment to annual required contribution	<u>(60,438)</u>
Annual OPEB cost	324,480
Contributions made	<u>(172,500)</u>
Increase in Net OPEB Obligation	151,980
Net OPEB obligation, beginning of year	<u>1,566,415</u>
Net OPEB Obligation, End of Year	<u>\$ 1,718,395</u>

The City's annual OPEB cost, the percentage contributed, and the net OPEB obligations for fiscal years 2016, 2015 and 2014 were as follows:

YEAR ENDED	ANNUAL OPEB COST	ANNUAL CONTRIBUTION	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
09/30/2014	\$ 613,974	\$ (174,992)	28%	\$ 1,461,023
09/30/2015	\$ 322,892	\$ (217,500)	67%	\$ 1,566,415
09/30/2016	\$ 324,480	\$ (172,500)	53%	\$ 1,718,395

The annual contribution is net of contributions and actual costs to the plan.

3. Funded Status and Funding Progress

As of October 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,655,762, all of which was unfunded. The estimated covered payroll (annual payroll of active employees covered by the Plan) was \$7,860,931, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 59 percent.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information indicating whether the actuarial value of plan assets is increasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

4. Actuarial Methods and Assumptions

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

In the October 1, 2014 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return, net of expenses, and a 3.00% payroll growth rate. The initial UAAL and subsequent changes in UAAL due to amendments and gains or losses are each amortized over thirty-year periods as a level percent of projected payroll.

B. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). TMRS issues a publicly available CAFR that includes financial statements and required supplementary information for the SDBF. That report can be obtained at www.tmr.com. The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate, currently .21% of annual covered payroll, is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the SDBF for the years ended 2016, 2015 and 2014 were \$34,136, \$30,237 and \$28,311, respectively, which equaled the required contributions each year.

TMRS issues a publicly available CAFR that includes financial statements and required supplementary information for the SDBF. That report can be obtained at www.tmr.com.

6. New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves financial reporting of postemployment benefits other than pensions. This statement is effective for periods beginning after June 15, 2017. This City is evaluating the impact of this statement on the city's financial statements.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

DETAIL NOTES ON ALL FUNDS - CONTINUED

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which improves financial reporting by requiring the disclosure of information about the nature and magnitude of tax abatements. This statement is effective for periods beginning after June 15, 2016. The City is evaluating the impact of this statement on the City's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement is effective for periods beginning after June 15, 2016. The City is evaluating the impact of this statement on the City's financial statement.

7. Prior Period Adjustments

The following is a summary of prior period adjustments for correction of errors reflected as of October 1, 2015:

Governmental Activities:	
Capital assets	\$ (865,891)
Deferred loss on refundings	386,971
Noncurrent liabilities:	
General obligation bonds payable	445,000
Compensated absences	(1,215,228)
Other postemployment benefits	(1,205,149)
Total	\$ <u>(2,454,297)</u>
Component Units:	
Investments-land and improvements	\$ 4,282,792
Capital assets	(5,852,108)
Total	\$ <u>(1,596,316)</u>
Internal Service Funds:	
Capital assets	\$ (238,707)
Total	\$ <u>(238,707)</u>

The capital asset adjustments are related to the recording of capital asset additions, retirements, depreciation and reclassifying land and improvements held as investments. The deferred loss on refundings adjustment relates to recording the deferred loss on the advance refunding for the 2015 General Obligation Refunding Bonds. The general obligation bonds payable adjustment relates to \$445,000 of the 2009 Tax and Waterworks and Sewer Revenue Certificates of Obligation which were refunded in the 2015 General Obligation Refunding Bonds. The compensated absences adjustment and other postemployment adjustment relates to amounts that were omitted from the prior year.

8. Subsequent Event

In November 2016, the City authorized the issuance of General Obligation Refunding Bonds not to exceed \$10,000,000 and established parameters for the sale and issuance of such bonds and delegating certain matters to authorized City officials.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2016

Condition Rating of the City's Street System

The City performed a complete inventory and condition assessment during the fiscal year 2015. This condition assessment will be performed every two years. Each street was assigned a physical condition based on nineteen potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned to each street and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned the physical characteristics of a new street. The following conditions were defined:

	Condition	Rating
	Excellent to Good	80-100
	Fair to Good	56-79
	Substandard	0-55

CONDITION	PERCENTAGE OF STREETS		
	2016	2015	2014
Excellent to Good	27%	30.0%	38.0%
Fair to Good	39%	39.0%	39.0%
Substandard	30%	31.0%	23.0%

	PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION		
	2016	2015	2014
Collector Streets	55%	56%	11%
Residential Streets	29%	29%	27%

	PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION		
	2016	2015	2014
Collector Streets	19%	18%	3%
Residential Streets	27%	29%	19%

The average rating for the City's streets at September 30, 2015 was 65; this rating remained flat from the previous year.

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

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

Comparison of Needed to Actual Maintenance/Preservation

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. A schedule of estimated annual amounts and actual expenditures for street maintenance for the past five years is as follows (in thousands):

<u>FISCAL YEAR</u>		<u>BUDGET</u>		<u>ACTUAL</u>
2016	\$	4,133	\$	3,679
2015	\$	3,650	\$	3,290
2014	\$	3,937	\$	3,414
2013	\$	3,845	\$	3,589
2012	\$	3,835	\$	3,520

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last 10 Fiscal Years

	2015	2016
Total Pension Liability:		
Service cost	\$ 2,123,077	\$ 2,299,919
Interest (on the total pension liability)	5,650,445	5,894,713
Changes of benefit terms	-	-
Difference between expected and actual experience	(776,242)	(192,026)
Change of assumptions	-	948,593
Benefit payments, including refunds of employee contributions	(3,466,727)	(3,725,580)
Net Change in Total Pension Liability	3,530,553	5,225,619
Total pension liability - Beginning	81,392,464	84,923,017
Total Pension Liability - Ending	84,923,017	90,148,636
Plan Fiduciary Net Position:		
Contributions - Employer	2,486,016	2,509,431
Contributions - Employee	1,034,606	1,086,453
Net investment income	3,824,460	104,308
Benefit payments, including refunds of employee contributions	(3,466,727)	(3,725,580)
Administrative expense	(39,929)	(63,532)
Other	(3,283)	(3,138)
Net Change in Plan Fiduciary Net Position	3,835,143	(92,058)
Plan fiduciary net position - Beginning	66,853,204	70,688,347
Plan Fiduciary Net Position - Ending	70,688,347	70,596,289
Net Pension Liability - Ending	\$ 14,234,670	\$ 19,552,347
Plan fiduciary net position as a percentage of total pension liability	83.24%	78.31%
Covered employee payroll	\$ 14,772,880	\$ 15,446,063
Net pension liability as a percentage of covered employee payroll	96.36%	126.58%

The amounts presented for each fiscal year were determined as of the measurement date which is December 31 of the prior year

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

**SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Last 10 Fiscal Years**

	2015	2016
Actuarially determined contribution	\$ 2,507,504	\$ 2,606,843
Contributions in relation to the actuarially determined contribution	2,507,504	2,606,843
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 15,328,570	\$ 16,454,792
Contributions as a percentage of covered employee payroll	16.36%	15.84%

Note: GASB 68, Paragraph 46 requires that the data in this schedule be presented as of the City's current fiscal year as opposed to the time period covered by the measurement date of January 1 - December 31.

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Notes to Texas Municipal Retirement System Schedules:

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH INSURANCE PLAN

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF PLAN ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2)-(1)	FUNDED RATIO (1)/(2)	(5) ANNUAL COVERED PAYROLL	UAAL AS % OF COVERED PAYROLL (3)/(5)
10/01/2010	\$ -	\$ 3,400,488	\$ 3,400,488	0.0%	\$ 17,097,000	20%
10/01/2012	\$ -	\$ 7,270,033	\$ 7,270,033	0.0%	\$ 11,588,950	31%
10/01/2014	\$ -	\$ 4,655,762	\$ 4,655,762	0.0%	\$ 7,860,931	59%

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LUFKIN FIREMEN'S RELIEF AND RETIREMENT FUND
Last 10 Fiscal Years

	2015	2016
Total Pension Liability:		
Service cost	\$ 648,006	\$ 696,606
Interest (on the total pension liability)	2,282,146	2,373,987
Changes of benefit terms	-	-
Difference between expected and actual experience	227,196	-
Change of assumptions	-	-
Administrative expense	421,584	-
Benefit payments, including refunds of employee contributions	(1,437,981)	(1,974,776)
NET CHANGE IN TOTAL PENSION LIABILITY	2,140,951	1,095,817
Total pension liability - Beginning	30,499,600	32,640,551
TOTAL PENSION LIABILITY - ENDING	32,640,551	33,736,368
Plan Fiduciary Net Position:		
Contributions - Employer	1,094,156	1,146,462
Contributions - Employee	627,405	666,247
Net investment income	714,645	(336,255)
Benefit payments, including refunds of employee contributions	(1,437,981)	(1,974,776)
Administrative expense	(28,082)	(43,114)
Other	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	970,143	(541,436)
Plan fiduciary net position - Beginning	13,294,338	14,264,481
PLAN FIDUCIARY NET POSITION - ENDING	14,264,481	13,723,045
NET PENSION LIABILITY - ENDING	\$ 18,376,070	\$ 20,013,323
Plan fiduciary net position as a percentage of total pension liability	43.70%	40.70%
Covered employee payroll	\$ 4,753,068	\$ 5,047,326
Net pension liability as a percentage of covered employee payroll	386.60%	396.50%

Notes to Schedule:

Actual covered employee payroll is estimated using firefighter contributions divided by the contribution percentage.

The amounts presented for each fiscal year were determined as of the measurement date which is December 31 of the prior year.

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
September 30, 2016

SCHEDULE OF CONTRIBUTIONS
LUFKIN FIREMEN'S RELIEF AND RETIREMENT FUND
Last 10 Fiscal Years

	2015	2016
Contractually determined contribution	\$ 1,135,860	\$ 1,164,215
Contributions in relation to the contractually determined contribution	1,135,860	1,164,215
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 5,032,044	\$ 5,281,114
Contributions as a percentage of covered employee payroll	22.57%	22.04%

Note: GASB 68, Paragraph 46 requires that the data in this schedule be presented as of the City's current fiscal year as opposed to the time period covered by the measurement date of January 1 - December 31.

Note: Only two years of data is presented in accordance with GASB No. 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Notes to Schedule:

Contributions are based on the TLFFRA requirements rather than an actuarially determined rate. Contribution rates for the City were 21.92% and 22.40% for calendar years 2016 and 2015, respectively.

See accompanying independent auditor's report on required supplementary information.

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
September 30, 2016

	ECONOMIC DEVELOPMENT CORPORATION	LUFKIN CONVENTION AND VISITORS BUREAU	TOTAL COMPONENT UNITS
ASSETS			
Cash and cash equivalents	\$ 147,299	\$ 250,909	\$ 398,208
Investments:			
Certificates of deposits	3,000,000	-	3,000,000
Land and improvements	4,282,792	-	4,282,792
Receivables - Net	125,076	100,126	225,202
Notes receivable	2,051,855	-	2,051,855
Total Assets	<u>9,607,022</u>	<u>351,035</u>	<u>9,958,057</u>
DEFERRED OUTFLOWS			
Deferred pension outflow	<u>19,389</u>	<u>45,796</u>	<u>65,185</u>
Total Deferred Outflows	<u>19,389</u>	<u>45,796</u>	<u>65,185</u>
LIABILITIES			
Accounts/claims payable	452	1,233	1,685
Accrued interest	8,411	-	8,411
Accrued liabilities	382	2,248	2,630
Customer deposits	20,000	-	20,000
Noncurrent Liabilities:			
Due within one year	146,339	-	146,339
Due in more than one year	823,465	16,231	839,696
Net pension obligation	74,855	105,255	180,110
Total Liabilities	<u>1,073,904</u>	<u>124,967</u>	<u>1,198,871</u>
DEFERRED INFLOWS			
Deferred pension inflow	<u>2,449</u>	<u>2,651</u>	<u>5,100</u>
Total Deferred Inflows	<u>2,449</u>	<u>2,651</u>	<u>5,100</u>
NET POSITION			
Unrestricted	<u>8,550,058</u>	<u>269,213</u>	<u>8,819,271</u>
Total Net Position	<u>\$ 8,550,058</u>	<u>\$ 269,213</u>	<u>\$ 8,819,271</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 For the Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ECONOMIC DEVELOPMENT CORPORATION	LUFKIN CONVENTION AND VISITORS BUREAU	TOTAL
Economic Development Corporation	\$ 978,235	\$ -	\$ -	\$ -	\$ (978,235)	\$ -	\$ (978,235)
Lufkin Convention & Visitors Bureau	410,316	-	-	-	-	(410,316)	(410,316)
Total	<u>\$ 1,388,551</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(978,235)</u>	<u>(410,316)</u>	<u>(1,388,551)</u>
General Revenues:							
Sales taxes					1,206,375	-	1,206,375
Other taxes					-	387,451	387,451
Unrestricted investment earnings					111,632	2,388	114,020
Miscellaneous revenues					<u>2,147</u>	<u>74,776</u>	<u>76,923</u>
Total General Revenues					<u>1,320,154</u>	<u>464,615</u>	<u>1,784,769</u>
Change in Net Position					<u>341,919</u>	<u>54,299</u>	<u>396,218</u>
Net Position - Beginning					<u>9,777,455</u>	<u>214,914</u>	<u>9,992,369</u>
Prior Period Adjustment					<u>(1,569,316)</u>	<u>-</u>	<u>(1,569,316)</u>
Net Position - Restated					<u>8,208,139</u>	<u>214,914</u>	<u>8,423,053</u>
Net Position - Ending					<u>\$ 8,550,058</u>	<u>\$ 269,213</u>	<u>\$ 8,819,271</u>

See accompanying independent auditor's report on other supplemental information.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

Main Street Downtown Development Fund - To account for revenues and expenditures applicable to the Downtown Development.

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

Home Investment Program Fund - To account for revenues and expenditures related to the Home Investment Grant Program.

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

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

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

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

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

Pines Theater Special Events Fund - To account for Pines Theater operations.

FEMA Grant Fund - To account for FEMA Grant.

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

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

Fire Grants Fund - To account for certain grants received by the Fire Department requiring separate funds.

