

CITY OF LUFKIN, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended September 30, 2015

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## **INTRODUCTORY SECTION**



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Fax: (936) 633-7501

August 16, 2016

**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, 2015 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.

Axley & Rode, LLP, Certified Public Accountants, have issued an unmodified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2015. 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 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](http://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 has seen significant growth in sales tax revenues from fiscal year 2014. Due to the diversity of our economy, the continued growth of our medical and aerospace industries, our status as a regional hub helped to produce better revenues. The 2015 – 2016 fiscal year shows to have continued stability.

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 has experienced a steady level of activity during the previous year and we anticipate that activity to remain consistent this upcoming year. Permitting levels have remained constant and are not expected to change in the coming fiscal year.

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 2015, according to Texas Workforce statistics, is 5.3 percent compared to 5.4 percent the previous year. The unemployment rate for Angelina County was 5.4 percent and 4.4 percent for the state. The national unemployment rate is 5.1%.

### **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 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 (design)
    - Atkinson Drive Reconditioning (complete)
    - New Comprehensive Plan (in progress)



- Provide increase quality of Life Projects
  - 2012 Statewide Transportation Enhancement Program adding sidewalks and a walking trail around Ellen Trout Lake (in progress)
- Utility Reconstruction and Expansion
  - Infiltration/Inflow sewer improvement projects (under construction)
  - Installation of 24" water line from Hwy 103 East to Hwy 59 South (under construction)

#### 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, 2015 the City of Lufkin has accumulated the following amounts in support of these policies:

FUND	POLICY AMOUNT	FUND TOTAL
Governmental Funds: (fund balance)		
General Fund - 25%	\$ 7,883,791	\$ 11,169,358
Hotel/Motel Tax Fund - 12.5%	141,052	(225,075)
Recreation Fund - 12.5%	60,176	86,410
	<u>8,085,019</u>	<u>11,030,693</u>
Proprietary Funds: (working capital)		
Water/Wastewater Fund - 12.5%	\$ 2,060,783	\$ 3,892,597
Solid Waste/Recycling Fund - 12.5%	772,607	4,670,484
	<u>2,833,390</u>	<u>8,563,081</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 2015 the City purchased \$1,385,500 in new/ replacement equipment and is planning to replace approximately \$1,833,594 of equipment in FY 2016.

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 16, 2015. 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.

Respectfully submitted, 

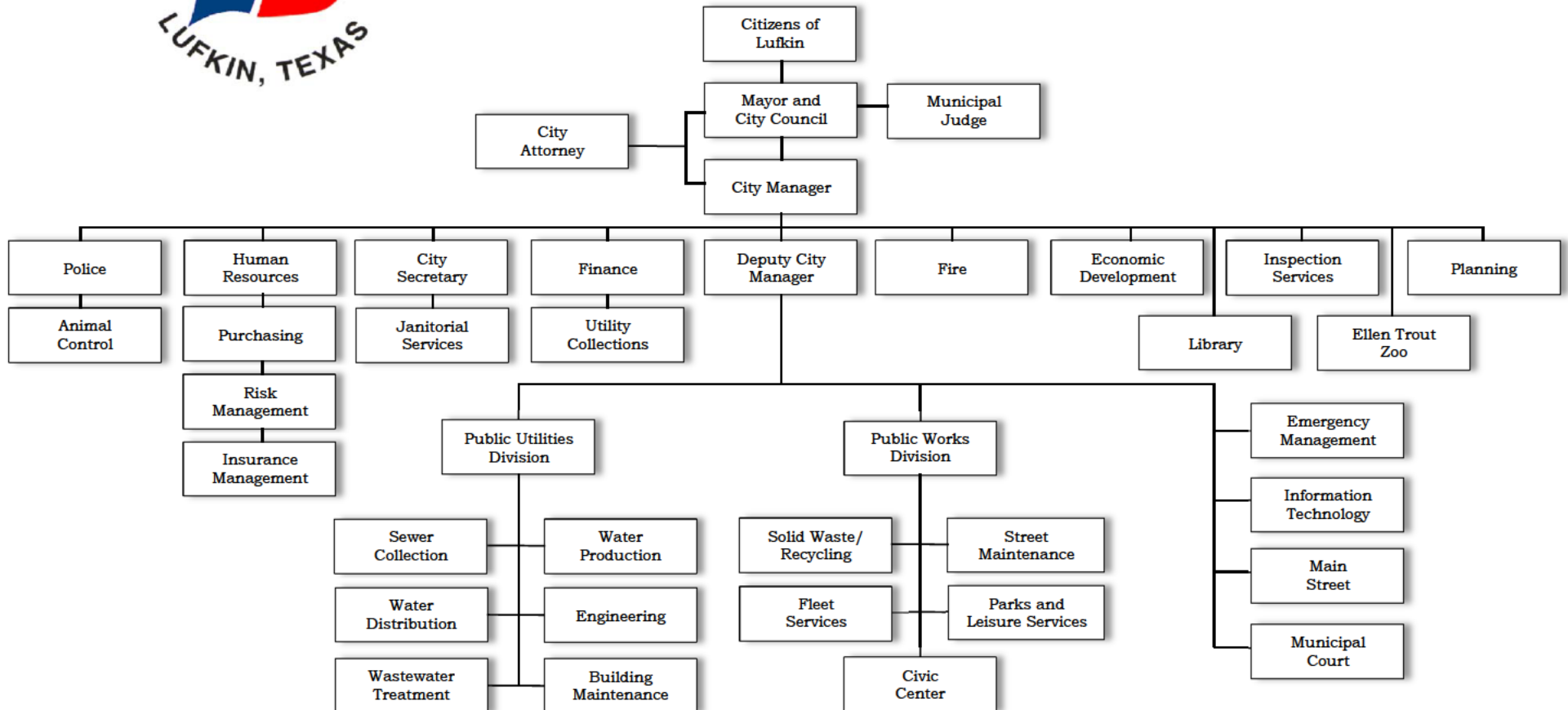


Keith N. Wright, P.E.  
City Manager





# CITY OF LUFKIN, TEXAS ORGANIZATION CHART



**City of Lufkin, Texas  
List of Principal Officials  
September 30, 2015**

**Governing Body**

Honorable Bob F. Brown, Mayor

**City Council**

Victor Travis .....	Ward No. 1
Robert Shankle.....	Ward No. 2
Lynn Torres.....	Ward No. 3
Don Langston.....	Ward No. 4
Rufus Duncan, Jr.....	Ward No. 5
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, City Engineer
Thad Chambers.....	Economic Development Director

## **FINANCIAL SECTION**

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and City Council  
City of Lufkin  
Lufkin, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of governmental activities, the business-type activities, the discretely presented component units, each major fund, the budgetary comparison for the major funds, and the aggregate remaining fund information of the City of Lufkin, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental and internal service funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2015, 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 entity'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 entity'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 City of Lufkin as of September 30, 2015, and the respective changes in financial position, thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 14 through 22 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 financial 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 U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplemental financial information and the schedule of expenditure of federal awards 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 financial information and the schedule of expenditure of federal awards is 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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016, on our consideration of the 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 on page 135 and 136 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Lufkin, Texas  
August 16, 2016

  
CERTIFIED PUBLIC ACCOUNTANTS



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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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$125,685 (*net position*). The unrestricted net position component is \$837. The unrestricted net position decrease of \$7,186 from the prior year was primarily the result of changes in the net pension obligation.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,185, a decrease of \$724 over the prior year. The decrease is the result of the completion of 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 \$10,916 or 35% of total general fund expenditures.
- A prior period adjustment of \$26,828,539 was recorded for the net pension liabilities, deferred outflows, and inflows required to be recognized with the implementation of GASB 68 related to pensions.

### 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 information on all of the City's assets deferred inflows, deferred outflows, 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 government'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 periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

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



**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the condition rating of the City of Lufkin's street system. Required supplementary information can be found on pages 75 - 77 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 78 - 106 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, net position exceeded liabilities by \$125,685 at the close of fiscal year 2015.

By far the largest portion of the City's net assets (94%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lufkin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Lufkin's Combined Net Positions

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 26 531	\$ 24 280	\$ 20 015	\$ 19 584	\$ 46 547	\$ 43 864
Capital assets	112 899	113 430	67 034	67 261	179 933	180 693
Deferred outflow	3 547	-	486	-	4 032	-
TOTAL ASSETS AND DEFERRED OUTFLOW	142 977	137 710	87 535	86 845	230 512	224 557
Long-term liabilities outstanding	88 856	68 743	3 479	-	92 807	68 743
Other liabilities	8 879	7 910	884	1 674	9 762	9 584
Deferred inflows	472	-	118	-	589	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	98 207	76 653	4 363	1 674	102 569	78 327
Net Position:						
Invested in capital assets, net of related debt	51 434	46 432	67 005	67 260	118 439	113 693
Restricted	5 016	6 694	1 294	1 308	6 310	8 002
Unrestricted	(11 680)	8 023	14 873	16 603	3 193	24 626
TOTAL NET POSITION	\$ 44 770	\$ 61 059	\$ 83 173	\$ 85 171	\$ 127 943	\$ 146 230

An additional portion of the City's net position (1%) represents resources that are subject to external restrictions on how they may be used.

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

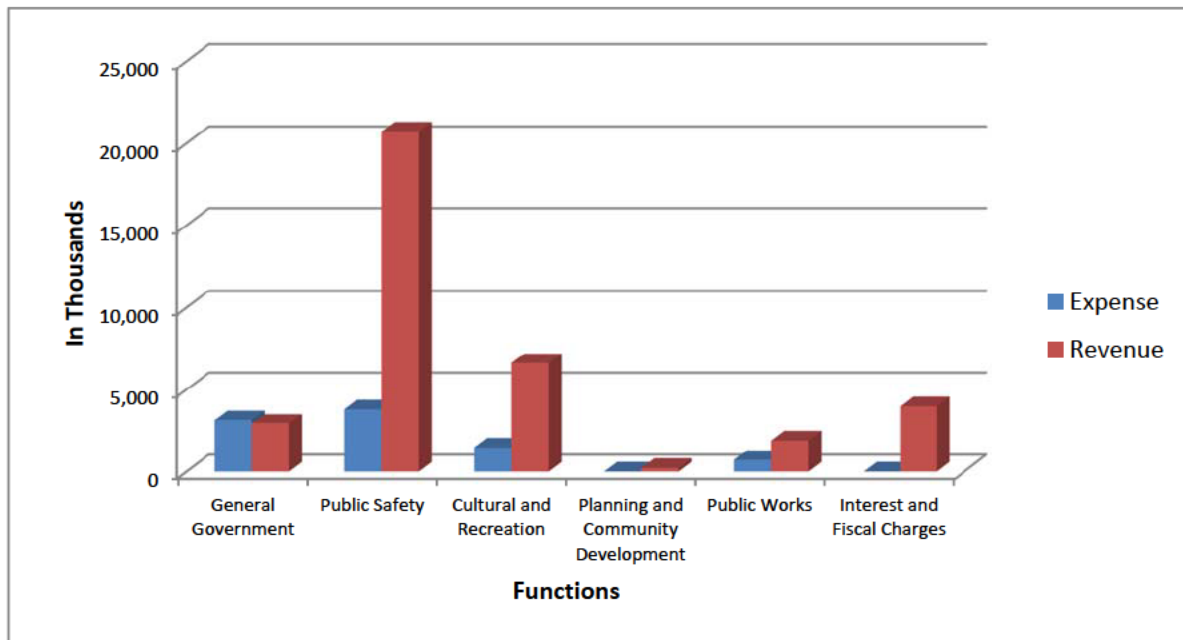
### City of Lufkin's Change in Net Position

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTALS	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for services	\$ 8 000	\$ 7 957	\$ 22 546	\$ 21 714	\$ 30 546	\$ 29 671
Operating grants and contributions	410	696	-	-	410	696
Capital grants and contributions	702	2 175	102	565	804	2 740
General Revenues:						
Property taxes	10 802	10 768	-	-	10 802	10 768
Other taxes	16 408	15 540	-	-	16 408	15 540
Other	667	989	90	268	757	1 257
TOTAL REVENUES	<u>36 988</u>	<u>38 124</u>	<u>22 738</u>	<u>22 547</u>	<u>59 726</u>	<u>60 672</u>
Expenses:						
General government	2 786	1 789	-	-	2 786	1 789
Public safety	19 892	20 712	-	-	19 892	20 712
Cultural and recreation	6 381	6 259	-	-	6 381	6 259
Planning and community development	97	487	-	-	97	487
Public works	1 678	3 368	-	-	1 678	3 368
Interest on long-term debt	2 323	2 654	-	-	2 323	2 654
Water and sewer	-	-	12 277	13 635	12 277	13 635
Solid waste disposal	-	-	5 750	5 882	5 750	5 882
TOTAL EXPENSES	<u>33 157</u>	<u>35 269</u>	<u>18 028</u>	<u>19 518</u>	<u>51 185</u>	<u>54 787</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	3 831	2 855	2 453	3 029	6 382	5 885
Transfers	4 023	253	(4 023)	(253)	-	-
CHANGE IN NET POSITION	7 853	3 108	687	2 776	6 382	5 885
Net position, restated	36 917	57 951	82 485	82 394	119 402	140 345
NET POSITION, ENDING	<u>\$ 44 770</u>	<u>\$ 61 059</u>	<u>\$ 83 173</u>	<u>\$ 85 171</u>	<u>\$ 127 943</u>	<u>\$ 146 230</u>

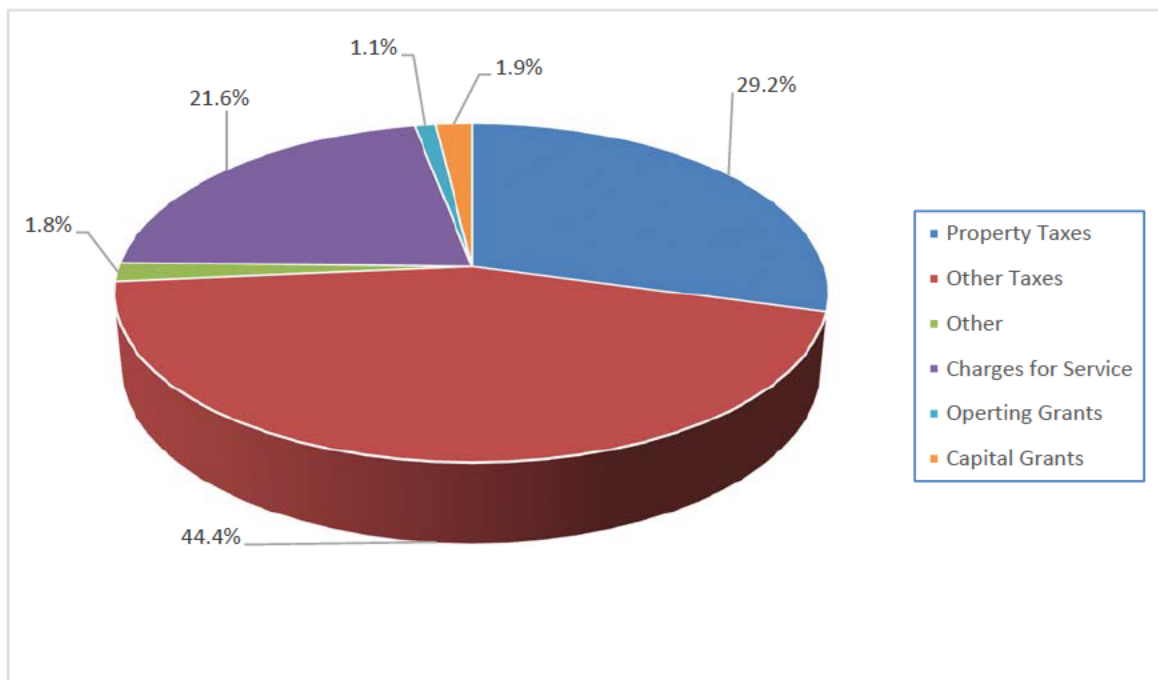
**Governmental Activities.** Governmental activities increased the City of Lufkin's net position by \$7,853. Key elements of this increase are as follows:

Taxes for governmental activities increased by \$868 (6%) as the result of an increase in sales taxes and hotel taxes.

### Expenses and Program Revenues - Governmental Activities

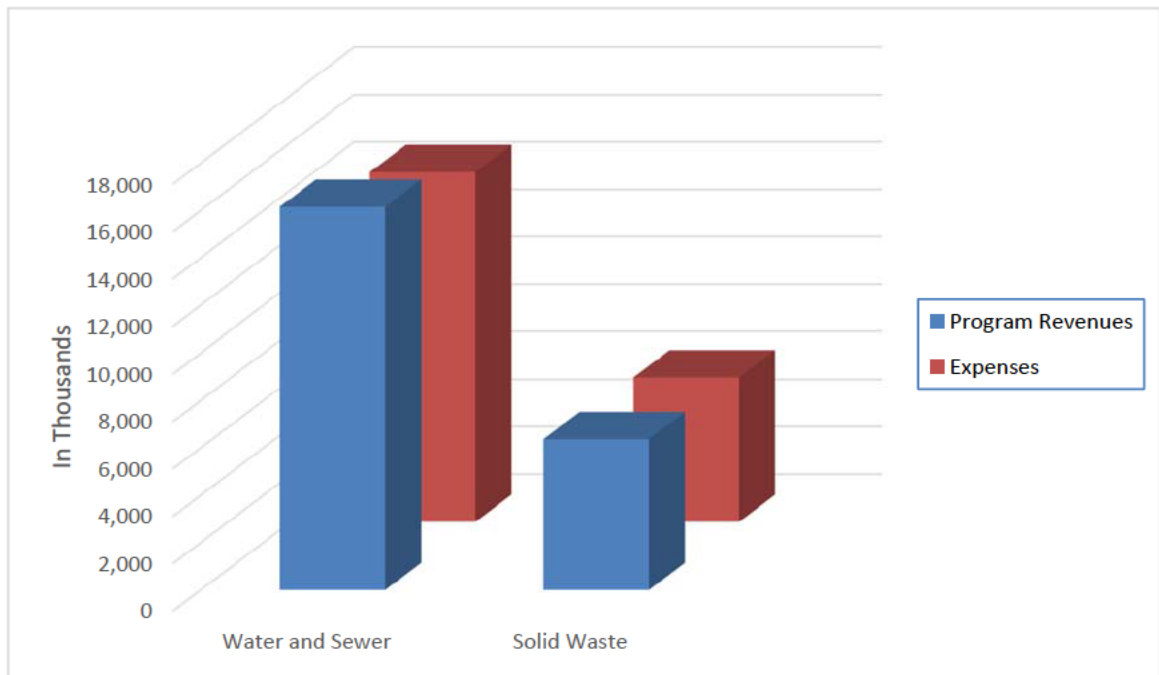


### Revenues by Source - Governmental Activities

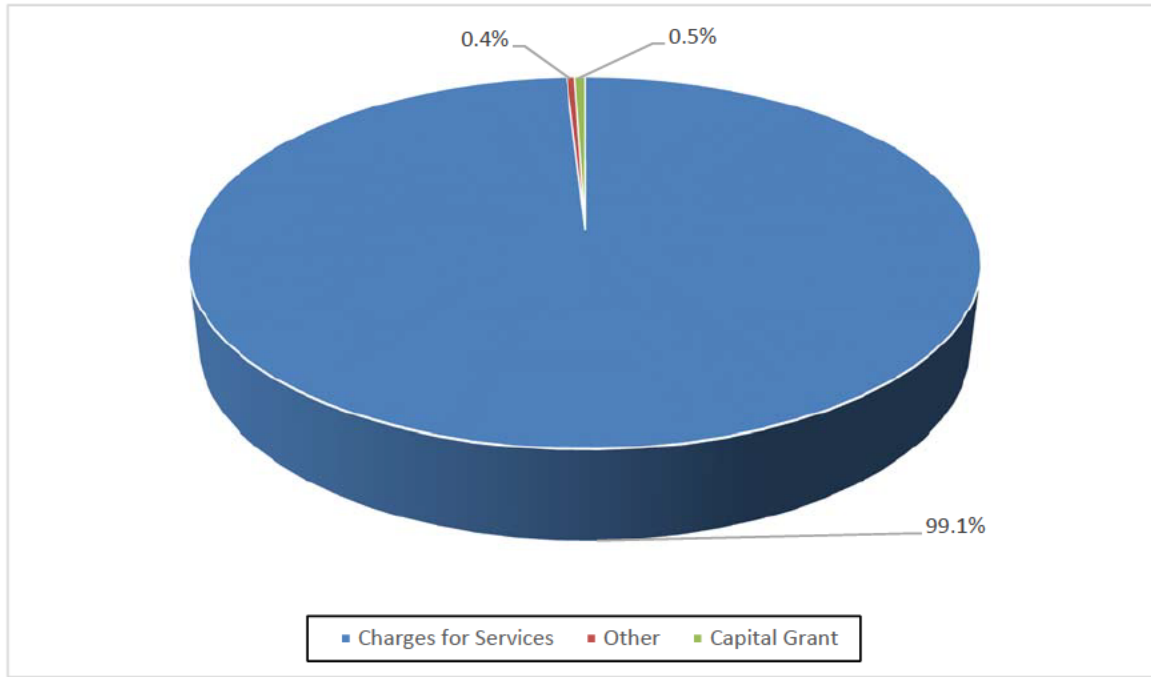


**Business-type Activities.** Business-type activities increased the City's net position by \$687. Key elements of this decrease are as follows:

### 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 \$16,525, a decrease of \$384 from the prior year.

Of the combined governmental funds ending fund balance, \$10,916 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 \$1,675, \$60 and \$3,621, 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, \$252, 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 \$10,916. The remaining amount, \$252, was nonspendable. Total fund balance was \$11,169. 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 35% of total general fund expenditures, while total fund balance represents 36% of the same amount.

