

CITY OF LUFKIN, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2017

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INTRODUCTORY SECTION

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

Keith N. Wright, P.E.
City Manager
City of Lufkin



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Fax: (936) 633-0381
email: kwright@cityoflufkin.com

June 12, 2018

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, 2017 is hereby submitted as mandated by both local ordinances and state statutes. These ordinances and statutes require that the City of Lufkin issue annually a report on its financial position and activities in conformity with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

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

Alexander, Lankford & Hiers, Inc., Certified Public Accountants, have issued an unmodified opinion on the City of Lufkin, Texas' financial statements for the fiscal year ended September 30, 2017. 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 annual budget serves as the foundation for the City of Lufkin's financial planning and control. All City departments are required to submit requests for appropriation to the City Manager prior to the end of May each year. The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager presents this proposed budget to City Council for review prior to September 1. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than September 27, three days before the close of the City of Lufkin's fiscal year. The final adopted budget is available for viewing online at www.cityoflufkin.com/finance/budget.htm. The appropriated budget is prepared by fund, function (e.g., public safety), department (e.g., police) and division (e.g., patrol). The City Manager may make transfers of budgeted amounts within a department. Any revisions that alter the total appropriated budget of any department must be approved by the City Council. Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the combining and individual fund statements and schedules.

Local Economy

The City had seen significant growth in sales tax revenues from fiscal years 2014 and 2015. However, there was a decline in 2016 and 2017. As internet shopping trends increase, sales tax revenues have declined. However, due to the diversity of our economy, the continued growth of our medical and aerospace industries, our status as a regional hub has helped to sustain other revenues. The expected trend is for sales tax revenues to reach a plateau and eventually show small growth annually.

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

Additionally, the simpler projects submitted in Lufkin tend to add size to structures with small changes to the number of employees or residents in new additions. Initial indicators for the current fiscal year are showing a newer trend, establishing new businesses in existing structures. This trend limits the amount of capital put into modifications to structures and does not provide for new 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 35,837 and the County's population at 88,255. The unemployment rate for the City, as of September 2017, according to Texas Workforce statistics, is 4.5 percent compared to 6.4 percent the previous year. The unemployment rate for Angelina County was 4.5 percent and 4.0 percent for the state. The national unemployment rate is 4.1%.

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 2021 or 2022 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 (complete)

- New Comprehensive Plan (in progress)
 - Leach Street Conditioning (in progress)
 - Zoo Master Plan (in progress)
 - Kurth Memorial Library Strategic Planning (in progress)
 - Inez Tims Detention Pond (in progress)
 - Sybil Street Conditioning (in progress)
- Provide increased Quality of Life Projects
 - 2012 Statewide Transportation Enhancement Program adding sidewalks and a walking trail around Ellen Trout Lake (complete)
 - Skate Park at Kiwanis Park (complete)
 - Kurth Lake fishing piers at the boat ramp and Lodge. (complete)
- Utility Reconstruction and Expansion
 - Infiltration/Inflow sewer improvement projects (under construction)
 - Installation of 24" water line from Hwy 103 East to Hwy 59 South (complete)
 - Water Plant #3 Construction (complete)

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, 2017 the City of Lufkin has accumulated the following amounts in support of these policies:

| <u>FUND</u> | <u>POLICY AMOUNT</u> | <u>FUND TOTAL</u> |
|--------------------------------------|--------------------------|-----------------------|
| Governmental Funds: (fund balance) | | |
| General Fund - 25% | \$ 8,329,373 | \$ 10,442,617 |
| Hotel/Motel Tax Fund - 12.5% | 151,805 | 45,805 |
| Recreation Fund - 12.5% | 44,083 | 94,560 |
| | <u>8,525,261</u> | <u>10,582,982</u> |
| Proprietary Funds: (working capital) | | |
| Water/Wastewater Fund - 12.5% | \$ 2,178,708 | \$ 3,860,386 |
| Solid Waste/Recycling Fund - 12.5% | 828,718 | 5,133,061 |
| | <u>3,007,426</u> | <u>8,993,447</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 2017 the City purchased \$1,267,375 in new/replacement equipment and is planning to replace approximately \$1,811,363 of equipment in FY 2018.

as fire trucks and road equipment will be funded separately. During FY 2017 the City purchased \$1,267,375 in new/replacement equipment and is planning to replace approximately \$1,811,363 of equipment in FY 2018.