CAPITAL PROJECTS FUNDS

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

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

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

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

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

2012 Capital Improvement Fund - To account for the issuance of the 2012 Certificates of Obligation.

INTERNAL SERVICE FUNDS

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

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

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 857,592	\$ 1,047,396	\$ 1,904,988
Investments	1,000,000	500,000	1,500,000
Receivables:			
Accounts	163,936	-	163,936
Intergovernmental	-	337,696	337,696
Other	246,567	11,415	257,982
Allowance for uncollectibles	(139,575)	-	(139,575)
Total Assets	<u>\$ 2,128,520</u>	<u>\$ 1,896,507</u>	<u>\$ 4,025,027</u>
LIABILITIES			
Accounts payable	\$ 113,072	\$ 53,682	\$ 166,754
Accrued liabilities	103,626	-	103,626
Due to other funds	136,179	212,513	348,692
Customer deposits	29,592	-	29,592
Total Liabilities	<u>382,469</u>	<u>266,195</u>	<u>648,664</u>
DEFERRED INFLOWS			
Unavailable revenues	<u>24,625</u>	<u>11,415</u>	<u>36,040</u>
Total Deferred Inflows	<u>24,625</u>	<u>11,415</u>	<u>36,040</u>
FUND BALANCES			
Restricted	217,112	639,147	856,259
Committed	49,156	979,750	1,028,906
Assigned	1,455,158	-	1,455,158
Total Fund Balances	<u>1,721,426</u>	<u>1,618,897</u>	<u>3,340,323</u>
Total Liabilities and Fund Balances	<u>\$ 2,128,520</u>	<u>\$ 1,896,507</u>	<u>\$ 4,025,027</u>

See accompanying independent auditor's report on other supplemental information.

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CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended September 30, 2016

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:			
Other taxes	\$ 1,150,722	\$ -	\$ 1,150,722
Charges for services	1,090,762	-	1,090,762
Investment earnings	13,375	6,259	19,634
Intergovernmental	142,082	964,536	1,106,618
Other revenues	293,904	250,863	544,767
Total Revenues	<u>2,690,845</u>	<u>1,221,658</u>	<u>3,912,503</u>
Expenditures:			
Current:			
General government	83,724	-	83,724
Public safety	169,576	-	169,576
Cultural and recreation	2,546,404	-	2,546,404
Capital Outlay:			
General government	-	248,156	248,156
Public safety	-	115,867	115,867
Cultural and recreation	-	116,196	116,196
Public works	-	1,672,964	1,672,964
Total Expenditures	<u>2,799,704</u>	<u>2,153,183</u>	<u>4,952,887</u>
Excess (Deficiency) of Revenues (Over) Under Expenditures	<u>(108,859)</u>	<u>(931,525)</u>	<u>(1,040,384)</u>
Other Financing Sources (Uses):			
Transfers in	70,000	1,049,750	1,119,750
Transfers out	<u>(282,805)</u>	<u>-</u>	<u>(282,805)</u>
Total Other Financing Sources (Uses)	<u>(212,805)</u>	<u>1,049,750</u>	<u>836,945</u>
Net Change in Fund Balances	(321,664)	118,225	(203,439)
Fund Balances - Beginning	2,043,090	1,500,672	3,543,762
Fund Balances - Ending	<u>\$ 1,721,426</u>	<u>\$ 1,618,897</u>	<u>\$ 3,340,323</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2016

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	MAIN STREET DOWNTOWN DEVELOPMENT FUND	POLICE SEIZED FUND	HOME INVESTMENT PROGRAM FUND
ASSETS					
Cash and cash equivalents	\$ 400	\$ 419,726	\$ 27,933	\$ 135,985	\$ 4
Investments	-	1,000,000	-	-	-
Receivables:					
Accounts	-	-	-	-	-
Other	233,692	8,668	206	1,003	-
Allowance for uncollectables	-	-	-	-	-
Total Assets	<u>\$ 234,092</u>	<u>\$ 1,428,394</u>	<u>\$ 28,139</u>	<u>\$ 136,988</u>	<u>\$ 4</u>
LIABILITIES					
Accounts payable	\$ 40,801	\$ 903	\$ -	\$ 64,474	\$ -
Accrued liabilities	102,422	-	-	-	-
Due to other funds	79,887	-	-	-	-
Customer deposits	26,566	-	-	-	-
Total Liabilities	<u>249,676</u>	<u>903</u>	<u>-</u>	<u>64,474</u>	<u>-</u>
DEFERRED INFLOWS					
Unavailable revenue	-	8,668	206	1,003	-
Total Deferred Inflows	<u>-</u>	<u>8,668</u>	<u>206</u>	<u>1,003</u>	<u>-</u>
FUND BALANCES					
Restricted	-	-	-	71,511	4
Committed	-	-	-	-	-
Assigned	(15,584)	1,418,823	27,933	-	-
Total Fund Balances	<u>(15,584)</u>	<u>1,418,823</u>	<u>27,933</u>	<u>71,511</u>	<u>4</u>
Total Liabilities and Fund Balances	<u>\$ 234,092</u>	<u>\$ 1,428,394</u>	<u>\$ 28,139</u>	<u>\$ 136,988</u>	<u>\$ 4</u>

See accompanying independent auditor's report on other supplemental information.

COURT SECURITY/ TECHNOLOGY FUND	POLICE GRANTS FUND	PINES THEATER SPECIAL EVENTS FUND	SPECIAL RECREATION FUND	INSURANCE LOSS FUND	ANIMAL CONTROL - KURTH GRANT FUND
\$ 2,587	\$ 2,020	\$ -	\$ 100,293	\$ -	\$ 105,462
-	-	-	-	-	-
163,936	-	-	-	-	-
19	15	985	736	-	778
(139,575)	-	-	-	-	-
<u>\$ 26,967</u>	<u>\$ 2,035</u>	<u>\$ 985</u>	<u>\$ 101,029</u>	<u>\$ -</u>	<u>\$ 106,240</u>
\$ -	\$ -	\$ 390	\$ 6,320	\$ 184	\$ -
-	-	-	1,204	-	-
-	-	12,456	-	43,429	-
-	-	3,026	-	-	-
<u>-</u>	<u>-</u>	<u>15,872</u>	<u>7,524</u>	<u>43,613</u>	<u>-</u>
12,754	15	-	736	-	778
<u>12,754</u>	<u>15</u>	<u>-</u>	<u>736</u>	<u>-</u>	<u>778</u>
14,213	2,020	-	-	-	105,462
-	-	-	92,769	(43,613)	-
-	-	(14,887)	-	-	-
<u>14,213</u>	<u>2,020</u>	<u>(14,887)</u>	<u>92,769</u>	<u>(43,613)</u>	<u>105,462</u>
<u>\$ 26,967</u>	<u>\$ 2,035</u>	<u>\$ 985</u>	<u>\$ 101,029</u>	<u>\$ -</u>	<u>\$ 106,240</u>

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET - CONTINUED
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2016

	POLICE DARE CONTRIBUTION GRANT FUND	ANIMAL'S ATTIC GIFT SHOP FUND	FIRE GRANTS FUND	FEMA GRANT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
ASSETS					
Cash and cash equivalents	\$ 109	\$ 38,764	\$ -	\$ 24,309	\$ 857,592
Investments	-	-	-	-	1,000,000
Receivables:					
Accounts	-	-	-	-	163,936
Other	-	286	-	179	246,567
Allowance for uncollectibles	-	-	-	-	(139,575)
Total Assets	<u>\$ 109</u>	<u>\$ 39,050</u>	<u>\$ -</u>	<u>\$ 24,488</u>	<u>\$ 2,128,520</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 113,072
Accrued liabilities	-	-	-	-	136,179
Due to other funds	-	-	407	-	103,626
Customer deposits	-	-	-	-	29,592
Total Liabilities	<u>-</u>	<u>-</u>	<u>407</u>	<u>-</u>	<u>382,469</u>
DEFERRED INFLOWS					
Unavailable revenue	-	286	-	179	24,265
Total Deferred Inflows	<u>-</u>	<u>286</u>	<u>-</u>	<u>179</u>	<u>24,625</u>
FUND BALANCES					
Restricted	-	-	(407)	24,309	217,112
Committed	-	-	-	-	49,156
Assigned	109	38,764	-	-	1,455,158
Total Fund Balances	<u>109</u>	<u>38,764</u>	<u>(407)</u>	<u>24,309</u>	<u>1,721,426</u>
Total Liabilities and Fund Balances	<u>\$ 109</u>	<u>\$ 39,050</u>	<u>\$ -</u>	<u>\$ 24,488</u>	<u>\$ 2,128,520</u>

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CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended September 30, 2016

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	MAIN STREET DOWNTOWN DEVELOPMENT FUND	POLICE SEIZED FUND	HOME INVESTMENT PROGRAM FUND
Revenues:					
Other taxes	\$ 1,150,722	\$ -	\$ -	\$ -	\$ -
Charges for services	170,753	360,326	-	-	-
Investment earnings	354	9,810	131	787	-
Intergovernmental	-	-	-	-	-
Other revenues	88	62,483	19,510	89,799	-
Total Revenues	<u>1,321,917</u>	<u>432,619</u>	<u>19,641</u>	<u>90,586</u>	<u>-</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	58,431	-
Cultural and recreation	1,179,509	797,915	14,920	-	-
Total Expenditures	<u>1,179,509</u>	<u>797,915</u>	<u>14,920</u>	<u>58,431</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>142,408</u>	<u>(365,296)</u>	<u>4,721</u>	<u>32,155</u>	<u>-</u>
Other Financing Sources (Uses):					
Transfers in	70,000	-	-	-	-
Transfers out	(2,917)	(28,599)	-	-	-
Total Other Financing Sources (Uses)	<u>67,083</u>	<u>(28,599)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	209,491	(393,895)	4,721	32,155	-
Fund Balances - Beginning	<u>(225,075)</u>	<u>1,812,718</u>	<u>23,212</u>	<u>39,356</u>	<u>4</u>
Fund Balances - Ending	<u>\$ (15,584)</u>	<u>\$ 1,418,823</u>	<u>\$ 27,933</u>	<u>\$ 71,511</u>	<u>\$ 4</u>

See accompanying independent auditor's report on other supplemental information.

COURT SECURITY/ TECHNOLOGY FUND	POLICE GRANTS FUND	PINES THEATER SPECIAL EVENTS FUND	SPECIAL RECREATION FUND	INSURANCE LOSS FUND	ANIMAL CONTROL - KURTH GRANT FUND
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	154,386	405,297	-	-
7	16	48	617	-	1,232
-	26,250	-	-	-	115,832
34,946	402	618	8,000	66,736	-
<u>34,953</u>	<u>26,668</u>	<u>155,052</u>	<u>413,914</u>	<u>66,736</u>	<u>117,064</u>
-	-	-	-	83,724	-
33,224	27,514	-	-	-	50,000
-	-	193,107	347,786	-	-
<u>33,224</u>	<u>27,514</u>	<u>193,107</u>	<u>347,786</u>	<u>83,724</u>	<u>50,000</u>
1,729	(846)	(38,055)	66,128	(16,988)	67,064
-	-	-	-	-	-
-	-	-	(59,769)	-	(191,520)
-	-	-	(59,769)	-	(191,520)
1,729	(846)	(38,055)	6,359	(16,988)	(124,456)
12,484	2,866	23,168	86,410	(26,625)	229,918
<u>\$ 14,213</u>	<u>\$ 2,020</u>	<u>\$ (14,887)</u>	<u>\$ 92,769</u>	<u>\$ (43,613)</u>	<u>\$ 105,462</u>

CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - CONTINUED
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended September 30, 2016

	POLICE DARE CONTRIBUTION GRANT FUND	ANIMAL'S ATTIC GIFT SHOP FUND	FIRE GRANTS FUND	FEMA GRANT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
Revenues:					
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,150,722
Charges for services	-	-	-	-	1,090,762
Investment earnings	-	237	-	136	13,375
Intergovernmental	-	-	-	-	142,082
Other revenues	-	11,322	-	-	293,904
Total Revenues	<u>-</u>	<u>11,559</u>	<u>-</u>	<u>136</u>	<u>2,690,845</u>
Expenditures:					
Current:					
General government	-	-	-	-	83,724
Public safety	-	-	407	-	169,576
Cultural and recreation	-	13,167	-	-	2,546,404
Total Expenditures	<u>-</u>	<u>13,167</u>	<u>407</u>	<u>-</u>	<u>2,799,704</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(1,608)</u>	<u>(407)</u>	<u>136</u>	<u>(108,859)</u>
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	70,000
Transfers out	-	-	-	-	(282,805)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(212,805)</u>
Net Change in Fund Balances	-	(1,608)	(407)	136	(321,664)
Fund Balances - Beginning	<u>109</u>	<u>40,372</u>	<u>-</u>	<u>24,173</u>	<u>2,043,090</u>
Fund Balances - Ending	<u>\$ 109</u>	<u>\$ 38,764</u>	<u>\$ (407)</u>	<u>\$ 24,309</u>	<u>\$ 1,721,426</u>

See accompanying independent auditor's report on other supplemental information.

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CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
September 30, 2016

	STREET CONSTRUCTION FUND	DRAINAGE MITIGATION FUND	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND
ASSETS				
Cash and cash equivalents	\$ 488,021	\$ 18,501	\$ 53	\$ 94,470
Investments	500,000	-	-	-
Receivables:				
Intergovernmental	-	-	-	-
Other	7,288	137	-	697
Total Assets	<u>\$ 995,309</u>	<u>\$ 18,638</u>	<u>\$ 53</u>	<u>\$ 95,167</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS				
Unavailable revenues	7,288	137	-	697
Total Deferred Inflows	<u>7,288</u>	<u>137</u>	<u>-</u>	<u>697</u>
FUND BALANCES				
Restricted	8,271	18,501	53	94,470
Committed	979,750	-	-	-
Total Fund Balances	<u>988,021</u>	<u>18,501</u>	<u>53</u>	<u>94,470</u>
Total Liabilities and Fund Balances	<u>\$ 995,309</u>	<u>\$ 18,638</u>	<u>\$ 53</u>	<u>\$ 95,167</u>

See accompanying independent auditor's report on other supplemental information.

2010 CAPITAL IMPROVEMENT FUND	2012 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ -	\$ 446,351	\$ 1,047,396
-	-	500,000
337,696	-	337,696
-	3,293	11,415
\$ <u>337,696</u>	\$ <u>449,644</u>	\$ <u>1,896,507</u>
\$ 53,682	\$ -	\$ 53,682
<u>212,513</u>	<u>-</u>	<u>212,513</u>
<u>266,195</u>	<u>-</u>	<u>266,195</u>
-	3,293	11,415
<u>-</u>	<u>3,293</u>	<u>11,415</u>
71,501	446,351	639,147
<u>-</u>	<u>-</u>	<u>979,750</u>
<u>71,501</u>	<u>446,351</u>	<u>1,618,897</u>
\$ <u>337,696</u>	\$ <u>449,644</u>	\$ <u>1,896,507</u>

CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Year Ended September 30, 2016

	STREET CONSTRUCTION FUND	DRAINAGE MITIGATION FUND	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND
Revenues:				
Investment earnings	\$ 1	\$ 109	\$ -	\$ 28
Intergovernmental	104,961	-	-	-
Other revenues	250,863	-	-	-
Total Revenues	<u>355,825</u>	<u>109</u>	<u>-</u>	<u>28</u>
Expenditures:				
Capital Outlay:				
General government	197,309	-	-	-
Public safety	-	-	-	-
Cultural and recreation	-	-	-	70,500
Public works	104,961	-	-	-
Total Expenditures	<u>302,270</u>	<u>-</u>	<u>-</u>	<u>70,500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>53,555</u>	<u>109</u>	<u>-</u>	<u>(70,472)</u>
Other Financing Sources (Uses):				
Transfers in	979,750	-	-	70,000
Total Other Financing Sources (Uses)	<u>979,750</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Net Change in Fund Balances	1,033,305	109	-	(472)
Fund Balances - Beginning	(45,284)	18,392	53	94,942
Fund Balances - Ending	<u>\$ 988,021</u>	<u>\$ 18,501</u>	<u>\$ 53</u>	<u>\$ 94,470</u>

See accompanying independent auditor's report on other supplemental information.