The fund balance of the City's general fund increased by \$864 during the current fiscal year.

The debt service fund has a total fund balance of \$1,812, 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 \$179.

**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 \$10,390, and the Solid Waste Disposal Fund amounted to \$4,484. The total net position an increased for Water and Sewer Utility by \$165 while the Solid Waste Disposal Fund increased by \$523. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

Differences in the original and the final budget were amended several times during the year.

A review of the final amended expenditure budget compared to expenditures presents a number of variances with a total of \$748,291 being added to fund balance. This will allow the City to continue with some projects (maintenance and repair items) that have been in progress for several years.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City of Lufkin's investment in capital assets for its governmental and business-type activities amounts to \$179,932 (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, 2015 was \$3,650 as compared to \$3,936 for the previous year. Actual expenditures were \$3,414 for FY 2015, reflecting a slight decrease of \$175 from FY 2014. The City has determined that the amount of annual expenditures required to maintain the City's streets at the average PCI rating of 56 through the year 2015 is a minimum of \$7,574.

## Condition Rating of the City's Street System

City of Lufkin, Texas  
Required Supplementary Information  
September 30, 2015

		PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION		
		2015	2014	2013
Collector Streets		56%	11%	43%
Residential Streets		29%	27%	29%

		PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION		
		2015	2014	2013
Collector Streets		18%	3%	28%
Residential Streets		29%	19%	30%

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

- Radio upgrade - \$398
- Completed Denman Avenue drainage - \$448
- Generator - \$238
- Convention Center restroom renovation - \$83

### Business-type

- Car wash at public works - \$68
- Walden Court lift station - \$131
- Spur Plaza sewer extension - \$142
- Belt press - \$313

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

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2015	2014	2015	2014	2015	2014
Land and water rights	\$ 4 451	\$ 4 631	\$ 8 281	\$ 8 268	\$ 12 732	\$ 12 899
Works of art	278	278	-	-	278	278
Buildings	15 233	15 690	3 103	3 221	18 336	18 911
Machinery and equipment	5 646	5 276	2 746	3 030	8 392	8 306
Vehicles	4 996	5 361	7	13	5 003	5 374
Improvements other than building	13 898	14 464	49 248	50 417	63 146	64 881
Infrastructure	67 535	66 196	-	-	67 535	66 196
Construction in progress	861	544	3 649	2 312	4 510	2 856
TOTAL	<u>\$ 112 898</u>	<u>\$ 112 442</u>	<u>\$ 67 034</u>	<u>\$ 67 260</u>	<u>\$ 179 932</u>	<u>\$ 179 702</u>

Additional information on the City of Lufkin's capital assets can be found in Detail Notes on All Funds, E. on pages 53 - 56 of this report.

**Long-term Debt.** At the end of the current fiscal year, the City of Lufkin had total bonded debt outstanding of \$61,465. Of this amount \$61,465 is backed by the full faith and credit of the government.

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

	GOVERNMENTAL ACTIVITIES	
	2015	2014
General obligation bonds	\$ 61 465	\$ 66 010
TOTAL	<u>\$ 61 465</u>	<u>\$ 66 010</u>

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 57 - 59 of this report.

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

- The unemployment rate for the City, according to Texas Workforce statistics, is 5.6%, a 1% decrease from last year. The 5.6% unemployment rate for Angelina County is a decrease of 1.4% from last year. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 5.7%.
- The state sales tax receipts for the current fiscal year totaled \$12,054, a decrease of \$994 from the previous year indicating a moderate decrease 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 2016 fiscal year.

The Water and Sewer Utility rates have not increased for the 2016 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, 2015

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNITS
ASSETS				
Cash and cash equivalents	\$ 22 547 919	\$ 9 736 972	\$ 32 284 891	\$ 3 047 572
Receivables - Net	2 747 007	3 512 155	6 259 162	95 153
Inventories	248 620	47 154	295 774	-
Restricted Assets:				
Cash and cash equivalents	-	6 719 264	6 719 264	-
Intergovernmental receivables	987 664	-	987 664	-
Due from other funds	-	-	-	98 117
Capital lease receivable	-	-	-	2 179 415
Capital Assets (Net of Accumulated Depreciation):				
Land	4 451 060	5 693 969	10 145 029	-
Water rights	-	2 586 814	2 586 814	-
Infrastructure	67 535 409	-	67 535 409	-
Works of art	278 500	-	278 500	-
Buildings	15 233 029	3 102 544	18 335 573	5 852 109
Improvements other than buildings	13 897 878	49 248 168	63 146 046	-
Machinery and equipment	5 645 661	2 745 696	8 391 357	-
Vehicles	4 996 259	7 410	5 003 669	-
Construction in progress	861 087	3 649 400	4 510 487	-
TOTAL ASSETS	139 430 093	87 049 546	226 479 639	11 272 366
DEFERRED OUTFLOWS				
Prepaid items	4 378	-	4 378	-
Deferred pension outflow	3 542 131	485 782	4 027 913	22 518
TOTAL DEFERRED OUTFLOWS	3 546 509	485 782	4 032 291	22 518
TOTAL ASSETS AND DEFERRED OUTFLOWS				
	142 976 602	87 535 328	230 511 930	11 294 884
LIABILITIES				
Accounts/claims payable	1 362 124	196 196	1 558 320	10 778
Accrued interest	259 579	-	259 579	-
Accrued liabilities	1 464 467	301 917	1 766 384	8 879
Customer deposits	23 361	264 955	288 316	20 000
Due to other funds	98 117	-	98 117	-
Premium on bond issue	820 609	-	820 609	-
Noncurrent Liabilities:				
Due within one year	4 850 000	120 599	4 970 599	141 689
Due in more than one year	88 856 893	3 361 284	92 218 177	1 115 710
TOTAL LIABILITIES	97 735 150	4 244 951	101 980 101	1 297 056
DEFERRED INFLOWS				
Deferred pension inflows	471 535	117 769	589 304	5 459
TOTAL DEFERRED INFLOWS	471 535	117 769	589 304	5 459
NET POSITION				
Invested in capital assets, net of related debt	51 433 883	67 004 944	118 438 827	4 678 502
Restricted for:				
Retirement of debt	1 472 124	1 294 377	2 766 501	-
Capital projects	1 500 672	-	1 500 672	-
Other	2 043 090	-	2 043 090	-
Unrestricted	(11 379 852)	14 873 287	3 193 435	5 313 867
TOTAL NET POSITION	\$ 44 769 917	\$ 83 172 608	\$ 127 942 525	\$ 9 992 369

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, 2015

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 2 785 789	\$ 2 940 350	\$ 204 729	\$ -
Public safety	19 892 495	3 747 826	57 443	-
Cultural and recreation	6 380 655	1 311 314	147 588	-
Planning and community development	97 330	-	-	-
Public works	1 677 906	-	-	701 912
Interest and fiscal charges	2 322 662	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>33 156 837</u>	<u>7 999 490</u>	<u>409 760</u>	<u>701 912</u>
Business-Type Activities:				
Water and sewer	12 277 266	16 172 427	-	101 998
Solid waste disposal	5 750 747	6 373 814	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>18 028 013</u>	<u>22 546 241</u>	<u>-</u>	<u>101 998</u>
TOTAL PRIMARY GOVERNMENT	\$ <u>51 184 850</u>	\$ <u>30 545 731</u>	\$ <u>409 760</u>	\$ <u>803 910</u>
COMPONENT UNITS	\$ <u>1 019 220</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
General Revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel taxes				
Other				
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	
\$ 359 290	\$ -	\$ 359 290	\$	-
(16 087 226)	-	(16 087 226)		-
(4 921 753)	-	(4 921 753)		-
(97 330)	-	(97 330)		-
(975 994)	-	(975 994)		-
(2 322 662)	-	(2 322 662)		-
(24 045 675)	-	(24 045 675)		-
-	3 997 159	3 997 159		-
-	623 067	623 067		-
-	4 620 226	4 620 226		-
(24 045 675)	4 620 226	(19 425 449)		-
			\$	(1 019 220)
10 802 395	-	10 802 395	\$	-
12 908 583	-	12 908 583		1 173 508
2 479 533	-	2 479 533		-
925 669	-	925 669		-
93 206	-	93 206		412 854
108 119	55 078	163 197		91 439
98 059	35 104	133 163		-
460 522	-	460 522		41 927
4 022 995	(4 022 995)	-		-
31 899 081	(3 932 813)	27 966 268		1 719 728
7 853 406	687 413	8 540 819		700 508
61 059 041	85 171 204	146 230 245		9 416 370
(24 142 530)	(2 686 009)	(26 828 539)		(124 509)
36 916 511	82 485 195	119 401 706		9 291 861
\$ 44 769 917	\$ 83 172 608	\$ 127 942 525	\$	9 992 369

CITY OF LUFKIN, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2015

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Assets:				
Cash and cash equivalents	\$ 11 626 161	\$ 1 811 937	\$ 4 146 514	\$ 17 584 612
Receivables:				
Taxes	506 656	244 576	-	751 232
Accounts	10 375 968	-	158 313	10 534 281
Other	47 861	1 016	11 919	60 796
Allowance for uncollectibles	(8 279 530)	(181 236)	(139 575)	(8 600 341)
Due from other funds	241 998	-	-	241 998
Intergovernmental receivables	987 664	-	-	987 664
Inventories	248 620	-	-	248 620
TOTAL ASSETS	<u>15 755 398</u>	<u>1 876 293</u>	<u>4 177 171</u>	<u>21 808 862</u>
Deferred Outflows:				
Prepaid items	4 378	-	-	4 378
TOTAL DEFERRED OUTFLOWS	<u>4 378</u>	<u>-</u>	<u>-</u>	<u>4 378</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 15 759 776</u>	<u>\$ 1 876 293</u>	<u>\$ 4 177 171</u>	<u>\$ 21 813 240</u>
Liabilities:				
Account/claims payable	\$ 505 998	\$ -	\$ 489 581	\$ 995 579
Due to other funds	-	-	98 117	98 117
Accrued liabilities	1 452 998	-	11 469	1 464 467
Customer deposits	-	-	23 361	23 361
TOTAL LIABILITIES	<u>1 958 996</u>	<u>-</u>	<u>622 528</u>	<u>2 581 524</u>
Deferred Inflows:				
Unearned revenues	2 631 422	64 355	10 881	2 706 658
TOTAL DEFERRED INFLOWS	<u>2 631 422</u>	<u>64 355</u>	<u>10 881</u>	<u>2 706 658</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>4 590 418</u>	<u>64 355</u>	<u>633 409</u>	<u>5 288 182</u>
Fund Balances:				
Nonspendable	252 998	-	-	252 998
Restricted	-	1 811 938	1 809 473	3 621 411
Committed	7 733 383	-	1 786 093	9 519 476
Assigned	-	-	(51 813)	(51 813)
Unassigned	3 182 977	-	-	3 182 977
TOTAL FUND BALANCES	<u>11 169 358</u>	<u>1 811 938</u>	<u>3 543 762</u>	<u>16 525 058</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 15 759 776</u>	<u>\$ 1 876 293</u>	<u>\$ 4 177 171</u>	<u>\$ 21 813 240</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, 2015

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

Fund balance - Total governmental funds	\$ 16 525 058
Capital assets used in governmental activities are not financial resources	112 898
and therefore, are not reported in the funds.	883
Certain unearned revenues are not available to pay current-period expenditures and therefore, are deferred in the funds.	(3 561 022)
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.	3 372 914
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.	7 250 569
Long-term liabilities (bonds, notes, and leases) are not due and payable in the current period and therefore are not reported in the funds.	(70 644 551)
Net pension obligation, and deferred outflows and inflows are not due and payable in the current period and therefore are not report in the funds.	<u>(21 071 934)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>44 769 917</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, 2015

	GENERAL FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Revenues:				
Taxes:				
Property	\$ 7 228 905	\$ 3 179 258	\$ -	\$ 10 408 163
Sales	12 908 583	-	-	12 908 583
Franchise	2 479 533	-	-	2 479 533
Other	93 204	-	925 671	1 018 875
Licenses and permits	297 646	-	-	297 646
Fines and forfeitures	1 048 421	-	-	1 048 421
Charges for services	2 550 932	-	1 054 738	3 605 670
Interest income	52 554	15 291	22 247	90 092
Intergovernmental	4 277 738	-	848 500	5 126 238
Other revenues	655 394	-	219 204	874 598
TOTAL REVENUES	<u>31 592 910</u>	<u>3 194 549</u>	<u>3 070 360</u>	<u>37 857 819</u>
Expenditures:				
Current:				
General government	3 949 573	-	121 693	4 071 266
Public safety	18 551 807	-	173 805	18 725 612
Cultural and recreation	3 667 023	-	2 053 727	5 720 750
Planning and community development	390 066	-	-	390 066
Public works	4 344 990	-	-	4 344 990
Debt Service:				
Principal	28 985	5 025 000	-	5 053 985
Interest and fiscal charges	1 088	2 191 860	-	2 192 948
Bond issuance costs	-	130 802	-	130 802
Capital outlay	-	-	1 567 800	1 567 800
TOTAL EXPENDITURES	<u>30 933 532</u>	<u>7 347 662</u>	<u>3 917 025</u>	<u>42 198 219</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>659 378</u>	<u>(4 153 113)</u>	<u>(846 665)</u>	<u>(4 340 400)</u>
Other Financing Sources (Uses):				
Bond premium	-	151 190	-	151 190
Transfers in	515 868	3 822 995	192 383	4 531 246
Transfers out	<u>(311 003)</u>	<u>-</u>	<u>(414 748)</u>	<u>(725 751)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>204 865</u>	<u>3 974 185</u>	<u>(222 365)</u>	<u>3 956 685</u>
NET CHANGE IN FUND BALANCES	864 243	(178 928)	(1 069 030)	(383 715)
Fund balances - Beginning	<u>10 305 115</u>	<u>1 990 866</u>	<u>4 612 792</u>	<u>16 908 773</u>
FUND BALANCES - ENDING	<u>\$ 11 169 358</u>	<u>\$ 1 811 938</u>	<u>\$ 3 543 762</u>	<u>\$ 16 525 058</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, 2015

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

Net change in fund balances - Total governmental funds	\$ (383 715)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	394 232
Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds.	555 867
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.	475 481
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.	3 740 945
The net pension obligation and the deferred outflows and inflows related to the obligation are not recorded in the fund financial statements, but are recorded in the government-wide statements. This amount is the net effect of these differences in the treatment of the pension obligation and related items.	<u>3 070 696</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>7 853 406</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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:				
Taxes:				
Ad valorem	\$ 7 299 217	\$ 7 299 217	\$ 7 228 905	\$ (70 312)
Sales	12 125 667	12 649 861	12 908 583	258 722
Franchise	2 470 000	2 480 474	2 479 533	(941)
Other	81 500	81 500	93 204	11 704
TOTAL TAXES	<u>21 976 384</u>	<u>22 511 052</u>	<u>22 710 225</u>	<u>199 173</u>
Licenses and Permits:				
Building permits and inspections	190 000	134 108	177 518	43 410
Plumbing permits and inspections	13 000	11 400	10 109	(1 291)
Electric permits and inspections	19 000	16 757	17 901	1 144
Heat and vent permits	16 000	12 370	14 134	1 764
Other permits	59 050	71 255	74 674	3 419
Licenses	3 520	3 920	3 310	(610)
TOTAL LICENSES AND PERMITS	<u>300 570</u>	<u>249 810</u>	<u>297 646</u>	<u>47 836</u>
Fines and Forfeitures:				
Municipal court fines and forfeitures	1 015 000	857 086	789 144	(67 942)
Red light fines and costs	230 400	282 000	259 207	(22 793)
Parking fines	45 200	150	70	(80)
TOTAL FINES AND FORFEITURES	<u>1 290 600</u>	<u>1 139 236</u>	<u>1 048 421</u>	<u>(90 815)</u>
Charges for Services:				
Emergency medical services	2 160 000	2 350 000	2 276 233	(73 767)
Emergency medical services - County	230 400	236 147	236 265	118
Mowing lots	-	-	2 137	2 137
False alarm fees	-	-	9 630	9 630
Other	45 200	55 718	26 667	(29 051)
TOTAL CHARGES FOR SERVICES	<u>2 435 600</u>	<u>2 641 865</u>	<u>2 550 932</u>	<u>(90 933)</u>
Interest income	<u>45 000</u>	<u>50 000</u>	<u>52 554</u>	<u>2 554</u>
Intergovernmental:				
Grant revenues	-	254 049	263 172	9 123
General and administrative services	4 014 566	4 014 566	4 014 566	-
TOTAL INTERGOVERNMENTAL	<u>4 014 566</u>	<u>4 268 615</u>	<u>4 277 738</u>	<u>9 123</u>
Other Revenues:				
Parks	26 000	26 000	25 896	(104)
Library	32 000	26 500	26 580	80
Animal shelter collects	94 150	88 373	94 003	5 630
Zone change fees	2 000	2 000	3 500	1 500
Zoo admission fees	103 400	103 400	103 707	307
Rent on city property	43 260	25 260	43 549	18 289
Salvage and auction	40 000	141 000	38 335	(102 665)
Miscellaneous	155 500	180 111	304 977	124 866
Salary reimbursements	10 000	10 951	14 847	3 896
TOTAL OTHER REVENUE	<u>506 310</u>	<u>603 595</u>	<u>655 394</u>	<u>51 799</u>
TOTAL REVENUE	<u>30 569 030</u>	<u>31 464 173</u>	<u>31 592 910</u>	<u>128 737</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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Expenditures:				
Current:				
General Government:				
General:				
Payroll costs	126 654	131 715	131 362	353
Supplies	21 000	19 634	18 275	1 359
Miscellaneous services	97 640	91 990	83 861	8 129
Sundry charges	112 967	112 967	110 938	2 029
TOTAL GENERAL	358 261	356 306	344 436	11 870
City Administration:				
Payroll costs	504 845	345 439	450 027	(104 588)
Supplies	16 400	17 000	17 761	(761)
Miscellaneous services	35 850	34 250	28 827	5 423
Sundry charges	500	500	415	85
TOTAL CITY ADMINISTRATION	557 595	397 189	497 030	(99 841)
Finance:				
Payroll costs	547 991	543 310	552 134	(8 824)
Supplies	32 760	32 600	36 654	(4 054)
Maintenance	27 455	27 455	28 338	(883)
Miscellaneous services	136 150	142 550	126 506	16 044
Sundry charges	-	160	282	(122)
TOTAL FINANCE	744 356	746 075	743 914	2 161
Legal:				
Payroll costs	231 103	236 188	236 115	73
Supplies	4 820	4 820	3 466	1 354
Miscellaneous services	50 605	50 605	32 508	18 097
TOTAL LEGAL	286 528	291 613	272 089	19 524
Tax:				
Miscellaneous services	177 683	189 649	189 589	60
TOTAL TAX	177 683	189 649	189 589	60
Human Resources:				
Payroll costs	307 936	313 170	307 388	5 782
Supplies	10 140	10 440	9 027	1 413
Miscellaneous services	47 215	42 590	34 988	7 602
Sundry charges	29 000	30 000	25 639	4 361
TOTAL HUMAN RESOURCES	394 291	396 200	377 042	19 158
Municipal Building:				
Payroll costs	82 996	87 103	84 350	2 753
Supplies	24 800	23 600	19 955	3 645
Maintenance	59 000	76 800	66 939	9 861
Miscellaneous services	130 575	129 975	117 117	12 858
TOTAL MUNICIPAL BUILDING	297 371	317 478	288 361	29 117