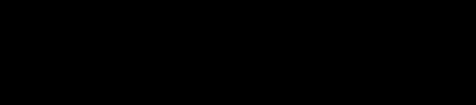
The City has completed the expansion of its water supply capacity with the addition of the 24" water line from Hwy 103 East to Hwy 59 South.

Awards and Acknowledgments

The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated September 20, 2017. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device. The City also received the Texas Comptroller's Gold Circle Leadership Award, which recognizes the City for meeting a high standard for financial transparency online.

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

Respectively submitted,

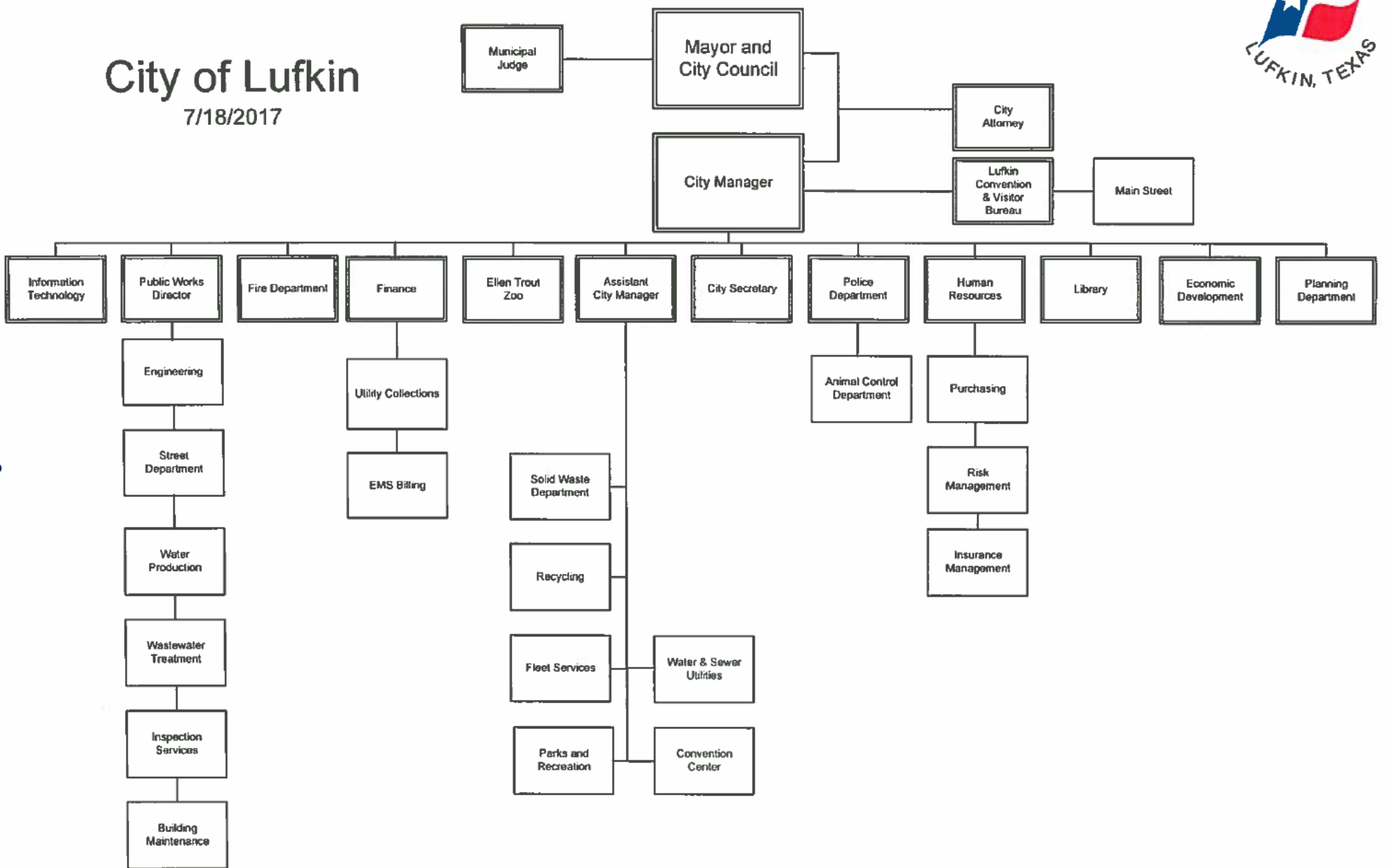


Keith N. Wright, P.E.
City Manager



City of Lufkin

7/18/2017



**CITY OF LUFKIN, TEXAS
LIST OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2017**

GOVERNING BODY

Honorable Bob F. Brown, Mayor

CITY COUNCIL

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

OTHER PRINCIPAL OFFICIALS

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

FINANCIAL SECTION

Glenda J. Hiers, CPA
Richard A. Rudel, CPA
Yvette Sidnell, CPA
Jennifer L. Webster, CPA
Kimber R. Jones, CPA
Susan L. Murrell, CPA



4000 S. Medford Drive
Lufkin, Texas 75901

Wilbur E. Alexander, CPA
(1940-2009)
Ted A. Lankford, CPA
(Retired)

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of
the City Council
City of Lufkin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas (City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Report on the Financial Statements - Continued

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lufkin, Texas as of September 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison of the General Fund for the year then 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 and Analysis, Condition Rating of the City's Street System, Comparison of Needed-to-Actual Maintenance/Preservation, Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System, Schedule of Contributions – Texas Municipal Retirement System, Schedule of Changes in Net Pension Liability and Related Ratios – Lufkin Firemen's Relief and Retirement Fund, and Schedule of Contributions – Lufkin Firemen's Relief and Retirement Fund, and Schedule of Funding Progress – Retiree Health Insurance Plan as listed in the table of contents 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, Texas' basic financial statements. The introductory, supplemental information, and statistical sections 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 supplemental information section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

Report on the Financial Statements - Continued