2010 CAPITAL IMPROVEMENT FUND	2012 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ 1,171	\$ 4,950	\$ 6,259
859,575	-	964,536
-	-	250,863
<u>860,746</u>	<u>4,950</u>	<u>1,221,658</u>
-	50,847	248,156
-	115,867	115,867
-	45,696	116,196
1,303,002	265,001	1,672,964
<u>1,303,002</u>	<u>477,411</u>	<u>2,153,183</u>
<u>(442,256)</u>	<u>(472,461)</u>	<u>(931,525)</u>
-	-	1,049,750
-	-	1,049,750
(442,256)	(472,461)	118,225
513,757	918,812	1,500,672
\$ <u>71,501</u>	\$ <u>446,351</u>	\$ <u>1,618,897</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
WATER AND SEWER UTILITY ENTERPRISE FUND
For the Year Ended September 30, 2016

Utility Collections:	
Payroll costs	\$ 645,367
Supplies	97,686
Maintenance of equipment	11,373
Miscellaneous services	102,808
Total Utility Collections	<u>857,234</u>
Wastewater Treatment Plant:	
Payroll costs	1,058,705
Supplies	261,065
Maintenance of equipment	253,294
Miscellaneous services	652,065
Total Wastewater Treatment Plant	<u>2,225,129</u>
Water Production:	
Payroll costs	73,646
Supplies	275,914
Maintenance of equipment	120,225
Miscellaneous services	1,372,165
Total Water Production	<u>1,841,950</u>
Water/Sewer Utilities:	
Payroll costs	1,774,034
Supplies	289,566
Maintenance of equipment	913,815
Miscellaneous services	336,330
Total Water/Sewer Utilities	<u>3,313,745</u>
Depreciation and amortization	2,374,591
General and administrative	2,385,669
Non-departmental	451,332
Total Operating Expenses	\$ <u>13,449,650</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
SOLID WASTE DISPOSAL ENTERPRISE FUND
For the Year Ended September 30, 2016

Sanitation:	
Payroll costs	\$ 1,317,475
Supplies	323,271
Maintenance of equipment	241,327
Miscellaneous services	<u>1,825,397</u>
Total Sanitation	<u>3,707,470</u>
Recycling:	
Payroll costs	234,809
Supplies	51,305
Maintenance of equipment	29,180
Miscellaneous services	<u>159,608</u>
Total Recycling	<u>474,902</u>
Depreciation and amortization	108,663
General and administrative	1,858,875
Non-departmental	<u>97,091</u>
Total Operating Expenses	\$ <u>6,247,001</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year ended September 30, 2016

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Ad valorem taxes	\$ 3,047,727	\$ 3,035,227	\$ 2,987,208	\$ (48,019)
Investment earnings	8,000	9,000	18,182	9,182
Other revenue	-	-	13,447	13,447
Total Revenues	<u>3,055,727</u>	<u>3,044,227</u>	<u>3,018,837</u>	<u>(25,390)</u>
Expenditures:				
Debt Service:				
Principal:				
2006 general obligation refunding bonds	495,000	495,000	495,000	-
2007 general obligation bonds	80,000	80,000	80,000	-
2007 certificates of obligation	180,000	180,000	180,000	-
2009 certificates of obligation	650,000	650,000	335,000	315,000
2010 general obligation refunding bonds	1,110,000	1,110,000	1,110,000	-
2010 certificates of obligation	355,000	355,000	355,000	-
2011 general obligation refunding bonds	1,055,000	1,055,000	1,055,000	-
2012 certificates of obligation	300,000	300,000	300,000	-
2014 certificates of obligation	205,000	205,000	205,000	-
2014 general obligation refunding bonds	435,000	435,000	420,000	15,000
2015 general obligation refunding savings	(368,928)	(368,928)	-	(368,928)
Total Principal	<u>4,496,072</u>	<u>4,496,072</u>	<u>4,535,000</u>	<u>(38,928)</u>
Interest and Fiscal Charges:				
2006 general obligation refunding bonds	140,075	140,075	54,875	85,200
2007 general obligation bonds	51,420	51,420	6,848	44,572
2007 certificates of obligation	117,075	117,075	16,650	100,425
2009 certificates of obligation	682,375	682,375	496,995	185,380
2010 general obligation refunding bonds	283,400	283,400	283,400	-
2010 certificates of obligation	314,000	314,000	314,000	-
2011 general obligation refunding bonds	144,356	144,356	144,400	(44)
2012 certificates of obligation	121,687	121,687	121,687	-
2014 certificates of obligation	142,283	142,283	142,883	(600)
2014 general obligation refunding bonds	122,650	122,650	125,850	(3,200)
2015 general obligation refunding bonds	-	-	145,750	(145,750)
2016 general obligation refunding bonds	-	-	63,003	(63,003)
Paying agent fees	8,750	8,750	9,350	(600)
Total Interest and Fiscal Charges	<u>2,128,071</u>	<u>2,128,071</u>	<u>1,925,691</u>	<u>202,380</u>
Bond issuance costs	-	126,400	233,265	(106,865)
Total Expenditures	<u>6,624,143</u>	<u>6,750,543</u>	<u>6,693,956</u>	<u>56,587</u>
Excess (Deficiencies) of Revenues Over (Under) Expenditures	<u>(3,568,416)</u>	<u>(3,706,316)</u>	<u>(3,675,119)</u>	<u>31,197</u>
Other Financing Sources (Uses):				
Refunding bond proceeds	-	9,080,000	9,080,000	-
Refunding bond premium	-	791,035	897,901	106,866
Payment to refunded bond escrow agent	-	(9,892,626)	(9,892,626)	-
Transfers in	3,184,448	3,184,448	3,184,448	-
Total Other Financing Sources (Uses)	<u>3,184,448</u>	<u>3,162,857</u>	<u>3,269,723</u>	<u>106,866</u>
Net Change in Fund Balances	(383,968)	(543,459)	(405,396)	138,063
Fund Balances - Beginning	<u>2,116,173</u>	<u>1,811,938</u>	<u>1,811,938</u>	
Fund Balances - Ending	<u>\$ 1,732,205</u>	<u>\$ 1,268,479</u>	<u>\$ 1,406,542</u>	<u>\$ 138,063</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other taxes	\$ 915,270	\$ 905,824	\$ 1,150,722	\$ 244,898
Charges for services	212,500	212,410	170,753	(41,657)
Other revenues	-	77	88	11
Investment earnings	1,200	400	354	(46)
Total Revenues	<u>1,128,970</u>	<u>1,118,711</u>	<u>1,321,917</u>	<u>203,206</u>
Expenditures:				
Current:				
Cultural and recreation	<u>1,159,723</u>	<u>1,147,804</u>	<u>1,179,509</u>	<u>(31,705)</u>
Total Expenditures	<u>1,159,723</u>	<u>1,147,804</u>	<u>1,179,509</u>	<u>(31,705)</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(30,753)</u>	<u>(29,093)</u>	<u>142,408</u>	<u>171,501</u>
Other Financing Sources (Uses):				
Transfers in	-	70,000	70,000	-
Transfers out	<u>(5,000)</u>	<u>(2,917)</u>	<u>(2,917)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>67,083</u>	<u>67,083</u>	<u>-</u>
Net Change in Fund Balances	(35,753)	37,990	209,491	171,501
Fund Balances - Beginning	<u>(143,862)</u>	<u>(225,075)</u>	<u>(225,075)</u>	<u>-</u>
Fund Balances - Ending	<u>\$ (179,615)</u>	<u>\$ (187,085)</u>	<u>\$ (15,584)</u>	<u>\$ 171,501</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
ZOO BUILDING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Charges for services	\$ 303,680	\$ 293,878	\$ 360,326	\$ 66,448
Other revenues	4,825	59,328	62,483	3,155
Investment earnings	5,000	7,000	9,810	2,810
Total Revenues	<u>313,505</u>	<u>360,206</u>	<u>432,619</u>	<u>72,413</u>
Expenditures:				
Current:				
Cultural and recreation	<u>216,000</u>	<u>1,156,671</u>	<u>797,915</u>	<u>358,756</u>
Total Expenditures	<u>216,000</u>	<u>1,156,671</u>	<u>797,915</u>	<u>358,756</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>97,505</u>	<u>(796,465)</u>	<u>(365,296)</u>	<u>431,169</u>
Other Financing Sources (Uses):				
Transfers out	<u>(28,599)</u>	<u>(28,599)</u>	<u>(28,599)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(28,599)</u>	<u>(28,599)</u>	<u>(28,599)</u>	<u>-</u>
Net Change in Fund Balances	68,906	(825,064)	(393,895)	431,169
Fund Balances - Beginning	<u>1,123,065</u>	<u>1,812,718</u>	<u>1,812,718</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,191,971</u>	<u>\$ 987,654</u>	<u>\$ 1,418,823</u>	<u>\$ 431,169</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
COURT SECURITY/TECHNOLOGY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Investment earnings	\$ -	\$ -	\$ 7	\$ 7
Other revenues	43,000	41,000	34,946	(6,054)
Total Revenues	<u>43,000</u>	<u>41,000</u>	<u>34,953</u>	<u>(6,047)</u>
Expenditures:				
Current:				
Public safety	36,365	36,645	33,224	3,421
Total Expenditures	<u>36,365</u>	<u>36,645</u>	<u>33,224</u>	<u>3,421</u>
Net Change in Fund Balances	6,635	4,355	1,729	(2,626)
Fund Balances - Beginning	(3,436)	12,484	12,484	-
Fund Balances - Ending	<u>\$ 3,199</u>	<u>\$ 16,839</u>	<u>\$ 14,213</u>	<u>\$ (2,626)</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
SPECIAL RECREATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Charges for services	\$ 490,622	\$ 457,970	\$ 405,297	\$ (52,673)
Other revenues	-	8,000	8,000	-
Investment earnings	300	400	617	217
Total Revenues	<u>490,922</u>	<u>466,370</u>	<u>413,914</u>	<u>(52,456)</u>
Expenditures:				
Current:				
Cultural and recreation	<u>432,015</u>	<u>418,900</u>	<u>347,786</u>	<u>71,114</u>
Total Expenditures	<u>432,015</u>	<u>418,900</u>	<u>347,786</u>	<u>71,114</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>58,907</u>	<u>47,470</u>	<u>66,128</u>	<u>18,658</u>
Other Financing Sources (Uses):				
Transfers out	<u>(59,769)</u>	<u>(59,769)</u>	<u>(59,769)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(59,769)</u>	<u>(59,769)</u>	<u>(59,769)</u>	<u>-</u>
Net Change in Fund Balances	(862)	(12,299)	6,359	18,658
Fund Balances - Beginning	<u>126,889</u>	<u>86,410</u>	<u>86,410</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 126,027</u>	<u>\$ 74,111</u>	<u>\$ 92,769</u>	<u>\$ 18,658</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
ANIMAL CONTROL - KURTH GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Intergovernmental	\$ 225,000	\$ 145,000	\$ 115,832	\$ (29,168)
Investment earnings	1,200	1,200	1,232	32
Total Revenues	<u>226,200</u>	<u>146,200</u>	<u>117,064</u>	<u>(29,136)</u>
Expenditures:				
Current:				
Public safety	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total Expenditures	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>176,200</u>	<u>96,200</u>	<u>67,064</u>	<u>(29,136)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(191,520)</u>	<u>(191,520)</u>	<u>(191,520)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(191,520)</u>	<u>(191,520)</u>	<u>(191,520)</u>	<u>-</u>
Net Change in Fund Balances	(15,320)	(95,320)	(124,456)	(29,136)
Fund Balances - Beginning	<u>285,691</u>	<u>229,918</u>	<u>229,918</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 270,371</u>	<u>\$ 134,598</u>	<u>\$ 105,462</u>	<u>\$ (29,136)</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
ANIMAL'S ATTIC GIFT SHOP SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ -	\$ 10,000	\$ 11,322	\$ 1,322
Investment earnings	100	150	237	87
Total Revenues	<u>100</u>	<u>10,150</u>	<u>11,559</u>	<u>1,409</u>
Expenditures:				
Current:				
Cultural and recreation	<u>12,000</u>	<u>22,000</u>	<u>13,167</u>	<u>8,833</u>
Total Expenditures	<u>12,000</u>	<u>22,000</u>	<u>13,167</u>	<u>8,833</u>
Net Change in Fund Balances	(11,900)	(11,850)	(1,608)	10,242
Fund Balances - Beginning	49,770	40,372	40,372	-
Fund Balances - Ending	<u>\$ 37,870</u>	<u>\$ 28,522</u>	<u>\$ 38,764</u>	<u>\$ 10,242</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
 PINES THEATER SPECIAL EVENTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
 For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Charges for services	\$ 179,950	\$ 167,988	\$ 154,386	\$ (13,602)
Other revenues	4,000	552	618	66
Investment earnings	150	150	48	(102)
Total Revenues	<u>184,100</u>	<u>168,690</u>	<u>155,052</u>	<u>(13,638)</u>
Expenditures:				
Current:				
Cultural and recreation	<u>178,225</u>	<u>199,285</u>	<u>193,107</u>	<u>6,178</u>
Total Expenditures	<u>178,225</u>	<u>199,285</u>	<u>193,107</u>	<u>6,178</u>
Net Change in Fund Balances	5,875	(30,595)	(38,055)	(7,460)
Fund Balances - Beginning	<u>6,654</u>	<u>23,168</u>	<u>23,168</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 12,529</u>	<u>\$ (7,427)</u>	<u>\$ (14,887)</u>	<u>\$ (7,460)</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
MAIN STREET/DOWNTOWN DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ 13,100	\$ 19,360	\$ 19,510	\$ 150
Investment earnings	10	75	131	56
Total Revenues	<u>13,110</u>	<u>19,435</u>	<u>19,641</u>	<u>206</u>
Expenditures:				
Current:				
Cultural and recreation	<u>19,500</u>	<u>19,500</u>	<u>14,920</u>	<u>4,580</u>
Total Expenditures	<u>19,500</u>	<u>19,500</u>	<u>14,920</u>	<u>4,580</u>
Net Change in Fund Balances	(6,390)	(65)	4,721	4,786
Fund Balances - Beginning	<u>18,822</u>	<u>23,212</u>	<u>23,212</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 12,432</u>	<u>\$ 23,147</u>	<u>\$ 27,933</u>	<u>\$ 4,786</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
September 30, 2016