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Information Technology:				
Payroll costs	524 523	571 489	576 037	(4 548)
Supplies	90 070	90 070	88 208	1 862
Maintenance	224 780	224 780	220 335	4 445
Miscellaneous services	154 860	154 860	147 809	7 051
TOTAL INFORMATION TECHNOLOGY	994 233	1 041 199	1 032 389	8 810
Non-departmental:				
Payroll costs	15 000	388 738	6 946	381 792
Miscellaneous services	247 233	276 529	195 853	80 676
Sundry charges	-	1 401	1 924	(523)
TOTAL NON-DEPARTMENTAL	262 233	666 668	204 723	461 945
TOTAL GENERAL GOVERNMENT	4 072 551	4 402 377	3 949 573	452 804
Public Safety:				
Municipal Court:				
Payroll costs	400 688	388 526	383 061	5 465
Supplies	16 215	16 265	15 197	1 068
Maintenance	300	895	546	349
Miscellaneous services	101 570	80 230	80 361	(131)
TOTAL MUNICIPAL COURT	518 773	485 916	479 165	6 751
Police:				
Payroll costs	7 639 054	7 531 981	7 879 258	(347 277)
Supplies	464 990	591 587	419 837	171 750
Maintenance	140 169	154 592	147 260	7 332
Miscellaneous services	474 084	485 335	444 531	40 804
Sundry charges	1 000	1 000	-	1 000
TOTAL POLICE	8 719 297	8 764 495	8 890 886	(126 391)
Fire:				
Payroll costs	6 672 436	6 644 629	6 955 758	(311 129)
Supplies	426 714	411 668	411 994	(326)
Maintenance	125 360	196 160	142 944	53 216
Miscellaneous services	390 691	389 328	393 038	(3 710)
Sundry charges	100	100	51	49
Capital outlay	-	34 094	34 094	-
TOTAL FIRE	7 615 301	7 675 979	7 937 879	(261 900)
Inspection:				
Payroll costs	466 779	468 473	474 674	(6 201)
Supplies	28 300	23 200	16 298	6 902
Maintenance	2 000	4 900	3 760	1 140
Miscellaneous services	51 557	50 222	46 057	4 165
TOTAL INSPECTION	548 636	546 795	540 789	6 006
Emergency Management:				
Supplies	250	250	-	250
Miscellaneous services	46 850	46 850	43 322	3 528
TOTAL EMERGENCY MANAGEMENT	47 100	47 100	43 322	3 778

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Animal Control:				
Payroll costs	479 620	471 738	485 485	(13 747)
Supplies	65 720	62 720	58 420	4 300
Maintenance	19 500	19 500	14 406	5 094
Miscellaneous services	135 674	125 674	101 455	24 219
TOTAL ANIMAL CONTROL	700 514	679 632	659 766	19 866
TOTAL PUBLIC SAFETY	18 149 621	18 199 917	18 551 807	(351 890)
Cultural and Recreation:				
Parks:				
Payroll costs	1 066 743	995 281	990 232	5 049
Supplies	142 221	124 821	103 564	21 257
Maintenance	121 130	125 130	127 425	(2 295)
Miscellaneous services	421 683	420 323	344 157	76 166
Sundry charges	80	-	60	(60)
TOTAL PARKS	1 751 857	1 665 555	1 565 438	100 117
Zoo:				
Payroll costs	1 188 044	1 152 557	1 106 538	46 019
Supplies	204 215	190 400	195 640	(5 240)
Maintenance	3 850	3 840	3 404	436
Miscellaneous services	175 302	178 422	169 835	8 587
TOTAL ZOO	1 571 411	1 525 219	1 475 417	49 802
Library:				
Payroll costs	506 625	482 581	491 957	(9 376)
Supplies	22 500	21 000	17 853	3 147
Maintenance	40 180	51 200	47 193	4 007
Miscellaneous services	75 280	75 850	69 165	6 685
TOTAL LIBRARY	644 585	630 631	626 168	4 463
TOTAL CULTURAL AND RECREATION	3 967 853	3 821 405	3 667 023	154 382
Planning and Community Development:				
Main Street:				
Payroll costs	160 795	162 587	166 411	(3 824)
Supplies	3 680	4 005	3 250	755
Miscellaneous services	9 560	7 060	6 670	390
TOTAL MAIN STREET	174 035	173 652	176 331	(2 679)
Planning and Zoning:				
Payroll costs	218 512	214 803	194 341	20 462
Supplies	7 160	7 110	5 330	1 780
Maintenance	4 740	4 940	-	4 940
Miscellaneous services	21 000	20 500	13 564	6 936
Sundry charges	300	500	500	-
TOTAL PLANNING AND ZONING	251 712	247 853	213 735	34 118
TOTAL PLANNING AND COMMUNITY DEVELOPMENT	425 747	421 505	390 066	31 439

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
Public Works:				
Engineering:				
Payroll costs	585 982	590 011	605 226	(15 215)
Supplies	17 335	14 835	10 001	4 834
Maintenance	22 655	19 405	18 543	862
Miscellaneous services	70 513	69 513	65 138	4 375
TOTAL ENGINEERING	<u>696 485</u>	<u>693 764</u>	<u>698 908</u>	<u>(5 144)</u>
Street:				
Payroll costs	1 571 995	1 448 845	1 489 268	(40 423)
Supplies	261 300	205 360	185 295	20 065
Maintenance	1 052 900	1 073 654	711 474	362 180
Miscellaneous services	943 665	922 219	901 064	21 155
TOTAL STREET	<u>3 829 860</u>	<u>3 650 078</u>	<u>3 287 101</u>	<u>362 977</u>
Fleet Management:				
Payroll costs	306 168	307 603	310 434	(2 831)
Supplies	31 250	26 757	24 497	2 260
Maintenance	8 650	7 650	3 726	3 924
Miscellaneous services	16 978	15 578	14 684	894
Sundry charges	-	-	5 640	(5 640)
TOTAL FLEET MANAGEMENT	<u>363 046</u>	<u>357 588</u>	<u>358 981</u>	<u>(1 393)</u>
TOTAL PUBLIC WORKS	<u>4 889 391</u>	<u>4 701 430</u>	<u>4 344 990</u>	<u>356 440</u>
Debt Service:				
Debt Payable:				
Principal	28 985	38 711	28 985	9 726
Interest	1 015	1 088	1 088	-
TOTAL DEBT SERVICE	<u>30 000</u>	<u>39 799</u>	<u>30 073</u>	<u>9 726</u>
TOTAL EXPENDITURES	<u>31 535 163</u>	<u>31 586 433</u>	<u>30 933 532</u>	<u>652 901</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(966 133)</u>	<u>(122 260)</u>	<u>659 378</u>	<u>781 638</u>
Other Financing Sources (Uses):				
Transfer in	527 658	541 715	515 868	(25 847)
Transfer out	<u>(225 000)</u>	<u>(318 503)</u>	<u>(311 003)</u>	<u>7 500</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>302 658</u>	<u>223 212</u>	<u>204 865</u>	<u>(18 347)</u>
NET CHANGE IN FUND BALANCE	(663 475)	100 952	864 243	763 291
Fund balance - Beginning	<u>10 305 115</u>	<u>10 305 115</u>	<u>10 305 115</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 9 641 640</u>	<u>\$ 10 406 067</u>	<u>\$ 11 169 358</u>	<u>\$ 763 291</u>

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, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERN- MENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY FUND	SOLID WASTE DISPOSAL FUND	TOTALS	
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 4 906 144	\$ 4 830 828	\$ 9 736 972	\$ 4 963 307
Restricted Assets:				
Cash and cash equivalents	1 294 377	-	1 294 377	-
Accounts receivable (net of allowance for uncollectibles)	2 587 016	894 377	3 481 393	572
Interest receivable	23 908	6 854	30 762	467
Inventories	41 186	5 968	47 154	-
TOTAL CURRENT ASSETS	8 852 631	5 738 027	14 590 658	4 964 346
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	5 424 887	-	5 424 887	-
TOTAL RESTRICTED NONCURRENT ASSETS	5 424 887	-	5 424 887	-
Capital Assets:				
Land	5 532 605	161 364	5 693 969	-
Water rights	2 586 814	-	2 586 814	-
Buildings	3 258 788	2 379 772	5 638 560	-
Machinery and equipment	15 162 169	1 271 012	16 433 181	4 530 442
Vehicles	656 302	938 611	1 594 913	8 281 999
Improvements	79 524 312	784 023	80 308 335	-
Construction in progress	3 649 401	-	3 649 401	-
Less accumulated depreciation	(46 041 559)	(2 829 613)	(48 871 172))	(6 544 761)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	64 328 832	2 705 169	67 034 001	6 267 680
TOTAL NONCURRENT ASSETS	69 753 719	2 703 169	72 458 888	6 267 680
TOTAL ASSETS	78 606 350	8 443 196	87 049 546	11 232 026
<b>DEFERRED OUTFLOW</b>				
Deferred pension outflow	305 509	180 273	485 782	-
TOTAL DEFERRED OUTFLOWS	305 509	180 273	485 782	-
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts/claims payable	119 948	76 248	196 196	366 545
Accrued compensated absences	73 043	40 606	113 649	-
Accrued liabilities	203 452	98 465	301 917	-
Due to other funds	-	-	-	241 998
Current Liabilities Payable from Restricted Assets:				
Customer deposits	264 955	-	264 955	-
Notes payable - Current maturities	6 950	-	6 950	-
TOTAL CURRENT LIABILITIES	668 348	215 319	883 667	608 543
Noncurrent Liabilities:				
Accrued compensated absences	156 465	15 979	172 444	-
Notes payable	22 107	-	22 107	-
Net pension obligation	2 007 174	1 159 559	3 166 733	-
TOTAL NONCURRENT LIABILITIES	2 185 746	1 175 538	3 361 284	-
TOTAL LIABILITIES	2 854 094	1 390 857	4 244 951	608 543
<b>DEFERRED INFLOWS</b>				
Deferred pension inflow	74 065	43 704	117 769	-
TOTAL DEFERRED INFLOWS	74 065	43 704	117 769	-
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	64 299 775	2 705 169	67 004 944	6 267 680
Restricted for retirement of debt	1 294 377	-	1 294 377	-
Unrestricted	10 389 548	4 483 739	14 873 287	4 355 803
TOTAL NET POSITION	\$ 75 983 700	\$ 7 188 908	\$ 83 172 608	\$ 10 623 483

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, 2015

	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	\$ 8 723 547	\$ -	\$ 8 723 547	\$ -
Sewer service charges	7 141 318	-	7 141 318	-
Sanitation collections	-	6 370 488	6 370 488	-
Provision for bad debts	(159 124)	(10 273)	(169 397)	-
Service revenue	278 130	-	278 130	-
General and administrative	119 760	-	119 760	-
Employee premiums	-	-	-	840 276
Employer premiums	-	-	-	3 103 323
Equipment rental	-	-	-	1 427 569
Miscellaneous	68 796	13 599	82 395	178 327
TOTAL OPERATING REVENUES	<u>16 172 427</u>	<u>6 373 814</u>	<u>22 546 241</u>	<u>5 549 495</u>
Operating Expenses:				
Utility collections	701 992	-	701 992	-
Sewer utilities	3 548 432	-	3 548 432	-
Wastewater treatment plant	1 809 362	-	1 809 362	-
Water production	1 879 542	-	1 879 542	-
Sanitation department	-	3 431 293	3 431 293	-
Recycling department	-	354 061	354 061	-
Insurance claims and related expenses	-	-	-	3 854 527
Depreciation and amortization	2 356 001	145 634	2 501 635	1 374 628
General and administrative	2 310 725	1 809 941	4 120 666	-
Non-departmental	(329 742)	9 818	(319 924)	-
TOTAL OPERATING EXPENSES	<u>12 276 313</u>	<u>5 750 747</u>	<u>18 027 060</u>	<u>5 229 155</u>
OPERATING INCOME (LOSS)	<u>3 896 114</u>	<u>623 067</u>	<u>4 519 181</u>	<u>320 340</u>
Nonoperating Revenues (Expenses):				
Interest income	36 647	18 431	55 078	18 027
Capital grant	101 998	-	101 998	-
Interest expense	(953)	-	(953)	-
Gain (loss) on sale of assets	2 821	32 283	35 104	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>140 513</u>	<u>50 714</u>	<u>191 227</u>	<u>18 027</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>4 036 627</u>	<u>673 781</u>	<u>4 710 408</u>	<u>338 367</u>
Transfers in	2 056 085	-	2 056 085	217 500
Transfers out	(5 927 880)	(151 200)	(6 079 080)	-
NET TRANSFERS	<u>(3 871 795)</u>	<u>(151 200)</u>	<u>(4 022 995)</u>	<u>217 500</u>
CHANGE IN NET POSITION	<u>164 832</u>	<u>522 581</u>	<u>687 413</u>	<u>555 867</u>
Net position - Beginning	77 508 104	7 663 100	85 171 204	10 067 616
Prior period adjustment	(1 689 236)	(996 773)	(2 686 009)	-
NET POSITION - RESTATED	<u>75 983 700</u>	<u>6 666 327</u>	<u>82 485 195</u>	<u>10 067 616</u>
NET POSITION - ENDING	<u>\$ 74 224 799</u>	<u>\$ 7 188 908</u>	<u>\$ 83 172 608</u>	<u>\$ 10 623 483</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, 2015

	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	\$ 15 869 566	\$ 6 289 052	\$ 22 158 618	\$ 938 335
Receipts from interfund services provided	-	-	-	4 611 160
Payments to suppliers	(4 683 096)	(2 415 592)	(7 098 688)	(3 623 685)
Payments to employees	(3 200 920)	(1 580 641)	(4 781 561)	-
Payments for interfund services used	(2 310 725)	(1 809 941)	(4 120 666)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5 674 825	482 878	6 157 703	1 925 810
Cash Flows from Noncapital Financing Activities:				
Transfer from other funds	2 056 085	-	2 056 085	217 500
Transfer to other funds	(5 927 880)	(151 200)	(5 981 080)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(3 871 795)	(151 200)	(3 924 995)	217 500
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(2 098 715)	(176 656)	(2 275 371)	(1 355 966)
Principal paid on capital debt	(18 795)	-	(18 795)	-
Interest and fees paid on capital debt	(953)	-	(953)	-
Grant contribution received	101 998	-	101 998	-
Proceeds from sale of capital assets	2 821	32 283	35 104	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2 013 644)	(144 373)	(2 158 017)	(1 355 966)
Cash Flows from Investing Activities:				
Interest and dividends received	36 647	18 431	55 078	18 027
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	36 647	18 431	55 078	18 027
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(173 967)	205 736	31 769	805 371
Cash and cash equivalents - Beginning	11 799 375	4 625 092	16 424 467	4 157 936
CASH AND CASH EQUIVALENTS - ENDING	\$ 11 625 408	\$ 4 830 828	\$ 16 456 236	\$ 4 963 307
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 3 896 114	\$ 623 067	\$ 4 519 181	\$ 320 340
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and amortization	2 356 001	145 634	2 501 635	1 374 628
(Increase) decrease in accounts receivable - Net	(315 262)	(84 762)	(400 024)	-
(Increase) decrease in inventories	681	-	681	-
(Increase) decrease in deferred outflow	(305 509)	(180 273)	(485 782)	-
(Decrease) in accounts/claims payable	57 302	(9 913)	47 389	233 033
Increase in accrued compensated absences	(14 230)	(31 096)	(45 326)	-
Increase in customer deposits	12 401	-	12 401	-
Increase (decrease) in accrued liabilities	8 540	1 530	10 070	(2 191)
Increase (decrease) in deferred inflow	74 065	43 704	117 769	-
Increase in net pension obligation	(95 278)	(25 013)	(120 291)	-
TOTAL ADJUSTMENTS	1 778 711	(140 189)	1 638 522	1 605 470
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5 674 825	\$ 482 878	\$ 6 157 703	\$ 1 925 810

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

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2015

**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, 2015, 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, 2015 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, 2015, 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 and does not issue separate financial statements.

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 assets and the statement of changes in net assets) 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.

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

The government reports the following major governmental funds:

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

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

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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.

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

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

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

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Assets, Liabilities, and Net Position or Equity**

**1. Deposits and Investments**

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

The City, as well as the component units, are 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.

Investments for the government, as well as for its component units, are reported as fair value. The City is authorized to invest in TexPool and TexStar, eligible investment pools that operate in accordance with the appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**2. Receivables and Payables**

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 80% of outstanding taxes at September 30, 2015.

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.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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, 2015, was .5238 per \$100 of assessed valuation. The adjusted total tax levy for fiscal year 2015 was \$10,379,536 and \$10,189,185 was collected for a current collection rate of 97.99%.

**3. Inventories and Prepaid Items**

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

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

**4. Restricted Assets**

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

**5. Capital Assets**

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

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

**7. Long-Term Obligations**

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

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

**8. Fund Equity**

As of September 30, 2015 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, 2015

**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	\$ 248 620	\$ -	\$ -	\$ 248 620
Prepaid items	4 378	-	-	4 378
Restricted:				
Law enforcement	-	-	54 706	54 706
Debt service	-	1 811 938	-	1 811 938
Capital projects	-	-	1 500 672	1 500 672
Other purposes	-	-	254 104	254 104
Committed:				
Financial operations	7 733 383	-	-	7 733 383
Zoo building	-	-	1 812 718	1 812 718
Insurance loss	-	-	(26 625)	(26 625)
Assigned:				
Other purposes	-	-	(51 813)	(51 813)
Unassigned	3 182 977	-	-	3 182 977
TOTAL FUND BALANCES	<u>\$ 11 169 358</u>	<u>\$ 1 811 938</u>	<u>\$ 3 543 762</u>	<u>\$ 16 525 058</u>

When 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%	\$ 7 733 383	\$ 11 169 358
Hotel/Motel Tax Fund - 12.5%	161 092	(225 074)
Recreation Fund - 12.5%	46 052	86 410
TOTAL POLICY RESERVES		
AND FUND BALANCES	<u>\$ 7 940 527</u>	<u>\$ 11 030 694</u>

**9. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section of separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows related to pensions, which arise only under an accrual basis of accounting, is reported only in the government-wide and proprietary statements of net position. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two type of items that qualify for reporting in this category. The item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, fines and EMS services. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows related to pensions, which arise only under an accrual basis of accounting, is reported only in the government-wide and proprietary statements of net position. This amount is deferred and amortized over the actuarial determined recognition period.

**11. Pensions**

During the year ended September 30, 2015, the City implemented the provisions of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 Lufkin Firemen's Retirement Fund and additions to/deductions from both plans Fiduciary Net Position have been determined on the same basis as they are reported. 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.

**12. Subsequent Events**

Management has evaluated subsequent events through August 16, 2016, the date the statements available to be issued.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

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

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of the \$70,731,552 distinction are as follows:

Bonds payable	\$ 61 465 000
Bond premiums/discounts	820 609
Accrued interest payable	259 579
Compensated absences	2 580 420
Net pension obligation	<u>5 605 943</u>
NET ADJUSTMENT TO REDUCE FUND BALANCE - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL ACTIVITIES	  <u>\$ 70 731 552</u>

Another element of that reconciliation explains that "Internal service funds are used by management to charge the costs of health insurance to individual funds. The significant portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets." The details of the \$3,372,914 difference are as follows:

Cash and cash equivalents	\$ 3 980 885
Receivables	572
Accounts payable	(366 545)
Accrued liabilities	<u>(241 998)</u>
NET ADJUSTMENT TO INCREASE FUND BALANCE - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL ACTIVITIES	  <u>\$ 3 372 914</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the \$475,481 difference are as follows:

Capital outlay	\$ 3 652 292
Depreciation expense	<u>(3 176 811)</u>
NET ADJUSTMENT TO INCREASE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	   <u>\$ 475 481</u>

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Accounting**

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

- Forty-five (45) days prior to the end of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is displayed in a newspaper of general circulation within the City in order to obtain citizen comments.
- Prior to October 1, the budget is legally enacted through passage of an ordinance.
- The City Manager is authorized to transfer budgeted amounts between expenditure accounts within any department; however, any revisions that alter the total expenditures of any department (legal level of control) must be approved by the City Council.
- Formal budgetary integration is employed as a management control device during the year for the general fund, budgeted special revenue funds (Hotel/Motel, Zoo Building, Special Recreation, Court Security/Technology, Animal Control-Kurth Grant, Animal's Attic Gift Shop, Heritage Festival Contribution, and debt service funds). 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.

**B. Excess Expenditures over Appropriations in Individual Departments**

No over-expenditures against budgets in the General Fund occurred.

**C. Deficit Fund Balance or Fund Net Assets of Individual Funds**

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

<u>FUND NAME</u>	<u>DEFICIT AMOUNT</u>	<u>REMARKS</u>
Hotel/Motel Tax Fund	\$ 225 075	Revenues were lower than anticipated due to less use of the facility.
Insurance Loss Fund	\$ 26 625	Insurance costs were higher than planned for the year.
Street Construction Fund	\$ 45 284	Street repairs and expansion have exceeded the amounts received in grants.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED**

**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 and had restricted debt service funds of \$1,472,124 at year end.

**DETAIL NOTES ON ALL FUNDS**

**A. Deposits and Investments**

**a. Primary Government**

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

INVESTMENT TYPE	AMOUNT	FAIR VALUE	WEIGHTED AVERAGE MATURITY (YEARS)	CREDIT RATINGS
Certificates of deposit	\$ 34 263 311	\$ 34 263 311		
Money market account	7 818 678	7 818 678		
Cash Equivalents -				
Investment Pools:				
TexPool	1 208 189	1 208 189	0.14	AAAm
TexStar	147 184	147 184	0.14	AAAm
TOTAL DEPOSITS AND INVESTMENTS	\$ 43 437 362	\$ 43 437 362		

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

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

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

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

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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 funds 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. As of September 30, the City's cash deposits of \$2,509,177 in the depository bank(s) were fully insured by the FDIC.