Other Matters - Continued

Other Information - Continued

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 June 12, 2018, on our consideration of the City of Lufkin, Texas' 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 the effectiveness of the City of Lufkin, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lufkin, Texas' internal control over financial reporting and compliance.



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
June 12, 2018



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Management's Discussion and Analysis

As management of the City of Lufkin, Texas (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$129,279 (*net position*). The unrestricted net position component is \$(9,416). The unrestricted net position decrease of \$1,026 from the prior year was the result of changes in the net investment in capital assets, restricted net position and the current year change in net position.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,954, a decrease of \$273 over the prior year. The decrease is the result of the completion of capital projects associated with the Street Construction Fund and the 2012 Capital Improvement Fund.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,158 or 3% of total general fund expenditures.
- The City's total debt decreased by \$4,555 (8%) during the fiscal year. The key factors in this decrease were \$4,685 for the retirement of general obligation debt, \$9,355 for issuance of general obligation refunding bonds and \$9,225 for refunded general obligation debt.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.

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

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

The government-wide financial statements can be found using the table of contents in this report.

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

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

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

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

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

The governmental funds financial statements can be found using the table of contents in this report.

Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility service and for its solid waste/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 both governmental and business-type activities, both funds are reported with the governmental activities in the governmental-wide financial statements because the City's governmental funds receive most of the benefits.