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 743,164	\$ 279,077	\$ 1,022,241
Investments	3,500,000	500,000	4,000,000
Interest receivable	31,301	5,747	37,048
Total Current Assets	<u>4,274,465</u>	<u>784,824</u>	<u>5,059,289</u>
Capital Assets:			
Machinery and equipment	-	5,471,135	5,471,135
Vehicles	-	8,805,433	8,805,433
Less accumulated depreciation	-	(7,913,564)	(7,913,564)
Total Capital Assets (Net Of Accumulated Depreciation)	<u>-</u>	<u>6,363,004</u>	<u>6,363,004</u>
Total Assets	<u>4,274,465</u>	<u>7,147,828</u>	<u>11,422,293</u>
LIABILITIES			
Current Liabilities:			
Accounts/claims payable	447,196	-	447,196
Due to other funds	241,998	-	241,998
Total Current Liabilities	<u>689,194</u>	<u>-</u>	<u>689,194</u>
Total Liabilities	<u>689,194</u>	<u>-</u>	<u>689,194</u>
NET POSITION			
Invested in capital assets, net	-	6,363,004	6,363,004
Unrestricted	3,585,271	784,824	4,370,095
Total Net Position	<u>\$ 3,585,271</u>	<u>\$ 7,147,828</u>	<u>\$ 10,733,099</u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 INTERNAL SERVICE FUNDS
 For the Year Ended September 30, 2016

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
Operating Revenues:			
Employee premiums	\$ 932,783	\$ -	\$ 932,783
Employer premiums	3,499,396	-	3,499,396
Equipment rental	-	1,787,287	1,787,287
Miscellaneous	570,962	-	570,962
Total Operating Revenues	<u>5,003,141</u>	<u>1,787,287</u>	<u>6,790,428</u>
Operating Expenses:			
Insurance claims and related expenses	5,060,383	10,415	5,070,798
Non-departmental	-	60,067	60,067
Depreciation and amortization	-	1,696,733	1,696,733
Total Operating Expenses	<u>5,060,383</u>	<u>1,767,215</u>	<u>6,827,598</u>
Operation Income (Loss)	<u>(57,242)</u>	<u>20,072</u>	<u>(37,170)</u>
Nonoperating Revenues (Expenses):			
Investment earnings	52,099	11,492	63,591
Gain (loss) on sale of assets	-	104,402	104,402
Total Nonoperating Revenues (Expenses)	<u>52,099</u>	<u>115,894</u>	<u>167,993</u>
Income (Loss) Before Transfers	(5,143)	135,966	130,823
Transfers in	<u>217,500</u>	-	<u>217,500</u>
Change in Net Position	<u>212,357</u>	<u>135,966</u>	<u>348,323</u>
Total Net Position - Beginning	3,372,914	7,250,569	10,623,483
Prior Period Adjustment	<u>-</u>	<u>(238,707)</u>	<u>(238,707)</u>
Total Net Position – Beginning as Restated	<u>3,372,914</u>	<u>7,011,862</u>	<u>10,384,776</u>
Total Net Position - Ending	\$ <u><u>3,585,271</u></u>	\$ <u><u>7,147,828</u></u>	\$ <u><u>10,733,099</u></u>

See accompanying independent auditor's report on other supplemental information.

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2016

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 1,503,745	\$ -	\$ 1,503,745
Receipts from interfund services provided	3,499,396	1,787,287	5,286,683
Payments to suppliers	(4,979,732)	(70,482)	(5,050,214)
Net Cash Provided by Operating Activities	<u>23,409</u>	<u>1,716,805</u>	<u>1,740,214</u>
Cash Flows from Noncapital Financing Activities:			
Transfer from other funds	<u>217,500</u>	<u>-</u>	<u>217,500</u>
Net Cash Provided by Noncapital and Financing Activities	<u>217,500</u>	<u>-</u>	<u>217,500</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(2,042,547)	(2,042,547)
Proceeds from sale of assets	-	116,185	116,185
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(1,926,362)</u>	<u>(1,926,362)</u>
Cash Flows from Investing Activities:			
Investment earnings received	21,370	6,212	27,582
Purchase of investments	(3,500,000)	(500,000)	(4,000,000)
Net Cash Used by Investing Activities	<u>(3,478,630)</u>	<u>(493,788)</u>	<u>(3,972,418)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,237,721)	(703,345)	(3,941,066)
Cash and Cash Equivalents - Beginning	<u>3,980,885</u>	<u>982,422</u>	<u>4,963,307</u>
Cash And Cash Equivalents - Ending	\$ <u><u>743,164</u></u>	\$ <u><u>279,077</u></u>	\$ <u><u>1,022,241</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ <u>(57,242)</u>	\$ <u>20,072</u>	\$ <u>(37,170)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and amortization	-	1,696,733	1,696,733
Increase (decrease) in accounts/claims payable	<u>80,651</u>	<u>-</u>	<u>80,651</u>
Total Adjustments	<u>80,651</u>	<u>1,696,733</u>	<u>1,777,384</u>
Net Cash Provided by Operating Activities	\$ <u><u>23,409</u></u>	\$ <u><u>1,716,805</u></u>	\$ <u><u>1,740,214</u></u>

See accompanying independent auditor's report on other supplemental information.

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STATISTICAL SECTION

CITY OF LUFKIN, TEXAS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	FISCAL YEAR									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities:										
Invested in capital assets, net of related debt	\$ 56,575	\$ 51,434	\$ 46,432	\$ 43,330	\$ 76,984	\$ 30,728	\$ 67,637	\$ 63,259	\$ 50,394	\$ 37,214
Restricted	2,263	5,016	6,604	7,133	5,789	8,564	3,019	3,857	3,155	7,344
Unrestricted	(14,553)	(11,680)	8,023	7,863	(29,381)	10,486	(14,334)	(13,751)	11,788	14,651
Total Governmental Activities	<u>44,285</u>	<u>44,770</u>	<u>61,059</u>	<u>58,326</u>	<u>53,392</u>	<u>49,778</u>	<u>56,322</u>	<u>53,365</u>	<u>65,337</u>	<u>59,209</u>
Business-Type Activities:										
Invested in capital assets, net of related debt	67,655	67,005	67,260	65,900	31,354	66,072	55,837	56,454	44,884	40,063
Restricted	8,583	1,294	1,308	2,419	7,729	9,285	10,033	10,909	7,191	8,515
Unrestricted	6,946	14,873	16,603	14,075	45,344	8,060	7,151	7,159	8,362	12,698
Total Business-Type Activities	<u>83,184</u>	<u>83,173</u>	<u>85,171</u>	<u>82,394</u>	<u>84,427</u>	<u>83,417</u>	<u>73,021</u>	<u>74,522</u>	<u>60,437</u>	<u>61,276</u>
Primary Government:										
Invested in capital assets, net of related debt	124,230	118,439	113,693	109,230	108,339	96,800	96,800	123,474	119,713	95,278
Restricted	10,846	6,310	7,912	9,552	13,518	17,849	17,849	13,052	14,766	10,346
Unrestricted	(7,607)	3,193	24,626	21,938	15,963	18,546	18,546	(7,183)	(6,592)	20,150
Total Primary Government	<u>\$ 127,469</u>	<u>\$ 127,943</u>	<u>\$ 146,230</u>	<u>\$ 140,720</u>	<u>\$ 137,819</u>	<u>\$ 133,195</u>	<u>\$ 129,343</u>	<u>\$ 127,887</u>	<u>\$ 125,774</u>	<u>\$ 120,485</u>

Source: City of Lufkin accounting records.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	FISCAL YEAR			
	2016	2015	2014	2013
Expenses:				
Governmental Activities:				
General government	\$ 4,509	\$ 2,786	\$ 1,789	\$ 2,069
Public safety	21,465	19,892	20,712	20,204
Cultural and recreation	6,475	6,381	6,259	713
Planning and community development	528	97	487	359
Public works	5,447	1,678	3,368	4,285
Interest and fiscal charges	2,094	2,323	2,654	2,467
Total Governmental Activities Expenses	<u>40,518</u>	<u>33,157</u>	<u>35,269</u>	<u>36,497</u>
Business-Type Activities:				
Water and sewer	13,450	12,277	13,635	13,229
Solid waste disposal	6,247	5,751	5,882	5,477
Total Business-Type Activities Expenses	<u>19,697</u>	<u>18,028</u>	<u>19,517</u>	<u>18,706</u>
Total Primary Government Expenses	<u>60,215</u>	<u>51,185</u>	<u>54,786</u>	<u>55,203</u>
Program Revenues:				
Governmental Activities:				
Charges for Services:				
General government	2,386	2,940	3,065	4,896
Public safety	3,627	3,748	3,607	2,017
Cultural and recreation	1,091	1,311	1,285	1,293
Planning and community development	39	-	-	117
Public works	1,461	-	-	681
Operating grants and contributions	248	410	696	-
Capital grants and contributions	965	702	2,175	-
Total Governmental Activities Program Revenues	<u>9,817</u>	<u>9,111</u>	<u>10,828</u>	<u>9,004</u>
Business-Type Activities:				
Charges for Services:				
Water and sewer	16,880	16,172	15,493	16,316
Solid waste disposal	6,236	6,374	6,221	6,137
Capital grants and contributions	104	102	565	-
Total Business-Type Activities Program Revenues	<u>23,220</u>	<u>22,648</u>	<u>22,279</u>	<u>22,453</u>
Total Primary Government Program Revenues	<u>33,037</u>	<u>31,760</u>	<u>33,107</u>	<u>31,457</u>
Net (Expense) Revenue:				
General activities	(30,701)	(24,046)	(24,441)	(27,493)
Business-Type activities	<u>3,523</u>	<u>4,620</u>	<u>2,762</u>	<u>3,747</u>
Total Primary Government Net Expense	<u>(27,178)</u>	<u>(19,425)</u>	<u>(21,679)</u>	<u>(23,746)</u>
General Revenues and Other Changes in Net Position:				
Governmental Activities:				
Taxes:				
Property taxes	10,685	10,802	10,768	9,535
Sales taxes	13,270	12,909	12,054	12,286
Franchise taxes	2,383	2,480	2,513	2,322
Hotel taxes	1,151	926	877	661
Other	117	93	95	1,171
Unrestricted investment earnings	252	108	143	145
Gain on retirement of capital assets	75	98	94	471
Miscellaneous revenues	1,014	461	752	-
Transfers	3,723	4,023	253	5,835
Total Governmental Activities	<u>32,670</u>	<u>31,899</u>	<u>27,549</u>	<u>32,426</u>
Business-Type Activities:				
Unrestricted investment earnings	168	55	81	48
Gain on retirement of capital assets	43	35	57	7
Miscellaneous revenue	-	-	131	-
Transfers	(3,723)	(4,023)	(253)	(5,835)
Total Business-Type Activities	<u>(3,512)</u>	<u>(3,933)</u>	<u>16</u>	<u>(5,780)</u>
Total Primary Government	<u>29,158</u>	<u>27,966</u>	<u>27,565</u>	<u>26,646</u>
Change in Net Position:				
Governmental activities	1,969	7,853	3,108	4,933
Business-Type activities	<u>11</u>	<u>687</u>	<u>2,777</u>	<u>(2,033)</u>
Total Primary Government	<u>\$ 1,980</u>	<u>\$ 8,541</u>	<u>\$ 5,885</u>	<u>\$ 2,900</u>

Source: City of Lufkin accounting records.

See accompanying independent auditor's report on statistical section.

FISCAL YEAR					
2012	2011	2010	2009	2008	2007
\$ 2,706	\$ 2,114	\$ 2,978	\$ 2,425	\$ 3,572	\$ 2,457
19,673	17,812	17,122	16,333	17,327	15,493
6,472	5,740	5,814	5,722	4,960	4,757
944	406	444	382	341	351
3,681	4,992	5,095	8,148	4,454	3,629
1,374	2,870	2,477	2,256	2,108	1,947
<u>34,850</u>	<u>33,934</u>	<u>33,930</u>	<u>35,266</u>	<u>32,762</u>	<u>28,634</u>
12,619	12,676	13,594	12,854	12,844	13,151
5,025	6,032	5,796	5,872	7,163	6,051
<u>17,644</u>	<u>18,708</u>	<u>19,390</u>	<u>18,726</u>	<u>20,007</u>	<u>19,202</u>
<u>52,494</u>	<u>52,642</u>	<u>53,320</u>	<u>53,992</u>	<u>52,769</u>	<u>47,836</u>
-	-	535	98	104	151
4,022	3,989	3,268	3,530	3,222	2,494
738	624	1,494	1,548	1,446	1,291
-	-	-	-	2	4
-	16	26	52	51	107
452	750	417	1,125	1,936	292
170	909	760	911	3,395	18
<u>5,382</u>	<u>6,288</u>	<u>6,500</u>	<u>7,264</u>	<u>10,156</u>	<u>4,357</u>
16,256	16,255	14,412	13,684	14,114	13,379
6,199	6,198	5,995	5,763	5,818	5,613
-	-	226	358	49	2
<u>22,455</u>	<u>22,453</u>	<u>20,633</u>	<u>19,805</u>	<u>19,981</u>	<u>18,994</u>
<u>27,837</u>	<u>28,741</u>	<u>27,133</u>	<u>27,069</u>	<u>30,137</u>	<u>23,351</u>
(29,468)	(27,646)	(27,430)	(28,002)	(22,606)	(24,277)
4,811	3,745	1,243	1,079	(26)	(208)
<u>(24,657)</u>	<u>(23,901)</u>	<u>(26,187)</u>	<u>(26,923)</u>	<u>(22,632)</u>	<u>(24,485)</u>
9,981	9,963	9,864	9,981	9,358	8,874
11,841	11,350	10,949	11,438	11,122	10,975
2,388	2,423	2,262	2,795	2,851	2,748
76	95	90	92	86	82
4,780	3,201	3,817	3,753	2,339	1,763
195	429	294	564	1,100	1,623
77	92	61	14	-	-
-	-	-	-	-	(4,816)
3,745	(6,426)	3,051	(12,607)	1,878	1,918
<u>33,083</u>	<u>21,127</u>	<u>30,388</u>	<u>16,030</u>	<u>28,734</u>	<u>23,167</u>
136	181	254	383	657	1,055
-	44	52	16	70	93
-	-	-	-	339	4,816
<u>(3,742)</u>	<u>6,426</u>	<u>(3,051)</u>	<u>12,607</u>	<u>(1,878)</u>	<u>(1,918)</u>
<u>(3,606)</u>	<u>6,651</u>	<u>(2,745)</u>	<u>13,006</u>	<u>(812)</u>	<u>4,046</u>
<u>29,477</u>	<u>27,778</u>	<u>27,643</u>	<u>29,036</u>	<u>27,922</u>	<u>27,213</u>
3,615	(6,519)	2,958	(11,972)	6,128	(1,110)
1,205	10,396	(1,502)	14,085	(838)	3,838
<u>\$ 4,820</u>	<u>\$ 3,877</u>	<u>\$ 1,456</u>	<u>\$ 2,113</u>	<u>\$ 5,290</u>	<u>\$ 2,728</u>

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CITY OF LUFKIN, TEXAS
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

<u>FISCAL YEAR</u>		<u>PROPERTY TAX</u>		<u>SALES TAX</u>		<u>FRANCHISE TAXES</u>		<u>MIXED BEVERAGE TAX</u>		<u>HOTEL TAXES</u>		<u>TOTAL</u>
2016	\$	10,685	\$	13,270	\$	2,383	\$	117	\$	1,151	\$	27,606
2015	\$	10,802	\$	12,909	\$	2,480	\$	93	\$	926	\$	27,210
2014	\$	10,768	\$	12,054	\$	2,513	\$	95	\$	877	\$	26,307
2013	\$	9,894	\$	12,286	\$	2,322	\$	57	\$	661	\$	25,220
2012	\$	9,867	\$	11,841	\$	2,388	\$	78	\$	809	\$	24,983
2011	\$	9,813	\$	11,350	\$	2,423	\$	95	\$	848	\$	24,529
2010	\$	9,918	\$	10,949	\$	2,262	\$	90	\$	766	\$	23,985
2009	\$	9,972	\$	11,438	\$	2,795	\$	92	\$	792	\$	25,089
2008	\$	9,360	\$	11,122	\$	2,851	\$	86	\$	784	\$	24,203
2007	\$	8,903	\$	10,975	\$	2,748	\$	81	\$	690	\$	23,397

Source: City of Lufkin accounting records.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	FISCAL YEAR			
	2016	2015	2014	2013
General Fund:				
Nonspendable	\$ 214	\$ 253	\$ 249	\$ 199
Restricted	-	-	-	-
Committed	8,148	7,733	7,645	7,841
Assigned	428	-	-	398
Unassigned	1,690	3,183	2,411	1,190
Total General Fund	<u>\$ 10,480</u>	<u>\$ 11,169</u>	<u>\$ 10,305</u>	<u>\$ 9,628</u>
All Other Governmental Funds:				
Restricted:				
Debt Service Fund	\$ 1,407	\$ 1,811	\$ 1,991	\$ 2,280
Special Revenue Funds	217	309	484	440
Capital Project Funds	639	1,501	2,165	4,413
Committed:				
Special Revenue Funds	49	1,786	92	104
Capital Project Funds	980			
Assigned:				
Special Revenue Funds	1,455	(52)	1,871	1,879
Total All Other Governmental Funds	<u>\$ 4,747</u>	<u>\$ 3,544</u>	<u>\$ 6,603</u>	<u>\$ 9,116</u>

Source: City of Lufkin accounting records.