*Concentration of Credit Risk:* The risk of loss attributed to the magnitude of a government's investment in a single issuer. All investments of the City are considered cash deposits held by financial institutions or pools and therefore not subject to concentration of credit risks disclosure.

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

**b. Component Unit**

**Economic Development Corporation**

The Corporation 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 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 Corporations deposits were fully insured or collateralized at September 30. At year end, the carrying amount of deposits in the Corporation operating account was \$2,850,233.

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 Corporation 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 Corporation is two years.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

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 Corporation's depository fully collateralizes the Corporation's deposits as outlined above.

**Lufkin Convention & Visitor Bureau (LCVB)**

The Bureau 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 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 Bureau's deposits were fully insured or collateralized at September 30. At year end, the carrying amount of deposits in the Bureau's operating account was \$197,339.

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 Bureau 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 Bureau 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 Bureau's depository fully collateralizes the Bureau's deposits as outlined above.

**B. Receivables**

Receivables as of September 30 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:

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

	GENERAL FUND	DEBT SERVICE FUND	WATER AND SEWER FUND	SOLID WASTE DISPOSAL FUND	NONMAJOR AND INTERNAL SERVICE FUNDS	TOTAL
Receivables:						
Taxes	\$ 506 656	\$ 244 576	\$ -	\$ -	\$ -	\$ 751 232
Accounts	10 375 968	-	2 935 966	950 637	158 313	14 420 884
Other	47 861	1 016	23 908	6 854	12 958	92 597
Due from other funds	241 998	-	-	-	-	241 998
Intergovernmental	987 664	-	-	-	-	987 664
Less allowance for uncollectibles	(8 279 530)	(181 236)	(348 750)	(56 260)	(139 575)	(9 005 551)
	<u>\$ 3 880 617</u>	<u>\$ 64 356</u>	<u>\$ 2 610 924</u>	<u>\$ 901 231</u>	<u>\$ 31 696</u>	<u>\$ 7 488 801</u>

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**C. Interfund Receivables, Payables and Transfers**

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

FUND	INTERFUND RECEIVABLES	INTERFUND PAYABLES	PURPOSE
Governmental Activities:			
General Fund	\$ 241 998	\$ -	Short-term advance
Special Revenue Funds:			
Hotel/Motel Fund	-	98 117	Short-term advance
Internal Service Funds:			
Health Insurance Fund	-	241 998	Short-term advance
Component Units:			
Lufkin Convention and Visitors Bureau	98 117	-	Short-term advance
TOTAL	\$ 340 115	\$ 340 115	

Transfers at September 30 consisted of the following:

TRANSFER OUT	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECT FUNDS	INTERNAL SERVICE FUND	TOTAL
General Fund	\$ -	\$ -	\$ -	\$ 217 500	\$ 217 500
Nonmajor Governmental	315 868	-	-	-	315 868
Water and Sewer Utility Fund	100 000	3 771 695	-	-	3 871 695
Solid Waste Disposal Fund	100 000	51 300	192 383	-	343 583
TOTAL	\$ 515 868	\$ 3 822 995	\$ 192 383	\$ 217 500	\$ 4 748 646

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

**D. Restricted Assets**

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

	BOND RESERVE	CON- STRUCTION	RENEWAL AND REPLACEMENT	OPERATIONS	TOTAL
Cash and cash equivalents	\$ 1 472 123	\$ 3 065 096	\$ 5 424 887	\$ -	\$ 9 962 106
Customer deposits	-	-	-	264 995	264 995
TOTAL RESTRICTED ASSETS	\$ 1 472 123	\$ 3 065 096	\$ 5 424 887	\$ 264 995	\$ 10 227 101



CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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. The City of Lufkin paid the Authority \$157,882 in December 2003 to complete this contract.

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	\$	796 620
Capitalized Contract for Water Rights:		
50 year contract		220 000
40 year contract		305 600
WATER RIGHTS IN SAM RAYBURN		
RESERVOIR	\$	<u>1 322 220</u>

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Capital Assets Not Being Depreciated:				
Land	\$ 4 631 060	\$ -	\$ (180 000)	\$ 4 451 060
Infrastructure	66 195 870	1 339 539	-	67 535 409
Works of art	278 500	-	-	278 500
Construction in progress	544 089	1 483 046	(1 166 048)	861 087
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>71 649 519</u>	<u>2 822 585</u>	<u>(1 346 048)</u>	<u>73 126 056</u>
Capital Assets Being Depreciated:				
Buildings	22 485 451	-	-	22 485 451
Improvements other than buildings	20 558 489	82 662	-	20 641 151
Machinery and equipment	14 816 310	1 239 126	(360 183)	15 695 253
Vehicles	12 182 689	858 489	(499 819)	12 541 359
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>70 042 939</u>	<u>2 180 277</u>	<u>(860 002)</u>	<u>71 363 214</u>
Less Accumulated Depreciation for:				
Buildings	(6 795 122)	(457 300)	-	(7 252 422)
Improvements other than buildings	(6 093 516)	(649 757)	-	(6 743 273)
Machinery and equipment	(9 539 829)	(865 530)	355 767	(10 049 592)
Vehicles	(6 821 657)	(1 204 224)	480 781	(7 545 100)
TOTAL ACCUMULATED DEPRECIATION	<u>(29 250 124)</u>	<u>(3 176 811)</u>	<u>836 548</u>	<u>(31 590 387)</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>40 792 815</u>	<u>(996 534)</u>	<u>(23 454)</u>	<u>39 772 827</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ <u>112 442 334</u>	\$ <u>1 826 051</u>	\$ <u>(1 369 502)</u>	112 898 883
Governmental activities, capital related debt				<u>(61 645 000)</u>
GOVERNMENTAL ACTIVITIES, INVESTMENT IN CAPITAL ASSETS NET OF RELATED DEBT				<u>\$ 51 253 883</u>

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets Not Being Depreciated:				
Land	\$ 5 681 304	\$ 12 665	\$ -	\$ 5 693 969
Water rights	2 586 814	-	-	2 586 814
Construction in progress	2 312 351	2 218 955	(881 906)	3 649 400
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	10 580 469	2 231 620	(881 906)	11 930 183
Capital Assets Being Depreciated:				
Buildings	5 638 560	-	-	5 638 560
Improvements other than buildings	79 739 325	569 010	-	80 308 335
Machinery and equipment	16 076 532	356 649	-	16 433 181
Vehicles	1 729 672	-	(134 759)	1 594 913
TOTAL CAPITAL ASSETS BEING DEPRECIATED	103 184 089	925 659	(134 759)	103 974 989
Less Accumulated Depreciation for:				
Buildings	(2 417 814)	(118 202)	-	(2 536 016)
Improvements other than buildings	(29 322 422)	(1 737 745)	-	(31 060 167)
Machinery and equipment	(13 047 352)	(640 133)	-	(13 687 485)
Vehicles	(1 716 705)	(5 557)	134 759	(1 587 503)
TOTAL ACCUMULATED DEPRECIATION	(46 504 293)	(2 501 637)	134 759	(48 871 171)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	56 679 796	(1 575 978)	-	55 103 818
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 67 260 265	\$ 655 642	\$ (881 906)	67 034 001
Business-type activities, capital related debt				-
BUSINESS-TYPE ACTIVITIES, INVESTMENT IN CAPITAL ASSETS NET OF RELATED DEBT				\$ 67 034 001

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

	TOTAL
Governmental Activities:	
General government	\$ 387 797
Public safety	1 783 220
Cultural and recreation	554 333
Planning and community development	37 155
Public works	414 307
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3 176 811
Business-Type Activities:	
Water and sewer	\$ 2 356 001
Solid waste disposal	145 636
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 2 501 637

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**4. Construction and Other Commitments**

The government has active construction projects as of September 30. 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
Construction			
Sidewalk construction	\$ 81 236	\$ 1 137 764	Texas Department of Transportation
MLK drainage repair	694	206 478	2012 Capital improvements
Knight avenue drainage	12 489	107 511	2012 Capital improvements
Atkinson reconstruction	-	105 000	2012 Capital improvements
Moffett road reconstruction	276 817	68 183	2012 Capital improvements
Hill street reconditioning	78 299	101 701	2012 Capital improvements
Augusta street recondition	-	156 400	2012 Capital improvements
Chambers park tennis court renovation	73 701	47 519	2012 Capital improvements
Jones lake fishing pier	40 281	-	2012 Capital improvements
Lift water wells 5 of 10	476 842	38 221	Water/Sewer renewal and replacement fund
Pineywoods Academy sewer line	-	20 000	Water/Sewer renewal and replacement fund
Water plant #3	323 483	17 751	Water/Sewer renewal and replacement fund
<b>TOTAL CONSTRUCTION</b>	<b>\$ 1 363 842</b>	<b>\$ 2 006 528</b>	

**F. Current Liabilities**

**1. Accounts/Claims Payable and Accrued Liabilities**

Accounts/claims payable in the governmental activities is composed of amounts due vendors of \$995,579. The governmental accrued liabilities are composed of accrued salaries and benefits of \$638,985 and other accrued liabilities of \$825,482. The business-type activities accounts/claims payable are composed of amounts due vendors, \$196,196. The business-type accrued liabilities are composed of accrued salaries and benefits of \$116,409 and other accrued liabilities of \$185,508.

**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, 2015

**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:

\$9,475,000 Series 2006 General Obligation Refunding Bonds due in semi-annual installments of \$0 to \$570,000 from February 15, 2007 through August 15, 2022; interest at 3.63% to 5.50%.	\$ 2 335 000
\$1,740,000 Series 2007 General Obligation Bonds due in annual installments of \$55,000 to \$125,000 from August 15, 2008 through August 15, 2027; interest at 4.15% to 5.125%.	165 000
\$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%.	370 000
\$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%.	15 600 000
\$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%.	7 085 000
\$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%.	7 850 000
\$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%.	7 050 000
\$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%.	6 500 000
\$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%.	4 665 000
\$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%.	4 945 000
\$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
	<u>\$ 61 645 000</u>

The City expended \$2,191,860 for interest on general obligation bonds for the year ended September 30.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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
2016	\$ 4 850 000	\$ 2 080 144	\$ 6 930 144
2017	5 005 000	1 925 864	6 930 864
2018	5 005 000	1 770 855	6 775 855
2019	5 110 000	1 621 696	6 731 696
2020	5 245 000	1 476 041	6 721 041
2021-2025	17 875 000	5 216 208	23 091 208
2026-2030	11 810 000	2 518 312	14 328 312
2031-2035	6 565 000	490 474	7 055 474
TOTAL	\$ 61 465 000	\$ 17 099 594	\$ 78 564 594

**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
2016	\$ 6 950	\$ 749	\$ 7 699	\$ 244 605	\$ 37 385	\$ 179 074
2017	7 130	569	7 699	251 221	32 383	179 074
2018	7 315	384	7 699	258 902	27 204	179 074
2019	7 662	194	7 856	269 119	21 842	179 074
2020	-	-	-	278 609	16 292	179 074
2021-2025	-	-	-	343	15 139	358 148
TOTAL	\$ 29 057	\$ 1 896	\$ 30 953	\$ 1 103 273	\$ 150 245	\$ 1 253 518

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 was \$29,057.

The City expended \$1,228 for interest on notes payable for business-type activities for the year ended September 30.

The Economic Development Corporation (Component Unit) has entered into lease purchase 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 was \$1,103,273.

The City expended \$95,096 for interest on notes payable for the component units for the year ended September 30.

**3. Change in Long-term Liabilities**

**Primary Government**

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds Payable:					
General obligation bonds	\$ 66 010 000	\$ 4 970 000	\$ 9 515 000	\$ 61 465 000	\$ 4 850 000
Compensated absences	3 606 690	-	1 026 270	2 580 420	-
Net pension obligations	5 079 793	24 581 680	-	29 661 473	-
TOTAL GOVERNMENTAL ACTIVITIES LONG- TERM LIABILITIES	\$ 74 696 483	\$ 29 551 680	\$ 10 541 270	\$ 93 706 893	\$ 4 850 000

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Notes payable	\$ 47 852	\$ -	\$ 18 795	\$ 29 057	\$ 6 950
Compensated absences	331 419	-	158 970	172 444	113 649
Net pension obligations	601 015	2 679 367 *	-	3 280 382	-
<b>TOTAL BUSINESS-TYPE LONG-TERM LIABILITIES</b>	<b>\$ 980 286</b>	<b>\$ 2 679 367</b>	<b>\$ 177 765</b>	<b>\$ 3 481 883</b>	<b>\$ 120 599</b>

**Component Units**

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Net pension obligations	\$ 26 884	\$ 127 242 *	\$ -	\$ 154 126	\$ -
Notes payable	2 617 067	-	1 512 487	1 103 273	141 689
<b>TOTAL COMPONENT UNIT LONG-TERM LIABILITIES</b>	<b>\$ 2 653 968</b>	<b>\$ 3 961</b>	<b>\$ 1 512 487</b>	<b>\$ 1 257 399</b>	<b>\$ 141 689</b>

**4. Advance and Current Refundings**

The City issued \$4,970,000 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 \$5,321,971 (after issuance costs of \$95,573, plus discount of \$35,721) were used to advance refund the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2006 and 2007 bond with a total principal amount of \$4,490,000 and interest ranging from 3.625% to 5.5%. 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 \$520,050 and resulted in an economic gain of \$444,120.

**5. Net Pension Obligations**

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

Retirement plan - Firemen's retirement fund	\$ 18 376 070
TMRS retirement fund	14 234 670
OPEB - Retiree health insurance	1 566 415
<b>TOTAL NET PENSION OBLIGATIONS</b>	<b>\$ 34 177 155</b>

Net pension obligations at September 30 are recorded as follows:

Governmental activities	\$ 31 467 676
Business-type activities	2 589 446
Component units	120 033
<b>TOTAL NET PENSION OBLIGATIONS</b>	<b>\$ 34 177 155</b>

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**H. Other Information**

**1. Risk Management**

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

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

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

The City has entered into agreements with outside firms to administer its employee health benefit plan for twelve (12) month periods. Under the terms of the agreement, the administrator (1) 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, 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, 2015

**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, 2015, the City had recorded a liability of \$124,829 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,
2006	\$	573 903	\$	2 477 494	\$	2 747 857	\$	303 540
2007	\$	303 540	\$	2 767 632	\$	2 720 711	\$	350 461
2008	\$	350 461	\$	2 903 818	\$	2 864 916	\$	389 363
2009	\$	389 363	\$	2 333 207	\$	2 473 586	\$	248 984
2010	\$	248 984	\$	2 360 264	\$	2 331 162	\$	278 086
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

**2. Contingent Liabilities**

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

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

Effective January 1, 2009, the City of Lufkin elected to contribute the phase in rate which was less than the full retirement cost for Texas Municipal Retirement System (TMRS.) The 2009 phase in rate and full rate were 14.78% and 19.43%, respectively. Effective January 1, 2010, the phase in rate and full rate were 16.39% and 20.98%, respectively. The 2011 phase in rate and full rate were 17.33% and 19.18%, respectively. For Fiscal Year 2012 the City elected to change the COLA for retirees to 50% of the Consumer Price Index.

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, 2015, the City has an estimated net pension obligation for the Fund of \$3,146,750.

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

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, 2015, the City has an estimated net pension obligation for other post employment benefits of \$1,566,415.

**3. Defined Benefit Pension Plans - TMRS**

**A. Plan Description**

The City of Lufkin participates as one of 860 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](http://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.

***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	197
Inactive employees entitled to but not yet receiving benefits	147
Active employees	340
	<u>684</u>

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**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 of Lufkin 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 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$1,769,104, and were equal to the required contribution.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated 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 Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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, 2015

**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. 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%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
TOTAL	100.0%	

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 7.0%. 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 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.

***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, 2013	\$ 81 392 464	\$ 66 853 204	\$ 14 539 260
Changes for the Year:			
Service cost	2 123 077	-	2 123 077
Interest	5 650 445	-	5 650 445
Change of benefit terms	-	-	-
Difference between expected and actual experience	(776 242)	-	(776 242)
Changes of assumptions	-	-	-
Contributions - Employer	-	2 486 016	(2 486 016)
Contributions - Employee	-	1 034 606	(1 034 606)
Net investment income	-	3 824 460	(3 824 460)
Benefit payments, including refunds of employee	(3 466 727)	(3 466 727)	-
Administrative expense	-	(39 929)	39 929
Other changes	-	(3 283)	3 283
NET CHANGES	3 530 553	3 835 143	(304 590)
Balance at December 31, 2014	\$ 84 923 017	\$ 70 688 347	\$ 14 234 670

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

***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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% DECREASE IN DISCOUNT RATE (6.0%)	DISCOUNT RATE (7.0%)	1% INCREASE IN DISCOUNT RATE (8.0%)
Net pension liability	\$ 26 281 244	\$ 14 234 670	\$ 4 346 132

***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](http://www.tmrs.com).

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

For the year ended September 30, 2015, the city recognized pension expense of \$2,091,978.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ -	\$ 594 763
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	684 211	-
Contributions subsequent to the measurement date	1 769 104	-
TOTAL	\$ 2 453 315	\$ 594 763

\$1,858,552 reported 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDED DECEMBER 31,	PENSION EXPENSE AMOUNT
2015	\$ (10 426)
2016	(10 426)
2017	(10 426)
2018	120 726
2019	-
Thereafter	-
Total	\$ 89 448

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**4. Firemen Pension - Defined Benefit Pension Plans**

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

Firefighters in the Lufkin Fire Department are covered by the Fund. As of the latest actuarial information dated December 31, 2014, the fund had the following membership information:

Retirees, vested terminated employees and beneficiaries	70
Current Employees:	
Electing DROP	3
Fully vested	36
Non-vested	40
TOTAL	<u>149</u>

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

Service retirement eligibility is as follows:

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

Disability retirement eligibility is as follows:

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

Vested termination eligibility is as follows:

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

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

Death benefit eligibility is as follows:

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

Deferred retirement option provision eligibility is as follows:

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

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

The firefighter may leave the program at any time within the six year period. At the time the firefighter does leave the DROP, they are entitled to receive the amount which has accumulated in the Fund by making an irrevocable decision to request payment of the entire amount in a lump-sum, or to request that the accumulation be paid in not more than three installments beginning not more than thirteen months from leaving the DROP, with the final installment being made not more than thirty-seven months after leaving the DROP. The Fund must be given a 180 day notice of fund withdrawal. They are also entitled to begin receiving their monthly pension that was previously being paid monthly into the Fund. They must also retire from active duty with the Fire Department at the time they leave the DROP.

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

The contribution rate of the firefighters is determined by the firefighters. The City's contribution rate is determined by negotiations with the fire fighters. The actuary certifies the actuarial annual required contribution (ARC). The total contributions of the fire fighters and the City are less than the actuarial annual required contribution. At September 30, 2015, the City's net pension obligation for the Fireman's Relief and Retirement Fund of Lufkin, Texas was estimated to be \$2,974,915.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

The City's total salaries and wages for calendar year 2014 for firemen was \$4,753,068 and the City's contributions were based on a payroll of \$4,966,395. Both the City and the covered employees made contributions, amounting to \$627,405 (13.18%) by employees and \$1,094,156 (22.71%) by the City. The minimum actuarial contribution rate with a 40 year amortization period would be 38.94%.

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

**A. 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 of Lufkin Fire Department. The Plan operates primarily under the "Texas Local Fire Fighters Retirement Act," Article 6243.3 Vernon's Texas Civil Statutes 45<sup>th</sup> Legislature as amended by the 75<sup>th</sup> Legislature, and administers retirement and death benefits to employees and beneficiaries of the employees of the fire department of the City of Lufkin.

**B. Benefits Provided**

The Plan provides retirement, disability, and death benefits. Benefit provisions are adopted by the Plan's Board of Trustees.

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. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to the member contributions for the final 72 months of employment plus an amount equal to the total of 72 normal monthly benefit payments.

***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
	<hr/>
	149

**C. Contributions**

The contribution rate for members in the Plan is 13.20% of member gross earnings, and the City contribution rate is 23.00% of member gross earnings both as adopted by the governing body of the City. The contribution rate of members is determined by the members. The City's contribution rate is determined by the city Council. The plan actuary certified whether the contribution commitment by the members and the City provides adequate financing arrangement.

Total contributions to the Plan for the year ended December 31, 2014 were \$1,721,561, and were equal to the required contribution.



CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 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 sec 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 2014 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 are summarized in the following table:

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

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal 23% of payroll and that member contributions would equal 13.2% 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.