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/recycling operation, both of which are considered to be major funds of the City. The internal service funds are presented in the proprietary fund financial statements.

The proprietary funds financial statements can be found using the table of contents in this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found using the table of contents in this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the condition rating of the City's street system, pension plan information, and funding progress for the retiree health insurance plan. Required supplementary information can be found using the table of contents in this report.

The combining statements for nonmajor governmental funds, component units, and internal services funds are presented immediately following the required supplementary information. The combining statements can be found using the table of contents in this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$129,279 at the close of fiscal year 2017. The following table reflects the condensed Statement of Net Position.

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTAL | |
|----------------------------------|----------------------------|------------------|-----------------------------|------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 24,650 | \$ 23,533 | \$ 19,408 | \$ 19,539 | \$ 44,058 | \$ 43,072 |
| Capital assets | 112,368 | 113,175 | 66,317 | 67,677 | 178,685 | 180,852 |
| Total Assets | <u>137,018</u> | <u>136,708</u> | <u>85,725</u> | <u>87,216</u> | <u>222,743</u> | <u>223,924</u> |
| Deferred outflows of resources | 8,511 | 9,451 | 1,143 | 1,371 | 9,654 | 10,822 |
| Long-term liabilities | 59,527 | 63,747 | 793 | 725 | 60,320 | 64,472 |
| Net pension liability | 33,879 | 35,530 | 3,913 | 3,856 | 37,792 | 39,356 |
| Other liabilities | 2,072 | 2,156 | 669 | 712 | 2,741 | 2,868 |
| Total Liabilities | <u>95,478</u> | <u>101,433</u> | <u>5,375</u> | <u>5,293</u> | <u>100,853</u> | <u>106,726</u> |
| Deferred inflows of resources | 2,199 | 441 | 66 | 110 | 2,265 | 551 |
| Net Position: | | | | | | |
| Net investment in capital assets | 60,323 | 56,575 | 66,302 | 67,655 | 126,625 | 124,230 |
| Restricted | 2,488 | 2,263 | 9,582 | 9,366 | 12,070 | 11,629 |
| Unrestricted (deficit) | (14,959) | (14,553) | 5,543 | 6,163 | (9,416) | (8,390) |
| Total Net Position | <u>\$ 47,852</u> | <u>\$ 44,285</u> | <u>\$ 81,427</u> | <u>\$ 83,184</u> | <u>\$ 129,279</u> | <u>\$ 127,469</u> |

The largest portion of the City's net position (98%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (9%) represents resources that are subject to external restrictions on how they may be used. The City had a total deficit unrestricted net position of \$9,416.

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

Analysis of the City's Operations

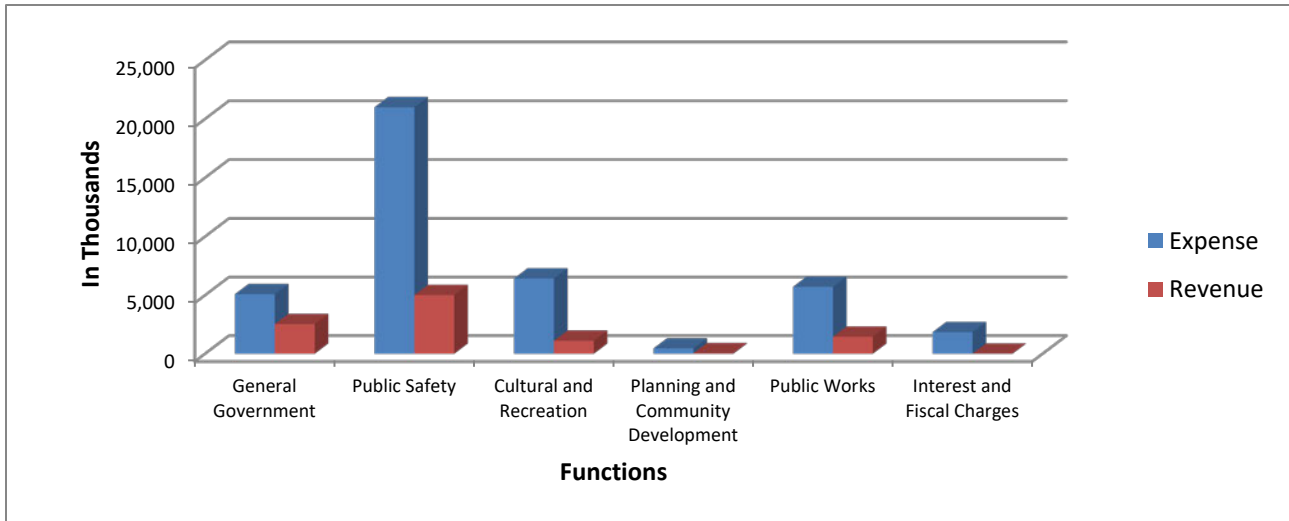
The following table provides a summary of the City's operations for the year ended September 30, 2017.