FISCAL YEAR						
	2012	2011	2010	2009	2008	2007
\$	212	\$ 208	\$ 218	\$ 214	\$ 146	\$ 130
	-	9	-	-	-	-
	7,416	7,267	7,380	7,077	6,861	6,322
	720	774	1,353	711	884	583
	1,343	3,207	2,297	3,791	3,410	4,428
\$	<u>9,691</u>	<u>\$ 11,465</u>	<u>\$ 11,248</u>	<u>\$ 11,793</u>	<u>\$ 11,301</u>	<u>\$ 11,463</u>
\$	2,022	\$ 1,612	\$ 983	\$ 973	\$ 1,582	\$ 2,364
	155	594	583	736	687	751
	1,806	6,347	1,453	2,884	1,573	4,980
	1,789	1,698	1,648	1,507	1,384	1,825
	411	189	117	89	26	189
\$	<u>6,183</u>	<u>\$ 10,440</u>	<u>\$ 4,784</u>	<u>\$ 6,189</u>	<u>\$ 5,252</u>	<u>\$ 10,109</u>

CITY OF LUFKIN, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	FISCAL YEAR			
	2016	2015	2014	2013
Revenues:				
Taxes	\$ 27,557	\$ 26,816	\$ 25,961	\$ 25,220
Licenses and permits	322	298	319	287
Fines and forfeitures	1,064	1,048	1,192	1,186
Charges for services	3,905	3,606	3,386	3,227
Interest income	110	90	127	141
Intergovernmental	5,353	5,126	6,577	4,992
Other revenues	1,039	875	1,063	1,174
Total Revenues	<u>39,350</u>	<u>37,858</u>	<u>38,625</u>	<u>36,227</u>
Expenditures:				
General government	4,195	4,071	3,843	3,522
Public safety	19,543	18,276	18,177	17,148
Cultural and recreation	6,445	5,721	5,597	5,410
Planning and community development	421	390	431	473
Public works	4,788	4,345	4,570	4,575
Debt Service:				
Principal	4,535	5,054	5,010	4,334
Interest and fiscal charges	1,926	2,193	2,455	2,448
Bond issuance costs	233	131	104	100
Capital outlay	2,153	1,568	4,569	6,107
Total Expenditures	<u>44,239</u>	<u>42,198</u>	<u>44,756</u>	<u>44,117</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,889)</u>	<u>(4,341)</u>	<u>(6,131)</u>	<u>(7,890)</u>
Other Financing Sources (Uses):				
Capital lease proceeds	-	-	-	-
Bond proceeds	-	-	5,259	-
Note proceeds	-	-	-	-
Refunding bond proceeds	9,080	-	-	-
Loss on refunding	-	-	-	-
Refunding bond premium	898	151	-	48
Insurance recovery	-	-	-	-
Bond/CO's issued	-	-	-	7,100
Payment to refunded bond escrow agent	(9,893)	-	-	-
Capital contributions	-	-	-	-
Transfers in	4,956	4,531	4,717	4,752
Transfers out	(1,450)	(725)	(5,681)	(1,141)
Total Other Financing Sources (Uses)	<u>3,591</u>	<u>3,957</u>	<u>4,295</u>	<u>10,759</u>
Net Change in Fund Balances	\$ <u>(1,298)</u>	\$ <u>(384)</u>	\$ <u>(1,836)</u>	\$ <u>2,869</u>
Debt service as a percentage of noncapital expenditures	15.91%	18.11%	23.21%	23.15%

Source: City of Lufkin accounting records.

See accompanying independent auditor's report on statistical section.

FISCAL YEAR						
	2012	2011	2010	2009	2008	2007
\$	24,983	\$ 24,528	\$ 25,961	\$ 25,090	\$ 24,203	\$ 23,397
	285	292	319	343	387	253
	1,157	1,213	1,192	1,233	1,018	728
	2,945	3,022	3,386	3,082	2,710	2,184
	174	242	127	481	796	1,172
	4,211	4,999	6,577	5,103	7,099	2,611
	1,353	523	1,063	740	1,472	755
	<u>35,108</u>	<u>34,819</u>	<u>38,625</u>	<u>36,072</u>	<u>37,685</u>	<u>31,100</u>
	3,903	3,888	3,843	3,539	4,686	3,464
	16,881	16,721	18,177	15,829	17,357	14,075
	5,056	4,770	5,597	4,765	4,480	4,181
	437	376	431	314	324	334
	4,494	4,546	4,570	7,638	5,889	4,135
	13,758	6,572	5,010	4,409	4,141	3,206
	2,451	2,678	2,455	1,871	2,002	1,746
	174	382	104	-	-	90
	6,787	5,611	4,569	1,421	7,177	2,633
	<u>53,941</u>	<u>45,544</u>	<u>44,756</u>	<u>39,786</u>	<u>46,056</u>	<u>33,864</u>
	<u>(18,833)</u>	<u>(10,725)</u>	<u>(5,477)</u>	<u>(3,714)</u>	<u>(8,371)</u>	<u>(2,764)</u>
	-	140	-	-	-	-
	-	-	-	-	-	-
	-	-	91	-	746	-
	9,680	12,130	-	-	-	9,591
	(375)	(74)	-	-	-	-
	125	968	-	-	-	-
	50	168	534	-	-	-
	-	9,660	-	17,400	-	7,610
	-	-	-	-	-	(9,580)
	-	-	-	-	1,087	(1,195)
	7,482	3,702	3,453	7,396	3,735	2,563
	<u>(4,160)</u>	<u>(10,070)</u>	<u>(552)</u>	<u>(20,641)</u>	<u>(2,216)</u>	<u>(1,143)</u>
	<u>12,802</u>	<u>16,624</u>	<u>3,526</u>	<u>4,155</u>	<u>3,352</u>	<u>7,846</u>
\$	<u>(6,031)</u>	<u>\$ 5,899</u>	<u>\$ (1,951)</u>	<u>\$ 441</u>	<u>\$ (5,019)</u>	<u>\$ 5,082</u>
	17.87%	17.99%	16.44%	16.58%	15.58%	15.36%

CITY OF LUFKIN, TEXAS
GENERAL GOVERNMENTAL FUNDS TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

<u>FISCAL YEAR</u>		<u>PROPERTY TAX</u>		<u>SALES TAX</u>		<u>FRANCHISE TAXES</u>		<u>MIXED BEVERAGE TAX</u>		<u>HOTEL TAXES</u>		<u>TOTAL</u>
2016	\$	10,637	\$	13,270	\$	2,383	\$	117	\$	1,151	\$	27,558
2015	\$	10,408	\$	12,909	\$	2,480	\$	93	\$	926	\$	26,816
2014	\$	10,422	\$	12,055	\$	2,513	\$	94	\$	877	\$	25,961
2013	\$	9,894	\$	12,286	\$	2,322	\$	57	\$	661	\$	25,220
2012	\$	9,867	\$	11,841	\$	2,388	\$	78	\$	809	\$	24,983
2011	\$	9,813	\$	11,350	\$	2,423	\$	95	\$	848	\$	24,529
2010	\$	9,918	\$	10,949	\$	2,262	\$	90	\$	766	\$	23,985
2009	\$	9,972	\$	11,438	\$	2,795	\$	92	\$	792	\$	25,089
2008	\$	9,360	\$	11,122	\$	2,851	\$	86	\$	784	\$	24,203
2007	\$	8,903	\$	10,975	\$	2,748	\$	81	\$	690	\$	23,397

Source: City of Lufkin accounting records.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
SALES TAX HISTORICAL INFORMATION
LAST TEN FISCAL YEARS

FISCAL YEAR	TAX RATE				# OF OUTLETS		SALES INFORMATION			
	REGULAR RATE	PROPERTY TAX RELIEF RATE	ECONOMIC/ INDUSTRIAL DEV SEC 4B RATE	TOTAL RATE	AVERAGE OUTLETS	% CHANGE PRIOR YEAR	GROSS SALES (000'S)	TAXABLE SALES (000'S)	% CHANGE PRIOR YEAR TAX SALES	TAXABLE SALES AS % OF GROSS SALES
2016	1.000%	0.375%	0.125%	1.500%	1,636	(2.41)%	\$ 3,298,349	\$ 869,218	0.62%	26.35%
2015	1.000%	0.375%	0.125%	1.500%	1,596	(5.48)%	\$ 3,200,576	\$ 863,900	(0.41)%	26.99%
2014	1.000%	0.375%	0.125%	1.500%	1,509	1.56 %	\$ 3,299,928	\$ 867,456	4.67 %	27.88%
2013	1.000%	0.375%	0.125%	1.500%	1,532	(1.37)%	\$ 3,134,183	\$ 828,784	4.99 %	30.91%
2012	1.000%	0.375%	0.125%	1.500%	1,511	(2.98)%	\$ 2,995,077	\$ 789,429	5.75 %	27.70%
2011	1.000%	0.375%	0.125%	1.500%	1,466	(0.93)%	\$ 2,928,866	\$ 746,515	2.00 %	33.07%
2010	1.000%	0.375%	0.125%	1.500%	1,453	2.69 %	\$ 2,829,466	\$ 731,889	(3.90)%	25.87%
2009	1.000%	0.375%	0.125%	1.500%	1,415	(0.84)%	\$ 2,303,291	\$ 761,593	(1.23)%	33.07%
2008	1.000%	0.375%	0.125%	1.500%	1,427	1.78 %	\$ 2,783,423	\$ 771,106	(0.82)%	27.70%
2007	1.000%	0.375%	0.125%	1.500%	1,402	(0.67)%	\$ 2,515,675	\$ 777,475	11.13%	30.91%

TAXABLE SALES BY INDUSTRY
LAST TEN FISCAL YEARS

FISCAL YEAR	TAXABLE SALES BY INDUSTRY						INFORMATION (000'S)	MISC ⁽¹⁾ (000'S)
	MANUFACTURING (000'S)	RETAIL TRADE (000'S)	ACCOMMODATION FOOD SERVICE (000'S)	WHOLESALE TRADE (000'S)				
2016	\$ 25,236	\$ 506,108	\$ 130,113	\$ 51,875	\$ 67,801	\$ 88,085		
2015	\$ 38,485	\$ 495,129	\$ 127,784	\$ 47,615	\$ 67,931	\$ 86,955		
2014	\$ 73,552	\$ 483,795	\$ 117,845	\$ 40,916	\$ 66,761	\$ 84,587		
2013	\$ 51,024	\$ 474,307	\$ 113,450	\$ 44,725	\$ 63,670	\$ 81,607		
2012	\$ 40,310	\$ 454,266	\$ 108,829	\$ 49,519	\$ 64,671	\$ 71,834		
2011	\$ 29,789	\$ 445,324	\$ 100,934	\$ 37,583	\$ 62,636	\$ 70,249		
2010	\$ 27,375	\$ 436,093	\$ 96,081	\$ 39,482	\$ 64,900	\$ 67,959		
2009	\$ 22,494	\$ 454,137	\$ 67,674	\$ 45,259	\$ 64,348	\$ 107,681		
2008	\$ 37,719	\$ 430,941	\$ 95,650	\$ 53,825	\$ 68,809	\$ 84,162		
2007	\$ 41,487	\$ 425,475	\$ 91,902	\$ 43,337	\$ 80,881	\$ 94,392		

⁽¹⁾ Miscellaneous includes construction, transportation/warehousing, education, finance/insurance, and other industries

Source: Texas Comptroller Public Accounts website

CITY OF LUFKIN, TEXAS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

FISCAL YEARS	REAL PROPERTY		PERSONAL PROPERTY		LESS: TAX EXEMPT REAL PROPERTY	TOTAL TAXABLE ASSESSED VALUE	TOTAL DIRECT TAX RATE	ESTIMATED ACTUAL TAXABLE VALUE	ASSESSED VALUE AS A PERCENTAGE OF ACTUAL VALUE
	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	PERSONAL PROPERTY	MINERAL					
2016	\$ 768,569	\$ 936,793	\$ 568,133	\$ -	\$ 224,415	\$ 2,049,080	0.52942	\$ 2,273,494	90.13%
2015	\$ 758,004	\$ 935,930	\$ 533,785	\$ -	\$ 214,697	\$ 2,013,023	0.52380	\$ 2,227,720	90.36%
2014	\$ 764,341	\$ 927,495	\$ 550,627	\$ -	\$ 227,004	\$ 2,015,459	0.05038	\$ 2,242,462	89.88%
2013	\$ 773,305	\$ 883,472	\$ 541,395	\$ -	\$ 208,709	\$ 1,989,464	0.05038	\$ 2,198,174	90.51%
2012	\$ 776,165	\$ 875,537	\$ 512,846	\$ -	\$ 201,141	\$ 1,936,207	0.05138	\$ 2,164,348	89.46%
2011	\$ 787,785	\$ 881,832	\$ 466,059	\$ -	\$ 198,699	\$ 1,936,977	0.05138	\$ 2,135,676	90.70%
2010	\$ 736,618	\$ 848,592	\$ 500,690	\$ -	\$ 200,075	\$ 1,885,825	0.05338	\$ 2,085,900	90.41%
2009	\$ 702,468	\$ 768,224	\$ 496,381	\$ 4	\$ 163,968	\$ 1,803,109	0.05554	\$ 1,967,077	91.66%
2008	\$ 658,775	\$ 692,076	\$ 505,176	\$ 15	\$ 151,349	\$ 1,704,693	0.05554	\$ 1,856,042	91.85%
2007	\$ 648,564	\$ 615,039	\$ 472,677	\$ -	\$ 144,018	\$ 1,592,262	0.05554	\$ 1,736,280	91.71%