***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, 2013	\$ 30 499 600	\$ 13 294 338	\$ 17 205 262
Changes for the Year:			
Service cost	648 006	-	648 006
Interest	2 282 146	-	2 282 146
Difference between expected and actual experience	227 196	-	227 196
Contributions - Employer	-	1 094 156	(1 094 156)
Contributions - Employee	-	627 405	(627 405)
Net investment income	-	714 645	(714 645)
Benefit payments, including refunds of employee	(1 437 981)	(1 437 981)	-
Administrative expense	421 584	(28 082)	449 666
NET CHANGES	2 140 951	970 143	1 170 808
Balance at December 31, 2014	\$ 32 640 551	\$ 14 264 481	\$ 18 376 070

***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	\$ 22 149 800	\$ 18 376 070	\$ 15 212 431

***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.lufkinfirepension.com](http://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, 2015, the city recognized pension expense of \$1,490,704.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

At September 30, 2015, 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	\$ 189 330	\$ -
Changes in actuarial assumptions	351 320	-
Difference between projected and actual investment earnings	233 610	-
Contributions subsequent to the measurement date	822 856	-
TOTAL	\$ <u>1 597 116</u>	\$ <u>-</u>

\$1,597,116 reported 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>YEAR ENDED DECEMBER 31,</u>	<u>PENSION EXPENSE AMOUNT</u>
2016	\$ 166 532
2017	166 532
2018	166 532
2019	166 534
2020	108 130
Thereafter	-
Total	\$ <u>774 260</u>

**5. Other Postemployment Benefits (OPEB)**

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund (the Fund) that provides health care coverage for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2015, there were 16 retirees and 5 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.

**a. Funding Policy**

The contribution requirements of the City and participants are established and may be amended by the City Council. The required contribution for the City's share is \$5,000 per retiree. The retirees pay premiums of \$310 or \$710 for single coverage and \$721 or \$1,006 for single plus spouse coverage in the low and high plans, respectively. Retirees contributed \$122,874 for fiscal year 2015. 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, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

**b. Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the City's annual OPEB cost, the amount actually contributed, and the changes in the City's net OPEB obligation for the fiscal year ended September 30, 2015 were as follows:

Annual required contribution	\$ 321 386
Interest on net OPEB obligation	58 441
Adjustment to annual required contribution	(56 935)
ANNUAL OPEB COST	<u>322 892</u>
Contributions made	(217 500)
INCREASE IN NET OPEB OBLIGATION	<u>105 392</u>
Net OPEB obligation, beginning of year	1 461 023
NET OPEB OBLIGATION, END OF YEAR	<u>\$ 1 566 415</u>

The City's annual OPEB cost, the percentage contributed, and the net OPEB obligations for fiscal years 2015, 2014, 2013 and 2012 were as follows:

YEAR ENDED	ANNUAL OPEB COST	ANNUAL CONTRIBUTION	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
09/30/2012	\$ 366 423	\$ (573 327)	156%	\$ 608 022
09/30/2013	\$ 573 103	\$ (159 084)	28%	\$ 1 022 041
09/30/2014	\$ 613 974	\$ (174 992)	28%	\$ 1 461 023
09/30/2015	\$ 322 892	\$ (217 500)	67%	\$ 1 566 415

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

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

**6. New Accounting Pronouncements**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which improves financial reporting of certain assets and liabilities measured at fair value. This statement is effective for periods beginning after June 15, 2015. The City is evaluating the impact of this statement on the City's financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which improves financial reporting of public employee pensions that are not within the scope of GASB Statement 68. This statement is effective for periods beginning after June 15, 2015. The City is evaluating the impact of this statement on the City's financial statements.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which improves the usefulness of information about postemployment benefits other than pensions. 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.

CITY OF LUFKIN, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2015

**DETAIL NOTES ON ALL FUNDS - CONTINUED**

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.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. This statement is effective for periods beginning after December 15, 2015. The City is evaluating the impact of this statement on the City's financial statements.

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 December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for periods beginning after December 15, 2016. The City is evaluating the impact of this statement on the City's financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that results from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. This statement is effective for periods beginning after June 15, 2015. The City is evaluating the impact of this statement of 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 Adjustment**

During the year, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under GASB Statement 68, the City was required to record its Net Pension Liability for TMRS and the Fireman's Pension Plan. Adoption of GASB 68 required a prior period adjustment to report the effect retroactively. The prior period adjustment was \$24,142,530, \$2,686,009, \$1,689,236, \$996,773, and \$124,509, respectively, for Governmental Activities, Business-type Activities, the Waste and Sewer Fund, the Solid Waste Fund, and the Component Unit Funds.

## **REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF LUFKIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
September 30, 2015

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

The City performed a complete inventory and condition assessment during the summer and fall of 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		
	2015	2014	2013
Excellent to Good	30.0%	38.0%	35.5%
Fair to Good	39.0%	39.0%	36.5%
Substandard	31.0%	23.0%	28.0%

	PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION		
	2015	2014	2013
Collector Streets	56%	11%	43%
Residential Streets	29%	27%	29%

	PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION		
	2015	2014	2013
Collector Streets	18%	3%	28%
Residential Streets	29%	19%	30%

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 independent auditors' report.

CITY OF LUFKIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
September 30, 2015

The City's streets are constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. The City has determined that the amount of annual expenditures required to maintain the City's streets at the average PCI rating of 56 through the year 2015 is a minimum of \$8,095. 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>
2015	\$	3 650	\$	3 290
2014	\$	3 937	\$	3 414
2013	\$	3 845	\$	3 589
2012	\$	3 835	\$	3 520
2011	\$	3 926	\$	3 535

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (TMRS) AND RELATED RATIOS**  
**Last 10 Years (will ultimately be displayed)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability:				
Service cost	\$ 2 123 077	\$ -	\$ -	\$ -
Interest (on the total pension liability)	5 650 445	-	-	-
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(776 242)	-	-	-
Change of assumptions	-	-	-	-
Benefit payments, including refunds of employee contributions	(3 466 727)	-	-	-
NET CHANGE IN TOTAL PENSION LIABILITY	3 530 553	-	-	-
Total pension liability - Beginning	81 392 464	-	-	-
TOTAL PENSION LIABILITY - ENDING	84 923 017	-	-	-
Plan Fiduciary Net Position:				
Contributions - Employer	2 486 016	-	-	-
Contributions - Employee	1 034 606	-	-	-
Net investment income	3 824 460	-	-	-
Benefit payments, including refunds of employee contributions	(3 466 727)	-	-	-
Administrative expense	(39 929)	-	-	-
Other	(3 283)	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	3 835 143	-	-	-
Plan fiduciary net position - Beginning	66 853 204	-	-	-
PLAN FIDUCIARY NET POSITION - ENDING	70 688 347	-	-	-
NET PENSION LIABILITY - ENDING	\$ 14 234 670	\$ -	\$ -	\$ -
Plan fiduciary net position as a percentage of total pension liability	83.24%	- %	- %	- %
Covered employee payroll	\$ 14 772 880	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll	96.36%	- %	- %	- %

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

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF PLAN ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2)-(1)	FUNDED RATIO (1)/(2)	(5) ANNUAL COVERED PAYROLL	UAAL AS % OF COVERED PAYROLL (3)/(5)
10/01/2008	\$ -	\$ 3 265 949	\$ 3 265 949	0.0%	\$ 15 507 441	21%
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 independent auditors' report.



CITY OF LUFKIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
September 30, 2015

**SCHEDULE OF FUNDING FOR FIREMEN'S RELIEF AND RETIREMENT FUND**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**Last 10 Years (will ultimately be displayed)**

	2014	2015	2016	2017
Total Pension Liability:				
Service cost	\$ 648 006	\$ -	\$ -	\$ -
Interest (on the total pension liability)	2 282 146	-	-	-
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)	-	-	-
NET CHANGE IN TOTAL PENSION LIABILITY	2 140 951	-	-	-
Total pension liability - Beginning	30 499 600	-	-	-
TOTAL PENSION LIABILITY - ENDING	32 640 551	-	-	-
Plan Fiduciary Net Position:				
Contributions - Employer	1 094 156	-	-	-
Contributions - Employee	627 405	-	-	-
Net investment income	714 645	-	-	-
Benefit payments, including refunds of employee contributions	(1 437 981)	-	-	-
Administrative expense	(28 082)	-	-	-
Other	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	970 143	-	-	-
Plan fiduciary net position - Beginning	13 294 338	-	-	-
PLAN FIDUCIARY NET POSITION - ENDING	14 264 481	-	-	-
NET PENSION LIABILITY - ENDING	\$ 18 376 070	\$ -	\$ -	\$ -
Plan fiduciary net position as a percentage of total pension liability	43.70%	- %	- %	- %
Covered employee payroll	\$ 4 966 395	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll	370.04%	- %	- %	- %

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING STATEMENT OF NET POSITION  
COMPONENT UNITS  
September 30, 2015

	ECONOMIC DEVELOPMENT CORPORATION	LUFKIN CONVENTION AND VISITORS BUREAU	TOTAL COMPONENT UNITS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2 850 233	\$ 197 339	\$ 3 047 572
Receivables - Net	94 717	436	95 153
Due from other funds	-	98 117	98 117
Capital lease receivable	2 179 415	-	2 179 415
Capital assets - Net of accumulated depreciation	5 852 109	-	5 852 109
<b>TOTAL ASSETS</b>	<u>10 976 474</u>	<u>295 892</u>	<u>11 272 366</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred pension outflow	10 518	12 000	22 518
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>10 518</u>	<u>12 000</u>	<u>22 518</u>
<b>LIABILITIES</b>			
Accounts/claims payable	8 388	2 390	10 778
Accrued liabilities	4 992	3 887	8 879
Deposits	20 000	-	20 000
Noncurrent Liabilities:			
Due within one year	141 689	-	141 689
Due in more than one year	1 031 918	83 792	1 115 710
<b>TOTAL LIABILITIES</b>	<u>1 206 987</u>	<u>90 069</u>	<u>1 297 056</u>
<b>DEFERRED INFLOWS</b>			
Deferred pension inflow	2 550	2 909	5 459
<b>TOTAL DEFERRED INFLOWS</b>	<u>2 550</u>	<u>2 909</u>	<u>5 459</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	4 678 502	-	4 678 502
Unrestricted	5 098 953	214 914	5 313 867
<b>TOTAL NET POSITION</b>	<u>\$ 9 777 455</u>	<u>\$ 214 914</u>	<u>\$ 9 992 369</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
For the Year Ended September 30, 2015

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ECONOMIC DEVELOPMENT CORPORATION	LUFKIN CONVENTION AND VISITORS BUREAU	TOTAL
Economic Development Corporation	\$ 661 992	\$ -	\$ -	\$ -	\$ (661 992)	\$ -	\$ (661 992)
Lufkin Convention & Visitors Bureau	357 228	-	-	-	-	(357 228)	(357 228)
TOTAL	<u>\$ 1 019 220</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(661 992)</u>	<u>(357 228)</u>	<u>(1 019 220)</u>
General Revenues:							
Sales taxes					1 173 508	-	1 173 508
Other					20 000	392 854	412 854
Unrestricted investment earnings					90 689	750	91 439
Miscellaneous revenue					-	41 927	41 927
TOTAL GENERAL REVENUES					<u>1 284 197</u>	<u>435 531</u>	<u>1 719 728</u>
CHANGE IN NET POSITION					<u>622 205</u>	<u>78 303</u>	<u>700 508</u>
Net position - Beginning					9 213 408	202 962	9 416 370
Prior period adjustment					(58 158)	(66 351)	(124 509)
NET POSITION - RESTATED					<u>9 155 250</u>	<u>136 611</u>	<u>9 291 861</u>
NET POSITION - ENDING					<u>\$ 9 777 455</u>	<u>\$ 214 914</u>	<u>\$ 9 992 369</u>

See independent auditors' report.

## **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 Theatre Special Events Fund - To account for Pines Theatre 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.

### **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, 2015

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2 375 795	\$ 1 770 719	\$ 4 146 514
Receivables:			
Accounts	158 313	-	158 313
Other	3 317	8 602	11 919
Allowance for uncollectibles	(139 575)	-	(139 575)
TOTAL ASSETS	\$ <u>2 397 850</u>	\$ <u>1 779 321</u>	\$ <u>4 177 171</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 219 534	\$ 270 047	\$ 489 581
Due to other funds	98 117	-	98 117
Accrued liabilities	11 469	-	11 469
Customer deposits	23 361	-	23 361
TOTAL LIABILITIES	<u>352 481</u>	<u>270 047</u>	<u>622 528</u>
<b>DEFERRED INFLOWS</b>			
Unearned revenues	<u>2 279</u>	<u>8 602</u>	<u>10 881</u>
TOTAL DEFERRED INFLOWS	<u>2 279</u>	<u>8 602</u>	<u>10 881</u>
<b>FUND BALANCES</b>			
Restricted	308 801	1 500 672	1 809 473
Committed	59 785	-	59 785
Assigned	1 674 504	-	1 674 504
TOTAL FUND BALANCES	<u>2 043 090</u>	<u>1 500 672</u>	<u>3 543 762</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>2 397 850</u>	\$ <u>1 779 321</u>	\$ <u>4 177 171</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended September 30, 2015

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:			
Other taxes	\$ 925 671	\$ -	\$ 925 671
Charges for services	1 054 738	-	1 054 738
Interest income	12 953	9 294	22 247
Intergovernmental	146 588	701 912	848 500
Other revenues	219 204	-	219 204
TOTAL REVENUES	<u>2 359 154</u>	<u>711 206</u>	<u>3 070 360</u>
Expenditures:			
Current:			
General government	121 693	-	121 693
Public safety	173 805	-	173 805
Cultural and recreation	2 053 727	-	2 053 727
Capital Outlay:			
General government	-	190 514	190 514
Cultural and recreation	-	82 719	82 719
Public works	-	1 294 567	1 294 567
TOTAL EXPENDITURES	<u>2 349 225</u>	<u>1 567 800</u>	<u>3 917 025</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>9 929</u>	<u>(856 594)</u>	<u>(846 665)</u>
Other Financing Sources (Uses):			
Transfers in	-	192 383	192 383
Transfers out	(414 748)	-	(414 748)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(414 748)</u>	<u>192 383</u>	<u>(222 365)</u>
NET CHANGE IN FUND BALANCES	(404 819)	(664 211)	(1 069 030)
Fund balances - Beginning	2 447 909	2 164 883	4 612 792
FUND BALANCES - ENDING	<u>\$ 2 043 090</u>	<u>\$ 1 500 672</u>	<u>\$ 3 543 762</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
September 30, 2015

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	MAIN STREET DOWNTOWN DEVELOPMENT FUND	POLICE SEIZED FUND	HOME INVESTMENT PROGRAM FUND
<b>ASSETS</b>					
Cash and cash equivalents	\$ (53 291)	\$ 1 919 369	\$ 23 276	\$ 87 849	\$ 4
Receivables:					
Accounts	-	-	-	-	-
Other	495	1 623	-	-	-
Allowance for uncollectibles	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ (52 796)</u>	<u>\$ 1 920 992</u>	<u>\$ 23 276</u>	<u>\$ 87 849</u>	<u>\$ 4</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 44 311	\$ 105 858	\$ 64	\$ 48 493	\$ -
Due to other funds	98 117	-	-	-	-
Accrued liabilities	5 921	793	-	-	-
Customer deposits	23 361	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>171 710</u>	<u>106 651</u>	<u>64</u>	<u>48 493</u>	<u>-</u>
<b>DEFERRED INFLOWS</b>					
Unearned revenue	569	1 623	-	-	-
<b>TOTAL DEFERRED     INFLOWS</b>	<u>569</u>	<u>1 623</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted	-	-	-	39 356	4
Committed	-	-	-	-	-
Assigned	(225 075)	1 812 718	23 212	-	-
<b>TOTAL FUND BALANCES</b>	<u>(225 075)</u>	<u>1 812 718</u>	<u>23 212</u>	<u>39 356</u>	<u>4</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ (52 796)</u>	<u>\$ 1 920 992</u>	<u>\$ 23 276</u>	<u>\$ 87 849</u>	<u>\$ 4</u>

COURT SECURITY/ TECHNOLOGY FUND	POLICE GRANTS FUND	PINES THEATER SPECIAL EVENTS FUND	SPECIAL RECREATION FUND	INSURANCE LOSS FUND	ANIMAL CONTROL - KURTH GRANT FUND
\$ 859	\$ 2 866	\$ 26 286	\$ 98 285	\$ (24 523)	\$ 229 918
158 313	-	-	-	-	-
-	-	1 112	-	-	87
(139 575)	-	-	-	-	-
<u>\$ 19 597</u>	<u>\$ 2 866</u>	<u>\$ 27 398</u>	<u>\$ 98 285</u>	<u>\$ (24 523)</u>	<u>\$ 230 005</u>
\$ 7 113	\$ -	\$ 4 230	\$ 7 120	\$ 2 102	\$ -
-	-	-	-	-	-
-	-	-	4 755	-	-
-	-	-	-	-	-
<u>7 113</u>	<u>-</u>	<u>4 230</u>	<u>11 875</u>	<u>2 102</u>	<u>-</u>
-	-	-	-	-	87
-	-	-	-	-	87
12 484	2 866	-	-	-	229 918
-	-	-	86 410	(26 625)	-
-	-	23 168	-	-	-
<u>12 484</u>	<u>2 866</u>	<u>23 168</u>	<u>86 410</u>	<u>(26 625)</u>	<u>229 918</u>
<u>\$ 19 597</u>	<u>\$ 2 866</u>	<u>\$ 27 398</u>	<u>\$ 98 285</u>	<u>\$ (24 523)</u>	<u>\$ 230 005</u>



CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET - CONTINUED  
NONMAJOR SPECIAL REVENUE FUNDS  
September 30, 2015

	POLICE DARE CONTRIBUTION GRANT FUND	ANIMAL'S ATTIC GIFT SHOP FUND	FEMA GRANT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
<b>ASSETS</b>				
Cash and cash equivalents	\$ 109	\$ 40 615	\$ 24 173	\$ 2 375 795
Receivables:				
Accounts	-	-	-	158 313
Other	-	-	-	3 317
Allowance for uncollectibles	-	-	-	(139 575)
<b>TOTAL ASSETS</b>	<b>\$ 109</b>	<b>\$ 40 615</b>	<b>\$ 24 173</b>	<b>\$ 2 397 850</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 243	\$ -	\$ 219 534
Due to other funds	-	-	-	98 117
Accrued liabilities	-	-	-	11 469
Customer deposits	-	-	-	23 361
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>243</b>	<b>-</b>	<b>352 481</b>
<b>DEFERRED INFLOWS</b>				
Unearned revenue	-	-	-	2 279
<b>TOTAL DEFERRED     INFLOWS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 279</b>
<b>FUND BALANCES</b>				
Restricted	-	-	24 173	308 801
Committed	-	-	-	59 785
Assigned	109	40 372	-	1 674 504
<b>TOTAL FUND BALANCES</b>	<b>109</b>	<b>40 372</b>	<b>24 173</b>	<b>2 043 090</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 109</b>	<b>\$ 40 615</b>	<b>\$ 24 173</b>	<b>\$ 2 397 850</b>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended September 30, 2015

	HOTEL/ MOTEL TAX FUND	ZOO BUILDING FUND	MAIN STREET DOWNTOWN DEVELOPMENT FUND	POLICE SEIZED FUND	HOME INVESTMENT PROGRAM FUND
Revenues:					
Other taxes	\$ 925 671	\$ -	\$ -	\$ -	\$ -
Charges for services	206 040	259 180	-	-	-
Intergovernmental	-	-	-	-	-
Other revenues	201	7 476	34 661	14 979	-
Interest income	865	8 987	33	504	-
TOTAL REVENUES	<u>1 132 777</u>	<u>275 643</u>	<u>34 694</u>	<u>15 483</u>	<u>-</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	38 846	-
Cultural and recreation	1 189 858	298 739	13 292	-	-
TOTAL EXPENDITURES	<u>1 189 858</u>	<u>298 739</u>	<u>13 292</u>	<u>38 846</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(57 081)</u>	<u>(23 096)</u>	<u>21 402</u>	<u>(23 363)</u>	<u>-</u>
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	-
Transfers out	(103 880)	(28 599)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(103 880)</u>	<u>(28 599)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(160 961)	(51 695)	21 402	(23 363)	-
Fund balances - Beginning	<u>(64 114)</u>	<u>1 864 413</u>	<u>1 810</u>	<u>62 719</u>	<u>4</u>
FUND BALANCES - ENDING	<u>\$ (225 075)</u>	<u>\$ 1 812 718</u>	<u>\$ 23 212</u>	<u>\$ 39 356</u>	<u>\$ 4</u>

COURT SECURITY/ TECHNOLOGY FUND	POLICE GRANTS FUND	PINES THEATER SPECIAL EVENTS FUND	SPECIAL RECREATION FUND	INSURANCE LOSS FUND	ANIMAL CONTROL - KURTH GRANT FUND
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	167 305	412 219	-	-
-	-	-	-	-	146 588
56 886	-	355	7 468	97 178	-
3	16	190	456	44	1 720
<u>56 889</u>	<u>16</u>	<u>167 850</u>	<u>420 143</u>	<u>97 222</u>	<u>148 308</u>
-	-	-	-	121 693	-
35 689	172	-	-	-	99 270
-	-	171 696	368 418	-	-
<u>35 689</u>	<u>172</u>	<u>171 696</u>	<u>368 418</u>	<u>121 693</u>	<u>99 270</u>
21 200	(156)	(3 846)	51 725	(24 471)	49 038
-	-	-	-	-	-
<u>(2 500)</u>	<u>-</u>	<u>-</u>	<u>(59 769)</u>	<u>-</u>	<u>(220 000)</u>
(2 500)	-	-	(59 769)	-	(220 000)
18 700	(156)	(3 846)	(8 044)	(24 471)	(170 962)
<u>(6 216)</u>	<u>3 022</u>	<u>27 014</u>	<u>94 454</u>	<u>(2 154)</u>	<u>400 880</u>
\$ <u>12 484</u>	\$ <u>2 866</u>	\$ <u>23 168</u>	\$ <u>86 410</u>	\$ <u>(26 625)</u>	\$ <u>229 918</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, 2015

	POLICE DARE CONTRIBUTION GRANT FUND	ANIMAL'S ATTIC GIFT SHOP FUND	FEMA GRANT FUND	TOTAL NONMAJOR SPECIAL REVENUE FUNDS
Revenues:				
Other taxes	\$ -	\$ -	\$ -	\$ 925 671
Charges for services	-	9 994	-	1 054 738
Intergovernmental	-	-	-	146 588
Other revenues	-	-	-	219 204
Interest income	-	194	113	13 125
TOTAL REVENUES	-	10 188	113	2 359 326
Expenditures:				
Current:				
General government	-	-	-	121 693
Public safety	-	-	-	173 977
Cultural and recreation	-	11 724	-	2 053 727
TOTAL EXPENDITURES	-	11 724	-	2 349 397
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1 536)	113	9 929
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	(414 748)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	(414 748)
NET CHANGE IN FUND BALANCES	-	(1 536)	113	(404 819)
Fund balances - Beginning	109	41 908	24 060	2 447 909
FUND BALANCES - ENDING	\$ 109	\$ 40 372	\$ 24 173	\$ 2 043 090

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS  
September 30, 2015

	STREET CONSTRUCTION FUND	DRAINAGE MITIGATION FUND	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND
ASSETS				
Cash and cash equivalents	\$ 204 763	\$ 18 392	\$ 53	\$ 94 942
Receivables:				
Other	-	-	-	-
TOTAL ASSETS	<u>\$ 204 763</u>	<u>\$ 18 392</u>	<u>\$ 53</u>	<u>\$ 94 942</u>
LIABILITIES				
Accounts payable	\$ 250 047	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>250 047</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS				
Unearned revenues	-	-	-	-
TOTAL DEFERRED INFLOWS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted	(45 284)	18 392	53	94 942
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 204 763</u>	<u>\$ 18 392</u>	<u>\$ 53</u>	<u>\$ 94 942</u>

See independent auditors' report.

2010 CAPITAL IMPROVEMENT FUND	2012 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ 513 757	\$ 938 812	\$ 1 770 719
8 602	-	8 602
\$ <u>522 359</u>	\$ <u>938 812</u>	\$ <u>1 779 321</u>
\$ -	\$ 20 000	\$ 270 047
<u>-</u>	<u>20 000</u>	<u>270 047</u>
8 602	-	8 602
<u>8 602</u>	<u>-</u>	<u>8 602</u>
513 757	918 812	1 500 672
\$ <u>522 359</u>	\$ <u>938 812</u>	\$ <u>1 779 321</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, 2015

	STREET CONSTRUCTION FUND	DRAINAGE MITIGATION FUND	TEXAS CAPITAL GRANT FUND	CONVENTION CENTER FUND
Revenues:				
Interest income	\$ -	\$ 87	\$ -	\$ 20
Intergovernmental	701 912	-	-	-
TOTAL REVENUES	<u>701 912</u>	<u>87</u>	<u>-</u>	<u>20</u>
Expenditures:				
Capital Outlay:				
General government	190 514	-	-	-
Cultural and recreation	57	-	-	82 662
Public works	670 669	-	-	-
TOTAL EXPENDITURES	<u>861 240</u>	<u>-</u>	<u>-</u>	<u>82 662</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(159 328)</u>	<u>87</u>	<u>-</u>	<u>(82 642)</u>
Other Financing Sources (Uses):				
Transfers in	93 503	-	-	98 880
TOTAL OTHER FINANCING SOURCES (USES)	<u>93 503</u>	<u>-</u>	<u>-</u>	<u>98 880</u>
NET CHANGE IN FUND BALANCES	(65 825)	87	-	16 238
Fund balances - Beginning	20 541	18 305	53	78 704
FUND BALANCES - ENDING	<u>\$ (45 284)</u>	<u>\$ 18 392</u>	<u>\$ 53</u>	<u>\$ 94 942</u>

See independent auditors' report.

2010 CAPITAL IMPROVEMENT FUND	2012 CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR CAPITAL PROJECTS FUNDS
\$ 2 467	\$ 6 720	\$ 9 294
-	-	701 912
<u>2 467</u>	<u>6 720</u>	<u>711 206</u>
-	-	190 514
-	-	82 719
<u>7 843</u>	<u>616 055</u>	<u>1 294 567</u>
<u>7 843</u>	<u>616 055</u>	<u>1 567 800</u>
<u>(5 376)</u>	<u>(609 335)</u>	<u>(856 594)</u>
-	-	192 383
-	-	192 383
(5 376)	(609 335)	(664 211)
<u>519 133</u>	<u>1 528 147</u>	<u>2 164 883</u>
\$ <u><u>513 757</u></u>	\$ <u><u>918 812</u></u>	\$ <u><u>1 500 672</u></u>



CITY OF LUFKIN, TEXAS  
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
WATER AND SEWER UTILITY ENTERPRISE FUND  
For the Year Ended September 30, 2015

Utility Collections:	
Payroll costs	\$ 511 165
Supplies	92 412
Maintenance of equipment	9 232
Miscellaneous services	89 183
TOTAL UTILITY COLLECTIONS	<u>701 992</u>
Wastewater Treatment Plant:	
Payroll costs	753 811
Supplies	262 404
Maintenance of equipment	211 973
Miscellaneous services	581 174
TOTAL WASTEWATER TREATMENT PLANT	<u>1 809 362</u>
Water Production:	
Payroll costs	63 508
Supplies	236 149
Maintenance of equipment	138 929
Miscellaneous services	1 440 956
TOTAL WATER PRODUCTION	<u>1 879 542</u>
Water/Sewer Utilities:	
Payroll costs	1 437 262
Supplies	270 171
Maintenance of equipment	863 684
Miscellaneous services	977 315
TOTAL WATER/SEWER UTILITIES	<u>3 548 432</u>
Depreciation and amortization	2 356 002
General and administrative	2 310 725
Non-departmental	(329 742)
TOTAL OPERATING EXPENSES	<u>\$ 12 276 313</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
SOLID WASTE DISPOSAL ENTERPRISE FUND  
For the Year Ended September 30, 2015

Sanitation:	
Payroll costs	\$ 1 238 545
Supplies	387 570
Maintenance of equipment	204 620
Miscellaneous services	1 600 558
TOTAL SANITATION	<u>3 431 293</u>
Recycling:	
Payroll costs	142 726
Supplies	49 618
Maintenance of equipment	17 587
Miscellaneous services	144 130
TOTAL RECYCLING	<u>354 061</u>
Depreciation and amortization	145 634
General and administrative	1 809 941
Non-departmental	9 818
TOTAL OPERATING EXPENSES	\$ <u>5 750 747</u>

See independent auditors' report.

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, 2015

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Ad valorem taxes	\$ 3 222 442	\$ 3 222 442	\$ 3 179 258	\$ (43 184)
Interest income	6 250	6 250	15 291	9 041
TOTAL REVENUES	<u>3 228 692</u>	<u>3 228 692</u>	<u>3 194 549</u>	<u>(34 143)</u>
Expenditures:				
Debt Service:				
Principal:				
2003 general obligation bonds	15 000	15 000	15 000	-
2004 certificates of obligation	375 000	375 000	-	375 000
2006 general obligation refunding bonds	790 000	790 000	790 000	-
2007 general obligation bonds	75 000	75 000	75 000	-
2007 certificates of obligation	175 000	175 000	175 000	-
2009 certificates of obligation	600 000	600 000	600 000	-
2010 general obligation refunding bonds	350 000	350 000	350 000	-
2010 certificates of obligation	1 060 000	1 060 000	1 060 000	-
2011 general obligation refunding bonds	985 000	985 000	985 000	-
2012 certificates of obligation	300 000	300 000	300 000	-
2013 certificates of obligation	-	-	200 000	(200 000)
2014 general obligation refunding bonds	-	-	405 000	(405 000)
2015 general obligation refunding bonds	-	-	70 000	(70 000)
TOTAL PRINCIPAL	<u>4 725 000</u>	<u>4 725 000</u>	<u>5 025 000</u>	<u>(300 000)</u>
Interest:				
2003 general obligation bonds	600	600	600	-
2004 certificates of obligation	224 268	224 268	-	224 268
2006 general obligation refunding bonds	165 876	165 876	142 912	22 964
2007 general obligation bonds	55 264	55 264	32 978	22 286
2007 certificates of obligation	124 950	124 950	74 737	50 213
2009 certificates of obligation	699 626	699 626	699 625	1
2010 certificates of obligation	324 500	324 500	324 500	-
2010 general obligation refunding bonds	315 200	315 200	315 200	-
2011 general obligation refunding bonds	164 056	164 056	164 100	(44)
2012 certificates of obligation	124 731	124 731	124 688	43
2013 certificates of obligation	-	-	147 882	(147 882)
2014 general obligation refunding bonds	-	-	129 485	(129 485)
2015 general obligation refunding bonds	-	-	35 153	(35 153)
TOTAL INTEREST	<u>2 199 071</u>	<u>2 199 071</u>	<u>2 191 860</u>	<u>7 211</u>
Bond issuance costs and paying agent fees	8 750	8 750	130 802	(122 052)
TOTAL EXPENDITURES	<u>6 932 821</u>	<u>6 932 821</u>	<u>7 347 662</u>	<u>(414 841)</u>
EXCESS (DEFICIENCIES) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3 704 129)</u>	<u>(3 704 129)</u>	<u>(4 153 113)</u>	<u>(448 984)</u>
Other Financing Sources (Uses):				
Bond premium	-	6 441	151 190	144 749
Transfers out	-	-	-	-
Transfers in	3 489 631	3 822 995	3 822 995	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>3 489 631</u>	<u>3 829 436</u>	<u>3 974 185</u>	<u>144 749</u>
NET CHANGE IN FUND BALANCES	(214 498)	125 307	(178 928)	(304 235)
Fund balances - Beginning	<u>1 990 866</u>	<u>1 990 866</u>	<u>1 900 866</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1 776 368</u>	<u>\$ 2 116 173</u>	<u>\$ 1 811 938</u>	<u>\$ (304 235)</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other taxes	\$ 825 000	\$ 825 000	\$ 925 671	\$ 100 671
Charges for services	210 500	223 051	206 040	(17 011)
Other revenues	-	-	201	201
Interest income	1 200	1 200	865	(335)
TOTAL REVENUES	<u>1 036 700</u>	<u>1 049 251</u>	<u>1 132 777</u>	<u>83 526</u>
Expenditures:				
Current:				
Cultural and recreation	<u>1 123 412</u>	<u>1 123 999</u>	<u>1 189 858</u>	<u>(65 859)</u>
TOTAL EXPENDITURES	<u>1 123 412</u>	<u>1 123 999</u>	<u>1 189 858</u>	<u>(65 859)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(86 712)</u>	<u>(74 748)</u>	<u>(57 081)</u>	<u>17 667</u>
Other Financing Sources (Uses):				
Transfers out	<u>(5 000)</u>	<u>(5 000)</u>	<u>(103 880)</u>	<u>(98 880)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(5 000)</u>	<u>(5 000)</u>	<u>(103 880)</u>	<u>(98 880)</u>
NET CHANGE IN FUND BALANCES	(91 712)	(79 748)	(160 961)	(81 213)
Fund balances - Beginning	<u>(64 114)</u>	<u>(64 114)</u>	<u>(64 114)</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ (155 826)</u>	<u>\$ (143 862)</u>	<u>\$ (225 075)</u>	<u>\$ (81 213)</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Charges for services	\$ 238 400	\$ 254 568	\$ 259 180	\$ 4 612
Other revenues	6 840	9 382	7 476	(1 906)
Interest income	5 000	8 100	8 987	887
TOTAL REVENUES	<u>250 240</u>	<u>272 050</u>	<u>275 643</u>	<u>3 593</u>
Expenditures:				
Current:				
Cultural and recreation	<u>204 445</u>	<u>984 799</u>	<u>298 739</u>	<u>686 060</u>
TOTAL EXPENDITURES	<u>204 445</u>	<u>984 799</u>	<u>298 739</u>	<u>686 060</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>45 795</u>	<u>(712 749)</u>	<u>(23 096)</u>	<u>689 653</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	17 196	(741 348)	(51 695)	689 653
Fund balances - Beginning	<u>1 864 413</u>	<u>1 864 413</u>	<u>1 864 413</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1 881 609</u>	<u>\$ 1 123 065</u>	<u>\$ 1 812 718</u>	<u>\$ 689 653</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Interest income	\$ 25	\$ 25	\$ 3	\$ (22)
Other revenues	47 000	47 000	56 886	9 886
TOTAL REVENUES	<u>47 025</u>	<u>47 025</u>	<u>56 889</u>	<u>9 864</u>
Expenditures:				
Current:				
Public safety	41 460	41 460	35 689	5 771
TOTAL EXPENDITURES	<u>41 460</u>	<u>41 460</u>	<u>35 689</u>	<u>5 771</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>5 565</u>	<u>5 565</u>	<u>21 200</u>	<u>15 635</u>
Other Financing Sources (Uses):				
Transfers out	(7 500)	(7 500)	(2 500)	5 000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(7 500)</u>	<u>(7 500)</u>	<u>(2 500)</u>	<u>5 000</u>
NET CHANGE IN FUND BALANCES	(1 935)	(1 935)	18 700	20 635
Fund balances - Beginning	(6 216)	(6 216)	(6 216)	-
FUND BALANCES - ENDING	<u>\$ (8 151)</u>	<u>\$ (8 151)</u>	<u>\$ 12 484</u>	<u>\$ 20 635</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Charges for services	\$ 501 010	\$ 489 880	\$ 412 219	\$ (77 661)
Intergovernmental	-	8 000	7 468	(532)
Interest income	100	400	456	56
TOTAL REVENUES	<u>501 110</u>	<u>498 280</u>	<u>420 143</u>	<u>(78 137)</u>
Expenditures:				
Current:				
Cultural and recreation	<u>421 637</u>	<u>406 076</u>	<u>368 418</u>	<u>37 658</u>
TOTAL EXPENDITURES	<u>421 637</u>	<u>406 076</u>	<u>368 418</u>	<u>37 658</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>79 473</u>	<u>92 204</u>	<u>51 725</u>	<u>(40 479)</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	19 704	32 435	(8 044)	(40 479)
Fund balances - Beginning	<u>94 454</u>	<u>94 454</u>	<u>94 454</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 114 158</u>	<u>\$ 126 889</u>	<u>\$ 86 410</u>	<u>\$ (40 479)</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ 225 000	\$ 200 000	\$ 146 588	\$ (53 412)
Interest income	1 200	1 200	1 720	520
TOTAL REVENUES	<u>226 200</u>	<u>201 200</u>	<u>148 308</u>	<u>(52 892)</u>
Expenditures:				
Current:				
Public safety	100 000	96 389	99 270	(2 881)
TOTAL EXPENDITURES	<u>100 000</u>	<u>96 389</u>	<u>99 270</u>	<u>(2 881)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>126 200</u>	<u>104 811</u>	<u>49 038</u>	<u>(55 773)</u>
Other Financing Sources (Uses):				
Transfers out	(220 000)	(220 000)	(220 000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(220 000)</u>	<u>(220 000)</u>	<u>(220 000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(93 800)	(115 189)	(170 962)	(55 773)
Fund balances - Beginning	400 880	400 880	400 880	-
FUND BALANCES - ENDING	<u>\$ 307 080</u>	<u>\$ 285 691</u>	<u>\$ 229 918</u>	<u>\$ (55 773)</u>

See independent auditors' report.



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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ -	\$ 7 662	\$ 9 994	\$ 2 332
Interest income	75	200	194	(6)
TOTAL REVENUES	<u>75</u>	<u>7 862</u>	<u>10 188</u>	<u>2 326</u>
Expenditures:				
Current:				
Cultural and recreation	-	-	11 724	(11 724)
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>11 724</u>	<u>(11 724)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>75</u>	<u>7 862</u>	<u>(1 536)</u>	<u>(9 398)</u>
Other Financing Sources (Uses):				
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	75	7 862	(1 536)	(9 398)
Fund balances - Beginning	41 908	41 908	41 908	-
FUND BALANCES - ENDING	<u>\$ 41 983</u>	<u>\$ 49 770</u>	<u>\$ 40 372</u>	<u>\$ (9 398)</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ 205 150	\$ 155 795	\$ 167 660	\$ 11 865
Interest income	100	170	190	20
TOTAL REVENUES	<u>205 250</u>	<u>155 965</u>	<u>167 850</u>	<u>11 885</u>
Expenditures:				
Current:				
Cultural and recreation	<u>173 125</u>	<u>176 325</u>	<u>171 696</u>	<u>4 629</u>
TOTAL EXPENDITURES	<u>173 125</u>	<u>176 325</u>	<u>171 696</u>	<u>4 629</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>32 125</u>	<u>(20 360)</u>	<u>(3 846)</u>	<u>16 514</u>
NET CHANGE IN FUND BALANCES	32 125	(20 360)	(3 846)	16 514
Fund balances - Beginning	<u>27 014</u>	<u>27 014</u>	<u>27 014</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 59 139</u>	<u>\$ 6 654</u>	<u>\$ 23 168</u>	<u>\$ 16 514</u>

See independent auditors' report.

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, 2015

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET - POSITIVE (NEGATIVE)
Revenues:				
Other revenues	\$ 1 300	\$ 34 660	\$ 34 661	\$ 1
Interest income	-	-	33	33
TOTAL REVENUES	<u>1 300</u>	<u>34 660</u>	<u>34 694</u>	<u>34</u>
Expenditures:				
Current:				
Cultural and recreation	<u>3 000</u>	<u>17 648</u>	<u>13 292</u>	<u>4 356</u>
TOTAL EXPENDITURES	<u>3 000</u>	<u>17 648</u>	<u>13 292</u>	<u>4 356</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1 700)</u>	<u>17 012</u>	<u>21 402</u>	<u>4 390</u>
NET CHANGE IN FUND BALANCES	(1 700)	17 012	21 402	4 390
Fund balances - Beginning	<u>1 810</u>	<u>1 810</u>	<u>1 810</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 110</u>	<u>\$ 18 822</u>	<u>\$ 23 212</u>	<u>\$ 4 390</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
September 30, 2015

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 3 980 885	\$ 982 422	\$ 4 963 307
Accounts receivable (net of allowance for uncollectibles)	572	-	572
Interest receivable	-	467	467
TOTAL CURRENT ASSETS	<u>3 981 457</u>	<u>982 889</u>	<u>4 964 346</u>
Capital Assets:			
Machinery and equipment	-	4 530 442	4 530 442
Vehicles	-	8 281 999	8 281 999
Less accumulated depreciation	-	(6 544 761)	(6 544 761)
TOTAL CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	<u>-</u>	<u>6 267 680</u>	<u>6 267 680</u>
TOTAL ASSETS	<u>3 981 457</u>	<u>7 250 569</u>	<u>11 232 026</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts/claims payable	366 545	-	366 545
Due to other funds	241 998	-	241 998
TOTAL CURRENT LIABILITIES	<u>608 543</u>	<u>-</u>	<u>608 543</u>
TOTAL LIABILITIES	<u>608 543</u>	<u>-</u>	<u>608 543</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	-	6 267 680	6 267 680
Unrestricted	3 372 914	982 889	4 355 803
TOTAL NET POSITION	<u>\$ 3 372 914</u>	<u>\$ 7 250 569</u>	<u>\$ 10 623 483</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET POSITION  
 INTERNAL SERVICE FUNDS  
 For the Year Ended September 30, 2015

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
Operating Revenues:			
Employee premiums	\$ 840 276	\$ -	\$ 840 276
Employer premiums	3 103 323	-	3 103 323
Equipment rental	-	1 427 569	1 427 569
Miscellaneous	80 268	98 059	178 327
TOTAL OPERATING REVENUES	<u>4 023 867</u>	<u>1 525 628</u>	<u>5 549 495</u>
Operating Expenses:			
Insurance claims and related expenses	3 843 655	10 872	3 854 527
Depreciation and amortization	-	1 374 628	1 374 628
TOTAL OPERATING EXPENSES	<u>3 843 655</u>	<u>1 385 500</u>	<u>5 229 155</u>
OPERATING INCOME (LOSS)	<u>180 212</u>	<u>140 128</u>	<u>320 340</u>
Nonoperating Revenues (Expenses):			
Interest income	13 814	4 213	18 027
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>13 814</u>	<u>4 213</u>	<u>18 027</u>
INCOME (LOSS) BEFORE TRANSFERS	194 026	144 341	338 367
Transfers in	217 500	-	217 500
CHANGE IN NET POSITION	411 526	144 341	555 867
Total net position - Beginning	<u>2 961 388</u>	<u>7 106 228</u>	<u>10 067 616</u>
TOTAL NET POSITION - ENDING	\$ <u>3 372 914</u>	\$ <u>7 250 569</u>	\$ <u>10 623 483</u>

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
For the Year Ended September 30, 2015

	GROUP HEALTH INSURANCE	EQUIPMENT ACQUISITION AND REPLACEMENT	TOTAL
Cash Flows from Operating Activities:			
Receipts from customers and users	\$ 840 276	\$ 98 059	\$ 938 335
Receipts from interfund services provided	3 183 591	1 427 569	4 611 160
Payments to suppliers	<u>(3 612 813)</u>	<u>(10 872)</u>	<u>(3 623 685)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>411 054</u>	<u>1 514 756</u>	<u>1 925 810</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:			
Purchase of capital assets	<u>-</u>	<u>(1 355 966)</u>	<u>(1 355 966)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(1 355 966)</u>	<u>(1 355 966)</u>
Cash Flows from Investing Activities:			
Interest and dividends received	<u>13 814</u>	<u>4 213</u>	<u>18 027</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>13 814</u>	<u>4 213</u>	<u>18 027</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	642 368	163 003	805 371
Cash and cash equivalents - Beginning	<u>3 338 517</u>	<u>819 419</u>	<u>4 157 936</u>
CASH AND CASH EQUIVALENTS - ENDING	\$ <u><u>3 980 885</u></u>	\$ <u><u>982 422</u></u>	\$ <u><u>4 963 307</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ <u>180 212</u>	\$ <u>140 128</u>	\$ <u>320 340</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and amortization	-	1 374 628	1 374 628
Increase (decrease) in accounts/claims payable	233 033	-	233 033
Increase (decrease) in accrued liabilities	<u>(2 191)</u>	<u>-</u>	<u>(2 191)</u>
TOTAL ADJUSTMENTS	<u>230 842</u>	<u>1 374 628</u>	<u>1 605 470</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>411 054</u></u>	\$ <u><u>1 514 756</u></u>	\$ <u><u>1 925 810</u></u>

See independent auditors' report.