Source: Angelina County Appraisal District

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY OF LUFKIN			LUFKIN INDEPENDENT SCHOOL DISTRICT		
	OPERATING MILEAGE	DEBT SERVICE MILEAGE	TOTAL CITY MILEAGE	OPERATING MILEAGE	DEBT SERVICE MILEAGE	TOTAL SCHOOL MILEAGE
2016	0.37380	0.15000	0.52380	1.17000	0.04300	1.21300
2015	0.36380	0.16000	0.52380	1.04000	0.17300	1.21300
2014	0.33380	0.17000	0.50380	1.04000	0.16700	1.20700
2013	0.33380	0.17000	0.50380	1.04000	0.17000	1.21000
2012	0.33380	0.18000	0.51380	1.04000	0.16500	1.20500
2011	0.33380	0.18000	0.51380	1.04000	0.16000	1.20000
2010	0.33160	0.20220	0.53380	1.04000	0.17200	1.21200
2009	0.35320	0.20220	0.55540	1.04000	0.11300	1.15300
2008	0.35320	0.20220	0.55540	1.04000	0.07000	1.11000
2007	0.35320	0.20220	0.55540	1.04000	0.07000	1.11000

FISCAL YEAR	ANGELINA COUNTY			ANGELINA COLLEGE DISTRICT			TOTAL ESTIMATED MILEAGE
	OPERATING MILEAGE	DEBT SERVICE MILEAGE	TOTAL CITY MILEAGE	OPERATING MILEAGE	DEBT SERVICE MILEAGE	TOTAL SCHOOL MILEAGE	
2016	0.41400	0.04229	0.45629	0.12744	0.04446	0.17190	2.36499
2015	0.42160	0.04380	0.46540	0.12610	0.04580	0.17190	2.37410
2014	0.42300	0.04390	0.46690	0.12240	0.04828	0.17068	2.34838
2013	0.41630	0.04560	0.46190	0.12240	0.04828	0.17068	2.34638
2012	0.41930	0.03290	0.45220	0.11880	0.04820	0.16700	2.33800
2011	0.40380	0.04370	0.44750	0.11000	0.04900	0.15900	2.32030
2010	0.38940	0.04340	0.43280	0.10350	0.05170	0.15520	2.33380
2009	0.38940	0.04340	0.43280	0.10350	0.05170	0.15520	2.29640
2008	0.46120	-	0.46120	0.10180	0.03570	0.13750	2.26410
2007	0.45120	-	0.46120	0.09690	0.02260	0.11950	2.23610

Source: Angelina County Tax Assessor's Office
Tax rates per 100 dollars of value

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
 PRINCIPAL PROPERTY TAXPAYERS
 September 30, 2016
 (amounts expressed in thousands)

TAXPAYER	2016			2007		
	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE
Lufkin Industries	\$ 62,066	1	3.03%	\$ 52,423	1	3.29%
Consolidated Comm of Texas	\$ 29,977	2	1.46%	\$ 35,569	2	2.05%
Brookshire Brothers, Inc.	\$ 27,702	3	1.35%	\$ 25,086	3	1.58%
Pilgrim Industries Inc.	\$ 24,121	4	1.18%	\$ 21,478	5	1.35%
Oncor Electric Delivery Co.	\$ 23,208	5	1.13%	\$	-	
Georgia Pacific Chemicals	\$ 17,432	6	0.85%	\$	-	
Lufkin GKD Partners LP	\$ 15,188	7	0.74%	\$	-	
BVMC Lufkin LLC	\$ 13,449	8	0.66%	\$	-	
Piney Woods Healthcare System LP	\$ 13,091	9	0.64%	\$ 13,385	9	0.84%
Quad/Graphics Marketing	\$ 12,495	10	0.61%	\$	-	
TXU Electric Delivery	\$	-		\$ 21,752	4	1.37%
Texas Foundries LTD	\$	-		\$ 20,895	6	1.31%
Pineywoods Healthcare Systems	\$	-		\$ 17,319	7	1.09%
Georgia Pacific Corp	\$	-		\$ 15,191	8	0.95%
American Color Graphics	\$	-		\$ 12,640	10	0.80%

Source: Angelina County Appraisal District

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

FISCAL YEAR	TOTAL TAX LEVY FOR FISCAL YEAR		COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
			AMOUNT	PERCENTAGE OF LEVY		AMOUNT	PERCENTAGE OF LEVY
2016	\$	10,552	\$ 10,307	97.68%	\$ -	\$ 10,546	99.94%
2015	\$	10,311	\$ 10,103	97.97%	\$ -	\$ 10,103	97.98%
2014	\$	9,927	\$ 9,734	98.06%	\$ 67	\$ 9,801	98.73%
2013	\$	9,893	\$ 9,552	96.55%	\$ 175	\$ 9,727	98.32%
2012	\$	9,874	\$ 9,493	96.14%	\$ 182	\$ 9,675	97.98%
2011	\$	9,726	\$ 9,478	97.45%	\$ 95	\$ 9,573	98.43%
2010	\$	9,894	\$ 9,676	97.80%	\$ 18	\$ 9,694	97.98%
2009	\$	9,874	\$ 9,653	97.76%	\$ 147	\$ 9,800	99.25%
2008	\$	9,292	\$ 9,125	98.20%	\$ 76	\$ 9,201	99.02%
2007	\$	8,803	\$ 8,615	97.86%	\$ 93	\$ 8,708	98.92%

Source: Angelina County Tax Assessor's Office

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita amount)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES				BUSINESS-TYPE ACTIVITIES			TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME ¹	PER CAPITA ¹
	GENERAL OBLIGATION BONDS	CERTIFICATES OF OBLIGATION	CAPITAL LEASES	NOTES PAYABLE	WATER WORKS AND SEWER SYSTEM BONDS	NOTES PAYABLE	CAPITAL LEASES			
2016	30,560	26,040	-	-	-	22	-	56,622	6.72%	1,558.42
2015	26,460	34,985	-	-	-	29	-	61,474	8.03%	1,700.95
2014	21,670	44,425	-	-	-	48	-	66,143	8.65%	1,832.98
2013	24,430	41,400	-	147	1,070	66	-	67,113	8.53%	1,863.78
2012	27,085	35,800	-	364	1,135	83	-	64,467	9.04%	1,838.40
2011	24,100	42,705	-	514	1,195	83	-	68,597	9.62%	1,956.17
2010	13,990	37,935	-	588	11,400	228	-	64,141	9.52%	1,775.82
2009	15,825	39,925	-	622	12,165	378	-	68,915	9.72%	1,995.80
2008	18,185	24,450	-	746	11,690	527	-	55,598	7.70%	1,629.44
2007	20,445	26,245	86	-	11,330	165	-	58,271	8.25%	1,716.83

¹ See the Schedule of Demographic and Economic Statistics on page 127 for income and population data.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita amount)

<u>FISCAL YEAR</u>	<u>GENERAL OBLIGATION BONDS</u>	<u>LESS: AMOUNTS AVAILABLE IN DEBT SERVICE FUND</u>	<u>TOTAL</u>	<u>PERCENTAGE OF ESTIMATED ACTUAL TAXABLE VALUE ¹ OF PROPERTY</u>	<u>PER CAPITA ²</u>
2016	30,560	1,407	29,153	1.28%	802.38
2015	26,480	1,811	24,669	1.10%	682.58
2014	21,670	1,991	19,679	0.90%	545.35
2013	24,430	2,280	22,150	1.02%	615.12
2012	27,085	2,022	25,063	1.17%	707.49
2011	24,100	1,612	22,488	1.08%	641.29
2010	13,990	984	13,006	0.66%	36.09
2009	15,825	973	14,852	0.80%	430.12
2008	18,185	1,582	16,603	0.96%	486.59
2007	20,445	2,364	18,081	1.05%	532.72

¹ See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

² See the Schedule of Demographic and Economic Statistics for personal income and population data.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
September 30, 2016
(amounts expressed in thousands)

GOVERNMENTAL UNIT	DEBT OUTSTANDING	ESTIMATED PERCENTAGE APPLICABLE ¹	ESTIMATED SHARE OF OVERLAPPING DEBT
Direct:			
City of Lufkin	\$ 56,600	100.00%	\$ 56,600
Overlapping:			
Angelina County	5,565	50.77%	2,825
Angelina County Junior College District	16,282	50.14%	8,164
Hudson Independent School District	17,723	14.17%	2,511
Lufkin Independent School District	48,593	80.07%	38,908
Total Overlapping	88,163		52,408
Total Direct and Overlapping Debt	\$ 144,763		\$ 109,008

Sources: Angelina County Auditor, Angelina College, Hudson ISD and Lufkin ISD.
Assessed value data used to estimate applicable percentages provided by Tax Assessor-Collector and Appraisal District

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of taxable assessed value and dividing it by the total taxable assessed value.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
LEGAL DEBT MARGIN INFORMATION
September 30, 2016

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

The City's Charter (Section 6) states:

"The city shall have the power to borrow money on the credit of the city and to issue general obligation bonds for permanent public improvements or for any other public purpose not prohibited by the constitution of the State of Texas and to issue refunding bonds to refund outstanding bonds of the city previously issued. All such bonds shall be issued in conformity with the laws of the State of Texas."

Article 11, Section 5 of the State of Texas Constitution states in part:

"...but no tax for any purpose shall ever be lawful for one year, which shall exceed two and one-half percent of the taxable property of such city."

The tax rate of September 30, 2016 is \$0.5238 per \$100 of assessed valuation with assessed valuation being 100% of appraised value.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (amounts expressed in thousands)

<u>FISCAL YEAR</u>	<u>WATER AND SEWER CHARGES AND OTHER</u>	<u>LESS: OPERATING EXPENSES¹</u>	<u>NET AVAILABLE REVENUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>COVERAGE</u>
2016	17,025	13,450	3,575	-	-	-
2015	15,865	12,006	3,859	-	-	-
2014	15,616	11,165	4,451	-	-	-
2013	16,320	10,882	5,438	65	53	46.08
2012	16,256	10,234	6,022	65	49	52.82
2011	16,294	10,016	6,278	60	52	56.05
2010	14,628	11,002	3,626	795	429	2.96
2009	13,892	10,556	3,336	765	443	2.76
2008	14,791	11,091	3,700	740	433	3.17
2007	13,985	10,895	3,090	715	404	2.76

¹ Excludes depreciation

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION ¹	PERSONAL INCOME ¹ (amounts expressed in thousands)	PER CAPITA PERSONAL INCOME	MEDIAN AGE	EDUCATION LEVEL IN YEARS OF FORMAL SCHOOLING	SCHOOL ENROLLMENT ²	UNEMPLOYMENT RATE
2016	36,333	842,054	23.18	34.0	13.1	8,348	6.4
2015	36,141	765,611	21.18	34.0	13.1	8 271	3.8
2014	36,085	764,425	21.18	34.0	13.1	8 271	3.8
2013	36,009	787,013	21.86	35.4	13.1	8 325	7.1
2012	35,425	720,580	20.34	34.0	13.1	8 448	7.2
2011	35,067	713,298	20.34	34.0	13.1	8 514	8.5
2010	36,119	673,836	18.66	35.8	13.1	8 540	7.9
2009	34,530	709,056	20.53	35.5	13.1	8 656	8.7
2008	34,121	721,659	21.15	35.3	13.1	8 514	4.6
2007	33,941	706,720	20.82	35.3	13.1	8 390	4.3

Data Sources:

¹ www.census.gov/quickfacts

² Lufkin Independent School District

Note: Population, median age, and education level information are estimates after Fiscal year 2016 and are based on growth estimates. School enrollment is based on the census at the start of the school year.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND FIVE YEARS AGO

EMPLOYER	2016			2011		
	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT
Lufkin ISD	1000+	1	4.26%	1000+	1	5.98%
Pilgrim's Pride	1000+	2	3.60%	1000+	2	5.71%
Brookshire Brothers/Polk Oil	1000+	3	3.05%	1000+	4	5.44%
Lufkin State Supported Living Center	1000+	4	3.05%	1000+	5	4.41%
CHI St. Luke's Health	1000+	5	3.00%			
Woodland Heights Medical Center	500-999	6	1.57%	500-999	9	1.95%
Georgia Pacific	500-999	7	1.51%			
City of Lufkin	400-500	8	1.27%	500-999	10	1.70%
Walmart	400-500	9	1.25%	50-999	8	2.05%
Angelina County	400-500	10	1.11%			
Lufkin Industries				1000+	3	5.57%
Memorial Health Systems				1000+	6	4.36%
Temple-Inland				500-599	7	2.16%

Source: www.lufkinedc.com

Source: Lufkin Economic Development

CITY OF LUFKIN, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government	31	31	27	27	26	26	27	22	22	22
Public Safety:										
Police:										
Officers	79	78	76	76	76	76	76	76	76	77
Civilians	39	37	39	39	41	40	40	39	39	39
Fire:										
Officers	79	79	79	79	79	79	78	77	77	77
Civilians	2	2	2	2	2	4	5	5	5	5
Cultural and recreation	69	68	67	66	64	61	61	58	58	58
Community development	10	10	11	11	11	10	10	7	7	7
Public works	58	57	58	58	57	57	58	56	56	56
Water	33	33	33	33	33	31	31	33	33	33
Sewer	37	38	38	38	38	40	40	42	42	42
Solid waste	33	34	34	34	33	33	33	36	36	36
Total	<u>470</u>	<u>467</u>	<u>464</u>	<u>463</u>	<u>460</u>	<u>457</u>	<u>459</u>	<u>451</u>	<u>451</u>	<u>452</u>

Source: City of Lufkin Budget Document

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Police:										
Physical arrests	1,534	1,589	1,779	1,770	1,663	1,995	1,913	2,021	2,210	1,935
Parking violations	37	25	178	26	44	533	857	808	1,319	2,087
Traffic violations	5,905	6,708	9,481	8,401	10,793	12,298	12,136	9,803	10,208	9,390
Fire:										
Number of calls answered ⁽¹⁾	12,975	13,181	12,465	11,969	8,283	2,546	1,201	1,238	1,322	1,227
Inspections	517	337	375	458	672	314	426	1,041	578	1,055
Highways and Streets:										
Street resurfacing (miles)	3.75	3	3	3	3	3	4	4	5	3
Potholes repaired	525	661	568	580	617	948	1,977	1,809	1,385	1,402
Sanitation:										
Refuse collected (cu yd/day)	510	417	511	407	564	707	705	714	972	276
Recyclables collected (tons/day)	12	12	12	12	11	11	10	9	7	12
Cultural and Recreation:										
Community center rentals	242	242	283	252	253	491	233	466	413	385
Water:										
New connections	59	125	27	110	136	107	102	95	176	156
Water mains breaks	475	460	414	465	456	598	647	635	650	682
Average daily consumption (thousands of gallons)	11,910	10,571	7,354	6,192	7,549	8,540	7,459	7,825	7,806	8,097
Wastewater:										
Average daily sewage treatment (thousands of gallons)	5,667	4,964	5,175	5,463	5,226	4,959	5,251	5,999	8,353	6,491

Source: Various city departments

⁽¹⁾ Starting FY2013 the methodology for measuring number of Fire calls answered include EMS and Fire calls.

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Public Safety:										
Police:										
Stations	1	1	1	1	1	1	1	2	2	2
Patrol units	22	22	22	19	20	19	19	19	19	19
Fire:										
Fire stations	4	4	5	5	5	4	5	5	5	5
Sanitation:										
Collection trucks	19	19	19	19	19	19	19	19	19	21
Highways and Streets:										
Streets (miles)	211.4	211.4	211.4	208.8	208.8	208.9	282.6	282.4	281.6	280.3
Streetlights	3,649	3,649	3,649	3,649	3,649	3,641	3,626	3,604	3,642	3,568
Traffic signals	3	3	3	3	3	3	3	3	2	2
Cultural and Recreation:										
Parks acreage	650.0	650.0	653.0	653.0	653.0	655.0	659.9	653.0	653.0	653.0
Parks	16	16	16	16	16	16	16	16	16	16
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	11	13	13	13	13	13	13	13	13	11
Community centers	2	2	2	2	2	2	2	2	3	3
Water										
Water mains (miles)	694	685	685	685	685	685	679	679	679	679
Fire hydrants	1,770	1,770	1,770	1,759	1,758	1,694	1,648	1,640	1,536	1,479
Maximum daily capacity in thousands of gallons	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Sewer:										
Sanitary sewers (miles)	273.5	272.7	272.7	272.5	270.8	270.8	269.9	269.5	268.7	267.4
Storm sewers (miles)	17.0	16.9	16.9	16.9	16.9	16.9	16.7	16.5	16.5	15.3
Maximum daily treatment capacity in thousands of gallons	11,300	11,300	11,300	11,300	17,100	17,100	17,100	11,300	11,300	11,300

Source: Various city departments

See accompanying independent auditor's report on statistical section

CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES
For the Year Ended September 30, 2016

Approved Rates

The monthly billing rates for water, sewer, and sanitation services as approved by the City Council effective October 1, 2015 were as follows:

Water Rates

Residential per thousand gallons inside City Limits:		
First 2,000 gallons (minimum)	\$	13.26
Next 8,000 gallons	\$	3.40 per thousand
Above 10,000 gallons	\$	3.93 per thousand
Commercial per thousand gallons inside City Limits:		
First 2,000 gallons (minimum)	\$	13.26
Next 48,000 gallons	\$	3.40 per thousand
Above 50,000 gallons	\$	3.93 per thousand
Irrigation per thousand gallons inside City Limits:		
First 2,000 gallons (minimum)	\$	13.26
Next 8,000 gallons	\$	3.40 per thousand
Above 10,000 gallons	\$	3.93 per thousand
Residential per thousand gallons outside City Limits:		
First 2,000 gallons (minimum)	\$	19.89
Next 8,000 gallons	\$	5.10 per thousand
Above 10,000 gallons	\$	5.90 per thousand
Commercial per thousand gallons outside City Limits:		
First 2,000 gallons (minimum)	\$	19.89
Next 48,000 gallons	\$	5.10 per thousand
Above 50,000 gallons	\$	5.90 per thousand
Irrigation per thousand gallons outside City Limits:		
First 2,000 gallons (minimum)	\$	19.89
Next 8,000 gallons	\$	5.10 per thousand
Above 10,000 gallons	\$	5.90 per thousand
Residential per thousand gallons Burke Water:		
First 2,000 gallons (minimum)	\$	22.54
Next 8,000 gallons	\$	5.80 per thousand
Above 10,000 gallons	\$	6.68 per thousand
Commercial per thousand gallons Burke Water:		
First 2,000 gallons (minimum)	\$	22.54
Next 48,000 gallons	\$	5.80 per thousand
Above 50,000 gallons	\$	6.68 per thousand
Irrigation per thousand gallons Burke Water:		
First 2,000 gallons (minimum)	\$	22.54
Next 8,000 gallons	\$	5.80 per thousand
Above 10,000 gallons	\$	6.68 per thousand
Industrial per thousand gallons inside City Limits:		
First 2,000 gallons (minimum)	\$	313.76
Above 2,000 gallons	\$	2.22 per thousand
Industrial per thousand gallons outside City Limits:		
First 2,000 gallons (minimum)	\$	470.64
Above 2,000 gallons	\$	3.33 per thousand
Wholesale per thousand gallons:		
First 2,000 gallons (minimum)	\$	11.24
Above 2,000 gallons	\$	2.21 per thousand

Water rates, including the minimum charge and gallonage cost, for other residential and commercial customers within the extraterritorial limits of the City of Lufkin, Texas shall be one and one-half (1½) times that rate inside the city limits.

Water rates, including the minimum charge and gallonage cost, for those residential and commercial customers outside the extraterritorial limits of the City of Lufkin, Texas shall be two (2) times that rate inside the city limits.

CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES - CONTINUED
For the Year Ended September 30, 2016

Sewer Rates

General Sewer Rates for Residential:

The Residential and Commercial rates are based on the following formulas:

User charge for water usage < 2,000 gallons = Cc
User charge for water usage > 2,000 gallons = (V-2000 x Cv) + Cc
Where Cc = Customer charge, \$11.99
V = metered water use above 2,000 gallons, in 1,000 gallons
Cv = user charge for volume per 1,000 gallons

Residential:	Consumption in 1000 X	3.88	+11.99 Does not stop
Commercial:	Consumption in 1000 X	4.29	+11.99 Does not stop

The following Commercial sewer rates are based on the following formula:

User charge = (V x Cv) + Cc
Where Cc = Customer charge, \$11.99
V = metered water use in 1,000 gallons
Cv = user charge for volume per 1,000 gallons

General:	Consumption in 1000 X	4.2900000	+11.99 Does not stop
Restaurant:	Consumption in 1000 X	8.4600000	+11.99 Does not stop

Multi-unit dwellings shall be charged on a per unit basis by dividing the total water use on the master meter by the number of units in the dwelling. This average consumption per unit will be used to calculate the wastewater user charge for each unit. Then the average charge per unit, times the number of units, equals the total user charge for that meter.

Outside the city limits, the rate shall be equivalent to two (2) times that rate inside the city limits.

Outside the City's extraterritorial limits, the rate shall be equivalent to two and one-half (2 ½) times that rate inside the city limits.

Change in method of charging residential customers (single and double units) is to be based on an average of consumption taken for the months of December, January, and February on a yearly basis.

If the customer does not have all three months consumption, the sewer charge is to be based on monthly consumption until such average is attainable.

Commercial and Industrial Users Rates:

The rates for commercial and industrial customers shall be determined by the following equation:

User charge = Cc + V (Cv + (Cb X BOD) + (Cs X TSS))
Where: Cc = Customer charge, \$11.99
V = metered water use or measured wastewater discharge, 1,000 gallons
Cv = user charge for volume per 1,000 gallons
Cb = User charge for BOD per mg/1 X 1,000 gallons
BOD = Biochemical oxygen demand, mg/1
Cs = User charge for TSS per mg/1 X 1,000 gallons
TSS = Total suspended solids, mg/1

Formula: 11.99 + V (2.36 + (.004 x BOD) + (.00226 x TSS))

CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES - CONTINUED
For the Year Ended September 30, 2016

Sanitation Rates

Residential:	\$ 14.48 plus sales tax
Commercial:	\$ 20.00 plus sales tax
2 container resident	\$ 19.48 + 1.61 = 21.09
	\$ 5.20 each additional gray can
	\$ 5.94 per cubic yard
	\$ 10.26 per non-compacted cubic yard
	\$ 10.26 per compacted cubic yard
	\$ 2.64 per cubic yard recycling

System Connections:

<u>AT SEPTEMBER 30, 2016</u>	<u>WATER</u>	<u>SEWER</u>
Number of metered customers	15,568	12,608
Gallons of water pumped	2,725,899,000	-
Gallons of water sold	2,240,796,400	-

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
For the Year Ended September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
Ohio Casualty Insurance Company	Crime-Public Dishonesty		\$ 10,000
	Crime Forgery & Alteration		10,000
	Crime, Theft, Disappearance & Destruction		10,000
	Crime Coverage-Fraud		10,000
Texas Municipal League	Boiler and Machinery Deductible	10-01-15 to 9-30-16	3,000,000 2,500
	Auto Liability Deductible	10-01-15 to 9-30-16	1,000,000 500
	Law Enforcement Liability Deductible	10-01-15 to 9-30-16	1,000,000 10,000
	Errors and Omissions Liability Deductible	10-01-15 to 9-30-16	1,000,000 10,000
	General Liability Deductible	10-01-15 to 9-30-16	1,000,000 10,000
	Real and Personal Deductible	10-01-15 to 9-30-16	2,500
	City Hall/Police		7,377,947
	City Hall/Police contents		1,529,004
	Civic Center		10,189,643
	Civic Center contents		1,400,000
	City Hall Annex		420,417
	City Hall Annex contents		25,000
	Fine Arts		498,450
	Sewer Treatment Plant		800,021
	Recycling Building		651,999
	Recycling Building contents		500,000
	Wastewater Administration Building		379,103
	Administration Building contents - WW		50,000
	Waterworks Plants/Buildings		984,048
	Sewer Treatment Buildings		512,373
	Solid Waste Building		541,283
	Solid Waste Building contents		680,000
	Fleet office/Maint shop/Extras		1,389,050
	Animal Control		986,815
	Animal Control contents		155,000
	Kurth Memorial Library		6 788,585
	Kurth Memorial Library contents		3,000,000
	Police Radio Antenna		102,516
	Animal Control Barn		33,728
	Animal Control Barn contents		45,000
	Computer Equipment		2,500,000
	Community Center Building - Keltys		241,937
	Community Center Building - Keltys contents		6,000
	Community Center Building - Pershing		259,672
	Community Center Building - Pershing contents		6,000
	Downtown Center		1,264,223
	Downtown Center contents		33,000
	Fire Station 1		676,808
	Fire Station 1 contents		115,000
	Fire Station 2		5,346,395
	Fire Station 2 contents		29,600
	Fire Station 3		1,702,477
	Fire Station 3 contents		125,000
	Fire Station 4		1,016,135
	Fire Station 4 contents		125,000
	Fire Station 5		1,254,488
	Fire Station 5 contents		100,000
	Fire Station 1112 Atkinson - Building and contents		344,324
	Fire Station 2815 S. John Redditt - Building and contents		409,957

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
For the Year Ended September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Fire Communication Tower		47,772
	Fire Station 5-Poles & Sign		14,986
	Ellis Ave Building Police		300,576
	Ellis Ave Building Police contents		80,000
	Southbase Police Office contents		80,000
	Small Animal Building - Zoo		309,597
	Small Animal Building - Zoo contents		50,000
	Entrance Gift/Food Concession - Zoo		105,181
	Entrance Gift/Food Concession - Zoo contents		75,000
	Hippo Pool - Zoo		102,516
	Large Cat Exhibit - Zoo		110,614
	Large Cat Exhibit - Zoo contents		3,500
	Office/Residence - Zoo		123,019
	Office/Residence - Zoo contents		8,000
	Clinic/Isolation - Zoo		110,819
	Clinic/Isolation - Zoo contents		110,000
	Necropsy/Freezer - Zoo		59,049
	Necropsy/Freezer - Zoo contents		35,000
	Giraffe/Rhino Exhibit - Zoo		163,820
	Giraffe/Rhino Exhibit - Zoo contents		15,000
	Admissions/Restroom		136,038
	Admissions/Restroom contents		8,000
	Entrance Cover/Zoo Circle		3,588
	Hippoquarium Building		99,235
	Hippoquarium Building contents		20,000
	Zoo-Front Entrance		14,175
	Old City Hall 210 E. Lufkin Ave.		677,833
	Offices/3 Bay Garage		427,900
	Offices/3 Bay Garage content		300,000
	Spray Play/Canopy/Sail		32,805
	Spray Play - Chambers		104,566
	Spray Play - Kiwanis		104,566
	Spray Play - Jones Park		104,566
	Basketball Court and Light Fixture		554,400
	Concession/Restroom/MTC/Pavilion		337,686
	Concession/Restroom contents		50,000
	(8 Fields) of Light Poles		820,125
	Concession - Windsor		70,326
	(5 Fields) of Lights		512,578
	Parking Lot Lights		102,516
	Storage Building		103,438
	Storage Building contents		30,000
	Residence - 3110 Southwood		132,553
	Restrooms - Zoo		93,597
	Restrooms - Zoo contents		3,000
	Animal Exhibit/Holding		33,523
	Animal Exhibit/Holding contents		4,000
	Lift Station 701		256,289
	Lift Station 702		179,402
	Lift Station 704		25,629
	Lift Station 705		10,252
	Lift Station 706		51,258
	Lift Station 710		25,629
	Lift Station 711		51,258
	Lift Station 713		51,258
	Lift Station 714		25,629
	Lift Station 716		25,629
	Lift Station 722		51,258
	Lift Station 724		51,258
	Lift Station 715S		25,629
	Lift Station 719S		5,126
	Lift Station 720S		5,126
	Lift Station 725		15,377
	Lift Station 726		25,629
	Lift Station 727		10,252
	Water Well 3		51,258
	Water Well 5		51,258

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
For the Year Ended September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Water Well 6		51,258
	Water Well 7		51,258
	Water Well 9		51,258
	Water Well 10		51,258
	Water Well 11		51,258
	Water Well 12		205,031
	Water Well 13		205,031
	Water Well 14		205,031
	Water Well 15		205,031
	Pump Station Lab/Office		136,858
	Chlorination Building		49,515
	Pump Station Office		48,182
	Chlorination Building		28,192
	200hp Blower #6		61,509
	Sludge Transfer Pumps		35,880
	Restrooms - Boys Complex MFP		113,382
	Equipment Maintenance Building		31,882
	Pavilion		43,364
	Warehouse		323,949
	Office		809,053
	Vehicle Storage		132,655
	Washbay		7,484
	Fuel Station		31,267
	Sewer Rehab Building		35,778
	Recycling Warehouse		163,307
	Education Building		1,178,520
	Fuel Station		7,279
	Intake Structure (River)/Pump Station		2,050,313
	Intake Structure/Pump Station (Rivercrest Red)		2,050,313
	Pumping Station - N. Davisville Rd		2,050,313
	2M gal Elevated Water Tank		1,310,355
	2M gal Elevated Water Tank		1,310,355
	Water Well #21		51,258
	Water Well #23		51,258
	Water Well #24		51,258
	Water Well #25		51,258
	Water Well #26		51,258
	Water Well #28		51,258
	Water Well #29		51,258
	Water Well #30		51,258
	Water Well #31		51,258
	Water Well #32		51,258
	Water Well #33		51,258
	Water Well #34		51,258
	Water Plant #2-Generator 600kw		101,250
	Kurth Lake Lodge		170,381
	Kurth Lake Lodge contents		10,000
	Caretake House		119,533
	12K gal Unleaded Gas Tank - Davis St.		41,006
	12K gal Unleaded Gas Tank - Davis St. contents		20,000
	12K gal Diesel Tank - Davis St.		41,006
	12K gal Diesel Tank - Davis St. contents		20,000
	12K gal Unleaded Gas Tank - S. Park		41,006
	12K gal Unleaded Gas Tank - S. Park contents		20,000
	12K gal Diesel Tank - 500 S. Park		41,006
	12K gal Diesel Tank - 500 S. Park contents		20,000
	Pines Theater		1,537,734
	Pines Theater contents		75,000
	Restroom - Girl's Complex MFP		125,684
	Restroom - 500 Pershing Ave		49,925
	Restroom - 200 Mott Dr		77,399
	Restroom - Jones Park		64,380
	Restroom - 1117 S Timberland Dr		54,743
	Restrooms/Concessions - 420 Jack St		38,341
	Animal Control - 1901 Hill St		153,158
	Animal Control - 1901 Hill St contents		12,000
	Komodo Dragon		47,157