## **STATISTICAL SECTION**

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

	FISCAL YEAR									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental Activities:										
Invested in capital assets, net of related debt	\$ 51 434	\$ 46 432	\$ 43 330	\$ 76 984	\$ 30 728	\$ 67 637	\$ 63 259	\$ 50 394	\$ 37 214	\$ 43 174
Restricted	5 016	6 604	7 133	5 789	8 564	3 019	3 857	3 155	7 344	3 104
Unrestricted	(11 680)	8 023	7 863	(29 381)	10 486	(14 334)	(13 751)	11 788	14 651	14 040
TOTAL GOVERNMENTAL ACTIVITIES	<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>	<u>60 318</u>
Business-type Activities:										
Invested in capital assets, net of related debt	67 005	67 260	65 900	31 354	66 072	55 837	56 454	44 884	40 063	36 829
Restricted	1 294	1 308	2 419	7 729	9 285	10 033	10 909	7 191	8 515	14 980
Unrestricted	14 873	16 603	14 075	45 344	8 060	7 151	7 159	8 362	12 698	5 630
TOTAL BUSINESS-TYPE ACTIVITIES	<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>	<u>57 439</u>
Primary Government:										
Invested in capital assets, net of related debt	118 439	113 693	109 230	108 339	96 800	96 800	123 474	119 713	95 278	77 277
Restricted	6 310	7 912	9 552	13 518	17 849	17 849	13 052	14 766	10 346	15 859
Unrestricted	3 193	24 626	21 938	15 963	18 546	18 546	(7 183)	(6 592)	20 150	27 349
TOTAL PRIMARY GOVERNMENT	<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>	<u>\$ 117 757</u>

Source: City of Lufkin accounting records.

See independent auditors' report.



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

	FISCAL YEAR			
	2015	2014	2013	2012
Expenses:				
Governmental Activities:				
General government	\$ 2 786	\$ 1 789	\$ 2 069	\$ 2 706
Public safety	19 892	20 712	20 204	19 673
Cultural and recreation	6 381	6 259	7 13	6 472
Planning and community development	97	487	359	944
Public works	1 678	3 368	4 285	3 681
Non-departmental	-	-	-	-
Interest and fiscal charges	2 323	2 654	2 467	1 374
TOTAL GOVERNMENTAL ACTIVITIES EXPENSES	<u>33 157</u>	<u>35 269</u>	<u>36 497</u>	<u>34 850</u>
Business-type Activities:				
Water and sewer	12 277	13 635	13 229	12 619
Solid waste disposal	5 751	5 882	5 477	5 025
TOTAL BUSINESS-TYPE ACTIVITIES EXPENSES	<u>18 028</u>	<u>19 517</u>	<u>18 706</u>	<u>17 644</u>
TOTAL PRIMARY GOVERNMENT EXPENSES	<u>51 185</u>	<u>54 786</u>	<u>55 203</u>	<u>52 494</u>
Program Revenues:				
Governmental Activities:				
Charges for Services:				
General government	2 940	3 065	4 896	-
Public safety	3 748	3 607	2 017	4 022
Cultural and recreation	1 311	1 285	1 293	738
Planning and community development	-	-	117	-
Public works	-	-	681	-
Operating grants and contributions	410	696	-	452
Capital grants and contributions	702	2 175	-	170
TOTAL GOVERNMENTAL ACTIVITIES PROGRAM REVENUES	<u>9 111</u>	<u>10 828</u>	<u>9 004</u>	<u>5 382</u>
Business-type Activities:				
Charges for Services:				
Water and sewer	16 172	15 493	16 316	16 256
Solid waste disposal	6 374	6 221	6 137	6 199
Capital grants and contributions	102	565	-	-
TOTAL BUSINESS-TYPE ACTIVITIES PROGRAM REVENUES	<u>22 648</u>	<u>22 279</u>	<u>22 453</u>	<u>22 455</u>
TOTAL PRIMARY GOVERNMENT PROGRAM REVENUES	<u>31 760</u>	<u>33 107</u>	<u>31 457</u>	<u>27 837</u>
Net (Expense) Revenue:				
General activities	(24 046)	(24 441)	(27 493)	(29 468)
Business-type activities	4 620	2 762	3 747	4 811
TOTAL PRIMARY GOVERNMENT NET EXPENSE	<u>(19 425)</u>	<u>(21 679)</u>	<u>(23 746)</u>	<u>(24 657)</u>
General Revenues and Other Changes in Net Assets:				
Governmental Activities:				
Taxes:				
Property taxes	10 802	10 768	9 535	9 981
Sales taxes	12 909	12 054	12 286	11 841
Franchise taxes	2 480	2 513	2 322	2 388
Hotel taxes	926	877	661	76
Other	93	95	1 171	4 780
Unrestricted investment earnings	108	143	145	195
Gain on retirement of capital assets	98	94	471	77
Miscellaneous revenues	461	752	-	-
Transfers	4 023	253	5 835	3 745
TOTAL GOVERNMENTAL ACTIVITIES	<u>31 899</u>	<u>27 549</u>	<u>32 426</u>	<u>33 083</u>
Business-type Activities:				
Unrestricted investment earnings	55	81	48	136
Gain on retirement of capital assets	35	57	7	-
Miscellaneous revenue	-	131	-	-
Transfers	(4 023)	(253)	(5 835)	(3 742)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>(3 933)</u>	<u>16</u>	<u>(5 780)</u>	<u>(3 606)</u>
TOTAL PRIMARY GOVERNMENT	<u>27 966</u>	<u>27 565</u>	<u>26 646</u>	<u>29 477</u>
Change in Net Position:				
Governmental activities	7 853	3 108	4 933	3 615
Business-type activities	687	2 777	(2 033)	1 205
TOTAL PRIMARY GOVERNMENT	<u>\$ 8 541</u>	<u>\$ 5 885</u>	<u>\$ 2 900</u>	<u>\$ 4 820</u>

Source: City of Lufkin accounting records.

See independent auditors' report.

FISCAL YEAR					
2011	2010	2009	2008	2007	2006
\$ 2 114	\$ 2 978	\$ 2 425	\$ 3 572	\$ 2 457	\$ 1 786
17 812	17 122	16 333	17 327	15 493	13 104
5 740	5 814	5 722	4 960	4 757	4 575
406	444	382	341	351	338
4 992	5 095	8 148	4 454	3 629	3 391
-	-	-	-	-	239
2 870	2 477	2 256	2 108	1 947	1 851
33 934	33 930	35 266	32 762	28 634	25 284
12 676	13 594	12 854	12 844	13 151	12 166
6 032	5 796	5 872	7 163	6 051	5 655
18 708	19 390	18 726	20 007	19 202	17 821
52 642	53 320	53 992	52 769	47 836	43 105
-	535	98	104	151	221
3 989	3 268	3 530	3 222	2 494	819
624	1 494	1 548	1 446	1 291	1 293
-	-	-	2	4	4
16	26	52	51	107	112
750	417	1 125	1 936	292	807
909	760	911	3 395	18	671
6 288	6 500	7 264	10 156	4 357	3 927
16 255	14 412	13 684	14 114	13 379	13 712
6 198	5 995	5 763	5 818	5 613	5 938
-	226	358	49	2	-
22 453	20 633	19 805	19 981	18 994	19 650
28 741	27 133	27 069	30 137	23 351	23 577
(27 646)	(27 430)	(28 002)	(22 606)	(24 277)	(21 357)
3 745	1 243	1 079	(26)	(208)	1 829
(23 901)	(26 187)	(26 923)	(22 632)	(24 485)	(19 528)
9 963	9 864	9 981	9 358	8 874	8 882
11 350	10 949	11 438	11 122	10 975	10 301
2 423	2 262	2 795	2 851	2 748	2 989
95	90	92	86	82	70
3 201	3 817	3 753	2 339	1 763	516
429	294	564	1 100	1 623	897
92	61	14	-	-	-
-	-	-	-	(4 816)	-
(6 426)	3 051	(12 607)	1 878	1 918	2 530
21 127	30 388	16 030	28 734	23 167	26 185
181	254	383	657	1 055	864
44	52	16	70	93	-
-	-	-	339	4 816	-
6 426	(3 051)	12 607	(1 878)	(1 918)	(2 530)
6 651	(2 745)	13 006	(812)	4 046	(1 666)
27 778	27 643	29 036	27 922	27 213	24 519
(6 519)	2 958	(11 972)	6 128	(1 110)	4 828
10 396	(1 502)	14 085	(838)	3 838	163
\$ 3 877	\$ 1 456	\$ 2 113	\$ 5 290	\$ 2 728	\$ 4 991

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>
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
2006	\$	8 801	\$	10 301	\$	2 989	\$	70	\$	692	\$	22 853

Source: City of Lufkin accounting records.

See independent auditors' report.

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

		FISCAL YEAR			
		2015	2014	2013	2012
General Fund:					
Nonspendable		\$ 253	\$ 249	\$ 199	\$ 212
Restricted		-	-	-	-
Committed		7 733	7 645	7 841	7 416
Assigned		-	-	398	720
Unassigned		3 183	2 411	1 190	1 343
TOTAL GENERAL FUND		<u>\$ 11 169</u>	<u>\$ 10 305</u>	<u>\$ 9 628</u>	<u>\$ 9 691</u>
All Other Governmental Funds:					
Restricted:					
Debt Service Fund		\$ 1 811	\$ 1 991	\$ 2 280	\$ 2 022
Special Revenue Funds		309	484	440	155
Capital Project Funds		1 501	2 165	4 413	1 806
Committed:					
Special Revenue Funds		1 786	92	104	1 789
Assigned:					
Special Revenue Funds		(52)	1 871	1 879	411
TOTAL ALL OTHER GOVERNMENTAL FUNDS		<u>\$ 3 544</u>	<u>\$ 6 603</u>	<u>\$ 9 116</u>	<u>\$ 6 183</u>

Source: City of Lufkin accounting records.

See independent auditors' report.

FISCAL YEAR					
2011	2010	2009	2008	2007	2006
\$ 208	\$ 218	\$ 214	\$ 146	\$ 130	\$ 67
9	-	-	-	-	-
7 267	7 380	7 077	6 861	6 322	5 874
774	1 353	711	884	583	1 296
3 207	2 297	3 791	3 410	4 428	4 028
<u>\$ 11 465</u>	<u>\$ 11 248</u>	<u>\$ 11 793</u>	<u>\$ 11 301</u>	<u>\$ 11 463</u>	<u>\$ 11 265</u>
\$ 1 612	\$ 983	\$ 973	\$ 1 582	\$ 2 364	\$ 2 395
594	583	736	687	751	434
6 347	1 453	2 884	1 573	4 980	709
1 698	1 648	1 507	1 384	1 825	1 628
189	117	89	26	189	59
<u>\$ 10 440</u>	<u>\$ 4 784</u>	<u>\$ 6 189</u>	<u>\$ 5 252</u>	<u>\$ 10 109</u>	<u>\$ 5 225</u>

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

	FISCAL YEAR			
	2015	2014	2013	2012
Revenues:				
Taxes	\$ 26 816	\$ 25 961	\$ 25 220	\$ 24 983
Licenses and permits	298	319	287	285
Fines and forfeitures	1 048	1 192	1 186	1 157
Charges for services	3 606	3 386	3 227	2 945
Interest income	90	127	141	174
Intergovernmental	5 126	6 577	4 992	4 211
Other revenues	875	1 063	1 174	1 353
TOTAL REVENUES	<u>37 858</u>	<u>38 625</u>	<u>36 227</u>	<u>35 108</u>
Expenditures:				
General government	4 071	3 843	3 522	3 903
Public safety	18 276	18 177	17 148	16 881
Cultural and recreation	5 721	5 597	5 410	5 056
Planning and community development	390	431	473	437
Public works	4 345	4 570	4 575	4 494
Non-departmental	-	-	-	-
Debt Service:				
Principal	5 054	5 010	4 334	13 758
Interest and fiscal charges	2 193	2 455	2 448	2 451
Bond issuance costs	131	104	100	174
Capital outlay	1 568	4 569	6 107	6 787
TOTAL EXPENDITURES	<u>42 198</u>	<u>44 756</u>	<u>44 117</u>	<u>53 941</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4 341)</u>	<u>(6 131)</u>	<u>(7 890)</u>	<u>(18 833)</u>
Other Financing Sources (Uses):				
Capital lease proceeds	-	-	-	-
Bond proceeds	-	5 259	-	-
Note proceeds	-	-	-	-
Refunding bonds issued	-	-	-	9 680
Loss on refunding	-	-	-	(375)
Premium from refinancing	151	-	48	125
Insurance recovery	-	-	-	50
Bond/CO's issued	-	-	7 100	-
Payment to refunded bond escrow agent	-	-	-	-
Capital contributions	-	-	-	-
Transfers in	4 531	4 717	4 752	7 482
Transfers out	(725)	(5 681)	(1 141)	(4 160)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3 957</u>	<u>4 295</u>	<u>10 759</u>	<u>12 802</u>
NET CHANGE IN FUND BALANCES	<u>\$ (384)</u>	<u>\$ (1 836)</u>	<u>\$ 2 869</u>	<u>\$ (6 031)</u>
Debt service as a percentage of noncapital expenditures	18.11%	23.21%	23.15%	17.87%

Source: City of Lufkin accounting records.

See independent auditors' report.

FISCAL YEAR						
	2011	2010	2009	2008	2007	2006
\$	24 528	\$ 25 961	\$ 25 090	\$ 24 203	\$ 23 397	\$ 22 853
	292	319	343	387	253	284
	1 213	1 192	1 233	1 018	728	767
	3 022	3 386	3 082	2 710	2 184	1 822
	242	127	481	796	1 172	789
	4 999	6 577	5 103	7 099	2 611	4 289
	523	1 063	740	1 472	755	952
	<u>34 819</u>	<u>38 625</u>	<u>36 072</u>	<u>37 685</u>	<u>31 100</u>	<u>31 756</u>
	3 888	3 843	3 539	4 686	3 464	2 992
	16 721	18 177	15 829	17 357	14 075	13 654
	4 770	5 597	4 765	4 480	4 181	4 190
	376	431	314	324	334	319
	4 546	4 570	7 638	5 889	4 135	4 155
	-	-	-	-	-	239
	6 572	5 010	4 409	4 141	3 206	2 899
	2 678	2 455	1 871	2 002	1 746	1 815
	382	104	-	-	90	-
	5 611	4 569	1 421	7 177	2 633	2 313
	<u>45 544</u>	<u>44 756</u>	<u>39 786</u>	<u>46 056</u>	<u>33 864</u>	<u>32 576</u>
	<u>(10 725)</u>	<u>(5 477)</u>	<u>(3 714)</u>	<u>(8 371)</u>	<u>(2 764)</u>	<u>(820)</u>
	140	-	-	-	-	258
	-	-	-	-	-	-
	-	91	-	746	-	-
	12 130	-	-	-	9 591	-
	(74)	-	-	-	-	-
	968	-	-	-	-	-
	168	534	-	-	-	-
	9 660	-	17 400	-	7 610	-
	-	-	-	-	(9 580)	-
	-	-	-	1 087	(1 195)	-
	3 702	3 453	7 396	3 735	2 563	1 981
	<u>(10 070)</u>	<u>(552)</u>	<u>(20 641)</u>	<u>(2 216)</u>	<u>(1 143)</u>	<u>(948)</u>
	<u>16 624</u>	<u>3 526</u>	<u>4 155</u>	<u>3 352</u>	<u>7 846</u>	<u>1 291</u>
\$	<u>5 899</u>	\$ <u>(1 951)</u>	\$ <u>441</u>	\$ <u>(5 019)</u>	\$ <u>5 082</u>	\$ <u>471</u>
	17.99%	16.44%	16.58%	15.58%	15.36%	13.00%

CITY OF LUFKIN, TEXAS  
GENERAL FUND 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>BUSINESS TAXES</u>		<u>TOTAL</u>
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
2006	\$	8 801	\$	10 301	\$	2 989	\$	70	\$	692	\$	22 853

Source: City of Lufkin accounting records.

See independent auditors' report.



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

FISCAL YEAR	TAXABLE SALES BY INDUSTRY					
	MANUFACTURING (000'S)	RETAIL TRADE (000'S)	ACCOMMODATION FOOD SERVICE (000'S)	WHOLESALE TRADE (000'S)	INFORMATION (000'S)	MISC <sup>(1)</sup> (000'S)
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

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

Source: Texas Comptroller Public Accounts website

See independent auditors' report.

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					
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%
2006	\$ 666 850	\$ 555 810	\$ 497 374	\$ 26	\$ 140 701	\$ 1 579 359	0.55850	\$ 1 721 800	91.73%

Source: Angelina County Appraisal District

See independent auditors' report.

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
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
2006	0.35630	0.20220	0.55850	1.37000	0.07750	1.44750

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	
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
2006	0.44120	-	0.44120	0.09470	0.02430	0.11900	2.56620

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

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
 PRINCIPAL PROPERTY TAXPAYERS  
 September 30, 2015  
 (amounts expressed in thousands)

TAXPAYER	2015			2006		
	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE
Lufkin Industries	\$ 71 877	1	3.57%	\$ 49 479	1	3.13%
Consolidated Comm of Texas	\$ 29 514	2	1.47%	\$ 28 968	3	1.83%
Brookshire Brothers, Inc.	\$ 26 714	3	1.33%	\$ 29 420	2	1.86%
Georgia Pacific Corp	\$ 20 118	4	1.00%	\$ 17 839	6	1.13%
Oncor Electric Delivery Co	\$ 22 159	5	1.10%	\$ -	-	-
Pilgrim Industries Inc.	\$ 20 205	6	1.00%	\$ 24 944	4	1.47%
Lufkin-Industries-Exempt	\$ -	7	-	\$ -	-	-
Aspen Power, LLC	\$ 12 508	8	0.62%	\$ -	-	-
Lufkin GKD Partners LP	\$ 15 347	9	0.76%	\$ -	-	-
Piney Woods Healthcare System LP	\$ 15 137	10	0.75%	\$ 16 013	8	1.01%
Texas Foundries LTD	\$ -	-	-	\$ 17 574	7	1.11%
TXU Electric Delivery	\$ -	-	-	\$ 20 754	5	1.31%
Brookshire Bros. LTD	\$ -	-	-	\$ 13 518	9	0.86%
Weingarten/Lufkin, Inc.	\$ -	-	-	\$ 13 487	10	0.85%

Source: Angelina County Appraisal District

See independent auditors' report.

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
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%
2006	\$	8 777	\$ 8 558	97.50%	\$ 163	\$ 8 721	99.36%

Source: Angelina County Tax Assessor's Office

See independent auditors' report.

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 <sup>1</sup>	PER CAPITA <sup>1</sup>
	GENERAL OBLIGATION BONDS	CERTIFICATES OF OBLIGATION	CAPITAL LEASES	NOTES PAYABLE	WATER WORKS AND SEWER SYSTEM BONDS	NOTES PAYABLE	CAPITAL LEASES			
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
2006	12 900	25 175	272	-	12 070	180	-	50 597	7.14%	1 498.64

<sup>1</sup> See the Schedule of Demographic and Economic Statistics on page 121 for income and population data.