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
For the Year Ended September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Komodo Dragon contents		1,000
	Asia Building		95,340
	Asia Building contents		3,000
	Rotary Parrot Exhibits		30,242
	Vet Shed contents		9,000
	Entrance Gates		36,906
	Lift Station - Sewer		25,629
	Digester #1 - 3510 Southwood		3,075,469
	Digester #2 - 3510 Southwood		3,075,469
	Digester #3 - 3510 Southwood		3,075,469
	500K gal Elevated Water Tank - 2020 Wood Ave		1,235,664
	500K gal Elevated Water Tank - 1010 Kiln Ave		1,445,675
	1M gal Elevated Water Tank - 321 Ellen St		2,117,943
	Lift Station - Sewer 1805 Copeland St		51,258
	Generator - Water Plant		71,761
	2M gal Ground Water Tank		1,310,355
	1M gal Elevated Water Tank - 321 Ellen St		771,430
	500 KW Generator - WWTP		153,773
	30 ft Flag Poles		28,704
	3 SB Fields w/10 Light Poles		133,270
	Hay Storage		50,028
	Maintenance Building		167,716
	Oil Storage Building		9,739
	Blower Building		33,010
	Restroom - Jones Park		59,049
	1M gal Ground Water Tank #2		771,430
	1M gal Ground Water Tank #3		771,430
	1M gal Ground Water Tank #4		771,430
	Communication Towers		104,050
	Control Building - Spray Parks		22,861
	Concession/Restroom - MFP		128,452
	Memorial Shelter - Zoo		23,271
	Parks & Rec 903 Old Moffett Restroom		121,379
	Parks & Rec Pavilions		802,395
	Parks & Rec Maintenance/Storage		51,975
	Parks Bleacher Covers		122,712
	Parks Batting Cage		23,989
	Parks Gazebo		91,649
	Parks Office		25,629
	Public Works Veh/Equip Shelter		83,755
	Parks Signs		51,769
	Jones Park-Floating Dock		40,000
	Ellen Trout Park-Restrooms		125,000
	Courthouse		1 294,886
	AmphiTheater with Mural		112,767
	Rental Building-Armory Dr		558,710
	Street-Wash Bay		121,500
	Coverage Extensions		
	Deductible		2,500
	Valuable Papers and Records		10,000
	Accounts Receivable		10,000
	Loss of Revenues		25,000
	Personal Property - Employees		5,000
	Leasehold Interest		5,000
	Outdoors Trees & Shrubs (\$250.00 each)		10,000
	Supplemental Sewage Backup		
	Deductible		500
	Each Structure		25,000
	Each Occurrence		50,000
	Mobile Equipment	10-01-15 to 09-30-16	
	Alamo Mower - 2001		70,299
	Volvo Wheel Loader		73,218
	Mustang Cat Motorgrader		151,064
	John Deere Tractor		23,415
	Gradall Excavator		223,536
	John Deere Skid Steer Loader		27,600

See accompanying independent auditor's report on statistical section.

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
For the Year Ended September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	John Deere 2000 LC		156,308
	John Deere Backhoe		70,651
	John Deere Backhoe		61,888
	Case Forklift		45,374
	John Deere 310SG Backhoe		57,838
	John Deere 35C Compacted Excavator		35,483
	John Deere 200LC Excavator		128,950
	John Deere 450 Bulldozer		61,050
	John Deere 410J Backhoe-4WD		91,936
	Caterpillar CB434D Compactor		101,500
	Emergency Ops Trailer		105,000
	John Deere Cab Tractor w/Mower		59,044
	John Deere 50 D Excavator		53,760
	Polaris 800 HD ATV		11,805
	John Deere 332D Loader		32,819
	John Deere Backhoe (Water/Sewer)		66,088
	Toyota Forklift (Recycling)		30,552
	John Deere Excavator (Sewer)		35,915
	John Deere Backhoe (Water/Sewer)		74,542
	John Deere Backhoe (Street)		83,900
	2012 Wirtgen Milling Machine W120fl		418,370
	2012 Wirtgen Asphalt Paver 5103-2		320,464
	2013 John Deere 310SK Backhoe - Water/ Sewer Department		81,100
	2012 John Deere Model 326 Skid Steer - Recycling Department		33,380
	2013 John Deere Model 450J Crawler/Dozer - Street Department		77,975
	2014 Broce CRT350 - Street Department		55,443
	2014 Kubota L6400HST Tractor - Water Production		24,514
	2014 Gradall Excavator		303,524
	2014 Bomag Roller-Street		69,545
	2015 Kubota Tractor Loader-Parks		19,146
	2015 John Deere Backhoe/loader-W/S		85,500
	2015 John Deere Excavator W/S		61,032
	2016 John Deere 310SL Backhoe Sewer		90,053
	2016 John Deere 310SL Backhoe Sewer		87,030
	2016 John Deere Skid- 328E Skid-Steer Loader		42,695
	2016 John Deere Backhoe W/S		105,000
	Deductible		2 500
	Auto Physical Damage	10-01-15 to 09-30-16	
	Deductible each vehicle		500
	Deductible per occurrence		10,000
Deep East Texas Self Insurance Fund	Workers' Compensation		Statutory

See accompanying independent auditor's report on statistical section.

COMPLIANCE SECTION

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Glenda J. Hiers, CPA
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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

Honorable Mayor and City Council
City of Lufkin, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lufkin, Texas (City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Lufkin, Texas' basic financial statements and have issued our report thereon dated July 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine that the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lufkin, Texas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-1, 2016-2 and 2016-3 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as item 2016-4 to be significant deficiencies.

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS - CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lufkin, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lufkin, Texas' Response to Findings

City of Lufkin, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lufkin, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
July 10, 2017

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Mayor and City Council
City of Lufkin, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Lufkin, Texas' (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lufkin, Texas' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE - CONTINUED**

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
July 10, 2017

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

GRANT TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR NUMBER	PASSED THROUGH TO SUBRECIPIENTS	EXPENDITURES
U.S. Department of Agriculture:				
Direct Programs:				
Domestic Cannabis Eradication Suppression Program	16.2016-119			26,250
Bulletproof Vest Partnership Program	16.607			10,500
Edward Byrne Memorial Justice Assistance Grant Program	16.738			13,483
Total U.S. Department of Justice				50,233
U.S. Department of Transportation				
Passed through Texas Department of Transportation Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	CSJ 0911-38-068		859,575
Total Highway Planning and Construction Cluster				859,575
Total U.S. Department of Transportation				859,575
U.S. Environmental Protection Agency				
Direct Programs:				
Congressionally Mandated Projects	66.202			104,420
Total U.S. Environmental Protection Agency				104,420
U.S. Department of Housing and Urban Development				
Passed through General Land Office:				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	14.228	13-187-000-7315		104,961
Total U.S. Department of Housing and Urban Development				104,961
Total Federal Awards			-	1,119,189

See accompanying independent auditor's report on schedule of expenditures of federal awards

CITY OF LUFKIN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended September 30, 2016

(1) Basis of Presentations

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards of City of Lufkin, Texas (City). The City's reporting entity is defined in Note 1 of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule of Expenditures of Federal Awards. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The modified accrual basis of accounting is described in the notes to the basic financial statements. Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant following the cost principles contained in the Uniform Guidance.

(3) Relationship to Financial Statements

Federal award programs are reported in the City's basic financial statements in the General Fund, Other Governmental Funds, and Water and Sewer Utility Funds. Total federal awards per the accompanying Schedule of Expenditures of Federal Awards include all federal revenues.

(4) Indirect Costs

The City has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

A. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: **UNMODIFIED**

Internal control over financial reporting:
Material weakness(es) identified? X Yes No

Significant deficiency(s) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes X No

Significant deficiency(s) identified? Yes X None Reported

Type of auditor's report issued on compliance for major programs: **UNMODIFIED**

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
	Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

Findings related to the financial statements required to be reported under Government Auditing Standards;

2016-1 Accrued Compensated Absences Liability/Expenditure

Condition: In the City's 2015 financial statements for governmental activities, the City did not include a liability for accrued compensated absences – vacation for \$1,215,228.

Criteria: The City's internal control procedures should include verifying that all long-term liabilities are properly recorded in the financial statements.

Cause: In the City's 2015 financial statements for governmental activities, the City omitted accrued compensated absences – vacation for \$1,215,228 and the error was not detected.

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

B. Financial Statement Findings - Continued

Effect: In the City's 2015 financial statements for governmental activities, the City's liabilities and expenditures were understated by \$1,215,228. A prior period adjustment was made for this amount.

Recommendation: The City should closely review the financial statements to ensure that all assets, deferred outflows, liabilities, deferred inflows, net position/fund balance, revenues and expenditures/expenses are properly recorded.

Views of Responsible Officials and Planned Corrective Action: The City's audited financial statements were prepared by the City's predecessor audit firm. Delays in completion of the audit and preparation of the financial statements resulted in a narrow time frame for review of the financial statements and review of the audited balances as compared to the City's financial system. City staff, when reviewing the statements did not detect the error, as the auditors balances and City's balances did not differ in this area. The City had recorded the activity but failed to see that it was excluded from the report. In order to correct this oversight, City staff is reviewing the completed financial statements in conjunction with its review of the financial system balances with the audited balances.

2016-2 Other Post-Employment Benefits Liability/Expenditure

Condition: In the City's 2015 financial statements for governmental activities, the City did not include a liability for other post-employment benefits of \$1,205,149.

Criteria: The City's internal control procedures should include verifying that all long-term liabilities are properly recorded in the financial statements.

Cause: In the City's 2015 financial statements for governmental activities, the City omitted a liability for other post-employment benefits of \$1,205,149 and the error was not detected.

Effect: In the City's 2015 financial statements for governmental activities, the City's liabilities and expenditures were understated by \$1,205,149. A prior period adjustment was made for this amount.

Recommendation: The City should closely review the financial statements to ensure that all assets, deferred outflows, liabilities, deferred inflows, net position/fund balance, revenues and expenditures/expenses are properly recorded.

Views of Responsible Officials and Planned Corrective Action: The City's audit was delayed by completion of the actuarial valuation of the City's other post-employment benefits. As the City's audited financial statements were prepared by the City's predecessor audit firm this delayed preparation of the financial statements as well as completion of the audit. The implementation of GASB 68 reporting also caused delays in preparation of the financial statements. City staff, when reviewing the statements noted that the notes to the financial statements included the liability, but failed to recognize that it was not included in the financial statements, not noting the difference in the balances. In order to correct this oversight, City staff has revised the review process of the completed financial statements in conjunction with its review of the financial system balances compared to the audited balances as well as the notes to the financial statements. A complete review will be done to ensure that all areas of the report and the City's financial system are in balance.

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

C. Financial Statement Findings – Continued

2016-3 Capital Assets

Condition: In the City's 2015 financial statements the City overstated capital assets for governmental activities by \$865,891, for component units by \$1,596,316 and for internal service funds by \$238,707.

Criteria: The City's internal control procedures should ensure that all capital asset additions, retirements and depreciation are properly recorded and reported in the financial statements.

Cause: The capital assets misstatements were caused by errors recording capital asset additions, retirements and depreciation.

Effect: In the City's 2015 financial statements the City overstated capital assets for governmental activities by \$865,891, for component units by \$1,596,316 and for internal service funds by \$238,707. Prior period adjustments were made for these amounts.

Recommendation: The City should closely review their capital asset additions, retirements and depreciation transactions. Also, the City's ending balances for capital assets should be compared to the amounts reported for capital assets in the financial statements.

Views of Responsible Officials and Planned Corrective Action: During the City's capital assets audit, the calculation of depreciation within the City's financial system is delayed, until such time as the auditors and the City are in agreement on the asset totals, acquisitions and dispositions. The auditors provided entries for depreciation as audit adjustments and City staff assumed that this was to be the entry for depreciation and did not process depreciation calculations in the financial system. A final report of the assets in comparison with City's report was not received. The City was working to change its process in carry forward of construction in progress within the financial system so as to make balancing between the auditors balances and the City's financial system easier. During the conversion process some activities were recorded as capital assets instead of maintenance. Further, in the component unit, an asset was reclassified by the auditors in the financial statements as a capital asset of the City instead of as an investment in the component unit. This reclassification was done without discussion with City finance staff, but was made based upon discussions with officers of the component unit. City staff is working with the current audit firm to assure that any reclassifications are agreed upon by all areas of City staff. Further, additional changes to the City's processes in carry forward of capital improvements projects and construction in progress have been coordinated with the auditors to ensure that capital assets are more easily balanced and recorded.

2016-4 General Obligation Bonds Payable/Debt Service Expenditures

Condition: In the City's 2015 financial statements for governmental activities, the City overstated general obligation bonds payable by \$445,000.

Criteria: The City's internal control procedures should include verifying that all long-term liabilities are properly recorded in the financial statements.

Cause: As part of the City's 2015 general obligation bond refunding, \$445,000 of the 2009 Tax and Waterworks Series Revenue Certificates of Obligation was refunded but not removed from the City's Long Term Debt Group after considering all adjusting entries.

Effect: In the City's 2015 financial statements for governmental activities, the City's liabilities and expenditures were overstated by \$445,000. A prior period adjustment was made for this amount.

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

D. Financial Statement Findings – Continued

Recommendation: The City should closely review the ending balances in the City's Long Term Debt Group to ensure that all transactions and adjusting entries have been properly recorded

Views of Responsible Officials and Planned Corrective Action: The City had properly recorded the activity in its financial system. The notes to the financial statements had the incorrect amount for the City's total liability, which was not in agreement with the audited balances. City staff has changed its processes for reconciling the City's financial system to the audited balances; as well as verifying the amounts recorded in the financial statements and notes to the financial statements are in agreement.

C. Federal Award Findings and Questioned Costs

Required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.

Program	Finding/Noncompliance	Questioned Costs
None	None	\$ 0

CITY OF LUFKIN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2016

Program	Finding/ Noncompliance	Questioned Costs
There were no prior year audit findings relative to federal awards.		

See accompanying independent auditor's report on schedule of expenditures of federal awards.