See independent auditors' report.

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 <sup>1</sup> OF PROPERTY</u>	<u>PER CAPITA <sup>2</sup></u>
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
2006	12 900	2 395	10 505	0.65%	311.15

<sup>1</sup> See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 112 for property value data.

<sup>2</sup> See the Schedule of Demographic and Economic Statistics on page 121 for personal income and population data.

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
September 30, 2015  
(amounts expressed in thousands)

GOVERNMENTAL UNIT	DEBT OUTSTANDING	ESTIMATED PERCENTAGE APPLICABLE <sup>1</sup>	ESTIMATED SHARE OF OVERLAPPING DEBT
Direct:			
City of Lufkin	\$ 61 465	100.00%	\$ 61 465
Overlapping:			
Angelina County	5 565	50.77%	2 825
Angelina County Junior College District	18 099	50.14%	9 075
Hudson Independent School District	16 630	14.17%	2 356
Lufkin Independent School District	51 083	80.07%	40 902
TOTAL OVERLAPPING	91 377		55 158
TOTAL DIRECT AND OVERLAPPING DEBT	\$ 152 842		\$ 116 623

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

<sup>1</sup> 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 independent auditors' report.



CITY OF LUFKIN, TEXAS  
LEGAL DEBT MARGIN INFORMATION  
September 30, 2015

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, 2015 is \$0.5238 per \$100 of assessed valuation with assessed valuation being 100% of appraised value.

See independent auditors' report.

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 EXPENSES<sup>1</sup></u>	<u>NET AVAILABLE REVENUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>COVERAGE</u>
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
2006	14 160	9 563	4 597	965	500	3.14

<sup>1</sup> Excludes depreciation

See independent auditors' report.

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

FISCAL YEAR	POPULATION <sup>1</sup>	PERSONAL INCOME <sup>1</sup> (amounts expressed in thousands)	PER CAPITA PERSONAL INCOME	MEDIAN AGE	EDUCATION LEVEL IN YEARS OF FORMAL SCHOOLING	SCHOOL ENROLLMENT <sup>2</sup>	UNEMPLOYMENT RATE
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
2006	33 762	708 337	20.98	34.5	13.1	8 631	4.9

Data Sources:

<sup>1</sup> Texas Workforce Solutions

<sup>2</sup> Lufkin Independent School District

Note: Population, median age, and education level information are estimates after Fiscal year 2015 and are based on growth estimates. School enrollment is based on the census at the start of the school year.

See independent auditors' report.

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

EMPLOYER	2015			2010		
	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY EMPLOYMENT
Lufkin ISD	1000+	1	4.26%	1000+	1	5.84%
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 School	1000+	4	3.05%	1000+	5	4.41%
CHI St. Lukes Hospital	1000+	5	3.10%			
Lufkin Industries	500-999	6	2.22%	1000+	3	5.57%
Woodland Heights Medical Center	500-999	7	1.57%	500-999	9	1.95%
Georgia Pacific	500-999	8	1.51%			
City of Lufkin	500-999	9	1.27%	500-999	10	1.70%
Walmart	500-999	10	1.25%	500-999	8	2.05%
Memorial Health System				1000+	6	4.36%
Temple Inland				500-999	7	2.16%

Source: [www.lufkintexas.org](http://www.lufkintexas.org)

Source: Lufkin Economic Development

See independent auditors' report.

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,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General government	31	27	27	26	26	27	22	22	22	22
Public Safety:										
Police:										
Officers	78	76	76	76	76	76	76	76	77	77
Civilians	37	39	39	41	40	40	39	39	39	34
Fire:										
Officers	79	79	79	79	79	78	77	77	77	75
Civilians	2	2	2	2	4	5	5	5	5	5
Cultural and recreation	68	67	66	64	61	61	58	58	58	57
Community development	10	11	11	11	10	10	7	7	7	8
Public works	57	58	58	57	57	58	56	56	56	57
Water	33	33	33	33	31	31	33	33	33	28
Sewer	38	38	38	38	40	40	42	42	42	34
Solid waste	34	34	34	33	33	33	36	36	36	32
TOTAL	<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>	<u>429</u>

Source: City of Lufkin Budget Document

See independent auditors' report.

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

FUNCTION	FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Police:										
Physical arrests	1 589	1 779	1 770	1 663	1 995	1 913	2 021	2 210	1 935	1 695
Parking violations	25	178	26	44	533	857	808	1 319	2 087	2 229
Traffic violations	6 708	9 481	8 401	10 793	12 298	12 136	9 803	10 208	9 390	13 180
Fire:										
Number of calls answered <sup>(1)</sup>	13 181	12 465	11 969	8 283	2 546	1 201	1 238	1 322	1 227	1 074
Inspections	337	375	458	672	314	426	1 041	578	1 055	1 253
Highways and Streets:										
Street resurfacing (miles)	3	3	3	3	3	4	4	5	3	5
Potholes repaired	661	568	580	617	948	1 977	1 809	1 385	1 402	1 955
Sanitation:										
Refuse collected (cu yd/day)	417	511	407	564	707	705	714	972	276	264
Recyclables collected (tons/day)	12	12	12	11	11	10	9	7	12	37
Cultural and Recreation:										
Community center rentals	242	283	252	253	491	233	466	413	385	273
Water:										
New connections	125	27	110	136	107	102	95	176	156	166
Water mains breaks	460	414	465	456	598	647	635	650	682	1 000
Average daily consumption (thousands of gallons)	10 571	7 354	6 192	7 549	8 540	7 459	7 825	7 806	8 097	9 183
Wastewater:										
Average daily sewage treatment (thousands of gallons)	4 964	5 175	5 463	5 226	4 959	5 251	5 999	8 353	6 491	6 158

Source: Various city departments

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

See independent auditors' report.

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

FUNCTION	FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Public Safety:										
Police:										
Stations	1	1	1	1	1	1	2	2	2	2
Patrol units	22	22	19	20	19	19	19	19	19	19
Fire:										
Fire stations	4	5	5	5	4	5	5	5	5	5
Sanitation:										
Collection trucks	19	19	19	19	19	19	19	19	21	20
Highways and Streets:										
Streets (miles)	211.4	211.4	208.8	208.8	208.9	282.6	282.4	281.6	280.3	270.5
Streetlights	3,649	3,649	3,649	3,649	3,641	3,626	3,604	3,642	3,568	3,568
Traffic signals	3	3	3	3	3	3	3	2	2	2
Cultural and Recreation:										
Parks acreage	653.0	653.0	653.0	653.0	655.0	659.9	653.0	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	2
Tennis courts	13	13	13	13	13	13	13	13	11	11
Community centers	2	2	2	2	2	2	2	3	3	2
Water										
Water mains (miles)	685	685	685	685	685	679	679	679	679	678
Fire hydrants	1,770	1,770	1,759	1,758	1,694	1,648	1,640	1,536	1,479	1,416
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)	272.7	272.7	272.5	270.8	270.8	269.9	269.5	268.7	267.4	266.5
Storm sewers (miles)	16.9	16.9	16.9	16.9	16.9	16.7	16.5	16.5	15.3	13.5
Maximum daily treatment capacity in thousands of gallons	11,300	11,300	11,300	17,100	17,100	17,100	11,300	11,300	11,300	11,300

Source: Various city departments

See independent auditors' report.

CITY OF LUFKIN, TEXAS  
WATER, SEWER AND SANITATION RATES  
For the Year Ended September 30, 2015

Approved Rates

The monthly billing rates for water, sewer, and sanitation services as approved by the City Council effective October 1, 2014 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, 2015

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, 2015

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, 2015</u>	<u>WATER</u>	<u>SEWER</u>
Number of metered customers	15,456	12,575
Gallons of water pumped	2,706,269,000	-
Gallons of water sold	2,223,705,250	-

See independent auditors' report

CITY OF LUFKIN, TEXAS  
INSURANCE COVERAGE  
For the Year Ended September 30, 2015

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	10-01-14 to 09-30-15	3 000 000 2 500
	Auto Liability Deductible	10-01-14 to 09-30-15	1 000 000 500
	Law Enforcement Liability Deductible	10-01-14 to 09-30-15	1 000 000 10 000
	Errors and Omissions Liability Deductible	10-01-14 to 09-30-15	1 000 000 10 000
	General Liability Deductible	10-01-14 to 09-30-15	1 000 000 10 000
	Real and Personal Deductible	10-01-14 to 09-30-15	2 500
	City Hall/Police		7 286 361
	City Hall/Police contents		729 004
	Civic Center		10 063 845
	Civic Center contents		1 400 000
	City Hall Annex		415 226
	City Hall Annex contents		25 000
	Fine Arts		498 450
	Sewer Treatment Plant		800 021
	Recycling Building		643 950
	Recycling Building contents		500 000
	Wastewater Administration Building		374 423
	Administration Building contents		50 000
	Sewer Treatment Buildings		56 048
	Solid Waste Building		534 600
	Solid Waste Building contents		680 000
	Animal Control		974 633
	Animal Control contents		155 000
	Kurth Memorial Library		6 704 775
	Kurth Memorial Library contents		3 000 000
	Police Radio Antenna		101 250
	Animal Control Barn		33 311
	Animal Control Barn contents		45 000
	Computer Equipment		2 500 000
	Community Center Building - Keltys		238 950
	Community Center Building - Keltys contents		6 000
	Community Center Building - Pershing		256 466
	Community Center Building - Pershing contents		6 000
	Downtown Center		1 248 615
	Downtown Center contents		33 000
	Fire Station 1		668 453
	Fire Station 1 contents		115 000
	Fire Station 2		5 280 390
	Fire Station 2 contents		29 600
	Fire Station 3		1 681 459
	Fire Station 3 contents		125 000
	Fire Station 2815 S. John Redditt - Building and contents		406 155
	Fire Station 1112 Atkinson - Building and contents		340 388
	Fire Station 4		1 003 590
	Fire Station 4 contents		124 000
	Fire Station 5		1 239 000
	Fire Station 5 contents		100 000

CITY OF LUFKIN, TEXAS  
INSURANCE COVERAGE  
For the Year Ended September 30, 2015

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Ellis Ave Building Police		296 865
	Ellis Ave Building Police contents		80 000
	Southbase Police Office contents		80 000
	Small Animal Building - Zoo		305 775
	Small Animal Building - Zoo contents		50 000
	Entrance Gift/Food Concession - Zoo		103 883
	Entrance Gift/Food Concession - Zoo contents		75 000
	Hippo Pool - Zoo		101 250
	Large Cat Exhibit - Zoo		109 249
	Large Cat Exhibit - Zoo contents		3 500
	Office/Residence - Zoo		121 500
	Office/Residence - Zoo contents		8 000
	Clinic/Isolation - Zoo		109 451
	Clinic/Isolation - Zoo contents		110 000
	Necropsy/Freezer - Zoo		58 320
	Necropsy/Freezer - Zoo contents		35 000
	Giraffe/Rhino Exhibit - Zoo		161 798
	Giraffe/Rhino Exhibit - Zoo contents		15 000
	Admissions/Restroom		134 359
	Admissions/Restroom contents		8 000
	Entrance Cover/Zoo Circle		3 544
	Hippoquarium Building		98 010
	Hippoquarium Building contents		20 000
	Hippo Pool with filtrate system		101 250
	Old City Hall 210 E. Lufkin Ave.		669 465
	Offices/3 Bay Garage		422 618
	Offices/3 Bay Garage content		300 000
	Spray Play/Canopy/Sail		32 000
	Spray Play - Chambers		103 275
	Spray Play - Kiwanis		103 275
	Spray Play - Jones Park		103 275
	Basketball Court and Light Fixture		547 560
	Concession/Restroom/MTC/Pavilion		333 518
	Concession/Restroom contents		50 000
	(8 Fields) of Light Poles		810 000
	Concession - Windsor		69 458
	(5 Fields) of Lights		506 250
	Parking Lot Lights		101 250
	Storage Building		102 161
	Storage Building contents		30 000
	Residence - 3110 Southwood		130 916
	Restrooms - Zoo		92 441
	Restrooms - Zoo contents		3 000
	Animal Exhibit/Holding		33 109
	Animal Exhibit/Holding contents		4 000
	Lift Station 701		253 125
	Lift Station 702		177 188
	Lift Station 704		25 313
	Lift Station 705		10 125
	Lift Station 706		50 625
	Lift Station 710		25 313
	Lift Station 711		50 625
	Lift Station 713		50 625
	Lift Station 714		25 313
	Lift Station 716		25 313
	Lift Station 722		50 625
	Lift Station 724		50 625
	Lift Station 715S		25 313
	Lift Station 719S		5 063
	Lift Station 720S		5 063
	Lift Station 725		15 188
	Lift Station 726		25 000
	Lift Station 727		10 125
	Water Well 3		50 625
	Water Well 5		50 625

CITY OF LUFKIN, TEXAS  
INSURANCE COVERAGE  
For the Year Ended September 30, 2015

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Water Well 6		50 625
	Water Well 7		50 625
	Water Well 9		50 625
	Water Well 10		50 625
	Water Well 11		50 625
	Water Well 12		202 500
	Water Well 13		202 500
	Water Well 14		202 500
	Water Well 15		202 500
	Pump Station Lab/Office		135 169
	Chlorination Building		48 904
	Pump Station Office		47 588
	Chlorination Building		27 844
	200hp Blower #6		60 750
	Sludge Transfer Pumps		35 436
	Restrooms - Boys Complex MFP		111 983
	Equipment Maintenance Building		31 489
	Pavilion		42 829
	Warehouse		319 950
	Office		799 065
	Vehicle Storage		131 018
	Washbay		7 391
	Fuel Station		30 881
	Sewer Rehab Building		35 336
	Recycling Warehouse		161 291
	Education Building		1 163 970
	Fuel Station		7 189
	Intake Structure (River)/Pump Station		2 025 000
	Intake Structure/Pump Station (Rivercrest Red)		2 025 000
	Pumping Station - N. Davisville Rd		2 025 000
	2M gal Elevated Water Tank		1 294 178
	2M gal Elevated Water Tank		1 294 178
	Water Well #21		50 625
	Water Well #23		50 625
	Water Well #24		50 625
	Water Well #25		50 625
	Water Well #26		50 625
	Water Well #28		50 625
	Water Well #29		50 625
	Water Well #30		50 625
	Water Well #31		50 625
	Water Well #32		50 625
	Water Well #33		50 625
	Water Well #34		50 625
	Kurth Lake Lodge		168 278
	Kurth Lake Lodge contents		10 000
	Caretake House		118 058
	12K gal Unleaded Gas Tank - Davis St.		40 500
	12K gal Unleaded Gas Tank - Davis St. contents		20 000
	12K gal Diesel Tank - Davis St.		40 500
	12K gal Diesel Tank - Davis St. contents		20 000
	12K gal Unleaded Gas Tank - S. Park		40 500
	12K gal Unleaded Gas Tank - S. Park contents		20 000
	12K gal Diesel Tank - 500 S. Park		40 500
	12K gal Diesel Tank - 500 S. Park contents		20 000
	Pines Theatre		1 518 750
	Pines Theatre contents		75 000
	Restroom - Girl's Complex MFP		124 133
	Restroom - 500 Pershing Ave		39 309
	Restroom - 200 Mott Dr		76 444
	Restroom - Jones Park		63 585
	Restroom - 1117 S Timberland Dr		54 068
	Restrooms/Concessions - 420 Jack St		37 868
	Animal Control - 1901 Hill St		151 268
	Animal Control - 1901 Hill St contents		12 000
	Komodo Dragon		46 575

CITY OF LUFKIN, TEXAS  
INSURANCE COVERAGE  
For the Year Ended September 30, 2015

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	Komodo Dragon contents		1 000
	Asia Building		94 163
	Asia Building contents		3 000
	Rotary Parrot Exhibits		29 869
	Vet Shed contents		9 000
	Entrance Gates		36 450
	Lift Station - Sewer		25 313
	Digester #1 - 3510 Southwood		3 037 500
	Digester #2 - 3510 Southwood		3 037 500
	Digester #3 - 3510 Southwood		3 037 500
	500K gal Elevated Water Tank - 2020 Wood Ave		1 238 186
	500K gal Elevated Water Tank - 1010 Kiln Ave		1 427 828
	1M gal Elevated Water Tank - 321 Ellen St		2 091 825
	Lift Station - Sewer 1805 Copeland St		50 625
	Generator - Water Plant		70 875
	2M gal Ground Water Tank		1 294 178
	1M gal Elevated Water Tank - 321 Ellen St		761 906
	500 KW Generator - WWTP		151 875
	30 ft Flag Poles		28 350
	3 SB Fields w/10 Light Poles		131 625
	Hay Storage		49 410
	Maintenance Building		165 645
	Oil Storage Building		9 619
	Blower Building		32 603
	Restroom - Jones Park		58 320
	1M gal Ground Water Tank #2		761 906
	Communication Towers		102 773
	Control Building - Spray Parks		22 579
	Concession/Restroom - MFP		126 866
	Memorial Shelter - Zoo		22 984
	Parks & Rec 903 Old Moffett Restroom		119 880
	Parks & Rec Pavilions		912 288
	Parks & Rec Maintenance/Storage		55 334
	Parks Bleacher Covers		157 250
	Parks Batting Cage		23 693
	Parks Gazebo		90 518
	Parks Office		25 313
	Public Works Veh/Equip Shelter		82 721
	Parks Signs		111 000
	Courthouse		1 278 900
	Amphitheatre with Mural		111 375
	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	10-01-14 to 09-30-15	
	Gradall Excavator - 2000		178 421
	Alamo Mower - 2001		70 299
	John Deere Backhoe - 2003		61 294
	Volvo Wheel Loader		73 218
	Mustang Cat Motorgrader		151 064
	John Deere Tractor		23 415
	Gradall Excavator		223 536
	John Deere Excavator		47 605
	John Deere Skid Steer Loader		27 600
	John Deere 2000 LC		156 308

CITY OF LUFKIN, TEXAS  
INSURANCE COVERAGE  
For the Year Ended September 30, 2015

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
	John Deere Backhoe		70 651
	John Deere 450 Bulldozer		61 050
	John Deere 410J Backhoe-4WD		91 936
	John Deere Backhoe		70 651
	John Deere 310SJ Backhoe - 2007		70 651
	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
	Deductible		2 500
	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
	Auto Physical Damage	10-01-14 to 09-30-15	
	Deductible each vehicle		500
	Deductible per occurrence		10 000
Deep East Texas Self Insurance Fund	Workers' Compensation		Statutory

See independent auditors' report.

## **COMPLIANCE SECTION**



**INDEPENDENT AUDITORS' 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 discretely presented component units, each major fund and the aggregated remaining fund information of the City of Lufkin, Texas as of and for the year ended September 30, 2015, which collectively comprise the City of Lufkin, Texas' basic financial statements and have issued our report thereon dated August 16, 2016.

**Internal Control Over Financial Reporting**

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

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 controls such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. 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.

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

**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*.

## **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.

## **Conclusion**

This report is intended for the information of the City Council, and the administration, of the City of Lufkin, and is not intended to be used and should not be used by anyone other than these specified parties.

Lufkin, Texas  
August 16, 2016

  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council  
City of Lufkin, Texas

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of the City of Lufkin, Texas' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015. The City of Lufkin, Texas 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 the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the City of Lufkin, Texas' compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Lufkin, Texas' 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 of Lufkin, Texas' compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Lufkin, Texas' complied, in all material respects, with the 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, 2015.

## Report on Internal Control Over Compliance

The administration of the City of Lufkin, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit of compliance, we considered the City of Lufkin, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 of Lufkin, Texas' internal control over compliance.

A *deficiency in internal control over compliance* 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 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 or state 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 should not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Conclusion

This report is intended solely for the information and use of management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lufkin, Texas  
August 16, 2016

  
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF LUFKIN, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2015

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant Deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant Deficiency(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ 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 section 510(a) of OMB Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
10.446	Rural Community Development Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF LUFKIN, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended September 30, 2015

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
There were no prior audit findings.		

CITY OF LUFKIN, TEXAS  
CORRECTIVE ACTION PLAN  
For the Year Ended September 30, 2015

Not required.

CITY OF LUFKIN, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2015

EXHIBIT K-1

(1)	(2)	(2A) PASS- THROUGH ENTITY IDENTIFYING NUMBER	(3)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER		FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Rural Community Development Block Grant	10.446	13-187-000-7315	\$ 541 141
Rural Community Development Block Grant	10.446	712210	32 441
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>573 582</u>
U.S. Department of Justice:			
Narcotics and Dangerous Drug Lab Analysis	16.001	N/A	4 896
Community Relations Services	16.200	N/A	19 000
Alcohol, Tobacco and Firearms Training	16.012	N/A	6 305
Desegregation of Public Education	16.100	N/A	27 242
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>57 443</u>
U.S. Environmental Protection Agency:			
Capitalization Grant for State Clean Water Revolving Funds	66.458	N/A	101 998
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>101 998</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 700 582</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Lufkin, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the preparation of, the general purpose financial statements.

The accompanying notes are an integral part of this schedule.