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTAL | |
|---|----------------------------|------------------|-----------------------------|------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 9,889 | \$ 8,605 | \$ 23,420 | \$ 23,116 | \$ 33,309 | \$ 31,721 |
| Operating grants and contributions | 274 | 248 | - | - | 274 | 248 |
| Capital grants and contributions | (31) | 365 | 3 | 104 | (28) | 1,069 |
| General Revenues: | | | | | | |
| Property taxes | 10,713 | 10,685 | - | - | 10,713 | 10,685 |
| Other taxes | 16,558 | 16,921 | - | - | 16,558 | 16,921 |
| Other | 2,023 | 1,340 | 167 | 212 | 2,190 | 1,552 |
| Total Revenues | <u>39,426</u> | <u>38,764</u> | <u>23,590</u> | <u>23,432</u> | <u>63,016</u> | <u>62,196</u> |
| Expenses: | | | | | | |
| General government | 5,086 | 4,509 | - | - | 5,086 | 4,509 |
| Public safety | 20,990 | 21,465 | - | - | 20,990 | 21,465 |
| Cultural and recreation | 6,424 | 6,475 | - | - | 6,424 | 6,475 |
| Planning and community development | 455 | 528 | - | - | 455 | 528 |
| Public works | 5,717 | 5,447 | - | - | 5,717 | 5,447 |
| Interest and fiscal charges | 1,839 | 2,094 | - | - | 1,839 | 2,094 |
| Water and sewer | - | - | 14,211 | 13,451 | 14,211 | 13,451 |
| Solid waste disposal | - | - | 6,484 | 6,247 | 6,484 | 6,247 |
| Total Expenses | <u>40,511</u> | <u>40,518</u> | <u>20,695</u> | <u>19,698</u> | <u>61,206</u> | <u>60,216</u> |
| Change in Net Position before transfers | (1,085) | (1,754) | 2,895 | 3,734 | 1,810 | 1,980 |
| Transfers | <u>4,652</u> | <u>3,723</u> | <u>(4,652)</u> | <u>(3,723)</u> | <u>-</u> | <u>-</u> |
| Change in Net Position | 3,567 | 1,969 | (1,757) | 11 | 1,810 | 1,980 |
| Net Position, Beginning | 44,285 | 44,770 | 83,184 | 83,173 | 127,469 | 127,943 |
| Prior Period Adjustments | <u>-</u> | <u>(2,454)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,454)</u> |
| Net Position, Restated | <u>44,285</u> | <u>42,316</u> | <u>83,184</u> | <u>83,173</u> | <u>127,469</u> | <u>125,489</u> |
| Net Position, Ending | <u>\$ 47,852</u> | <u>\$ 44,285</u> | <u>\$ 81,427</u> | <u>\$ 83,184</u> | <u>\$ 129,279</u> | <u>\$ 127,469</u> |

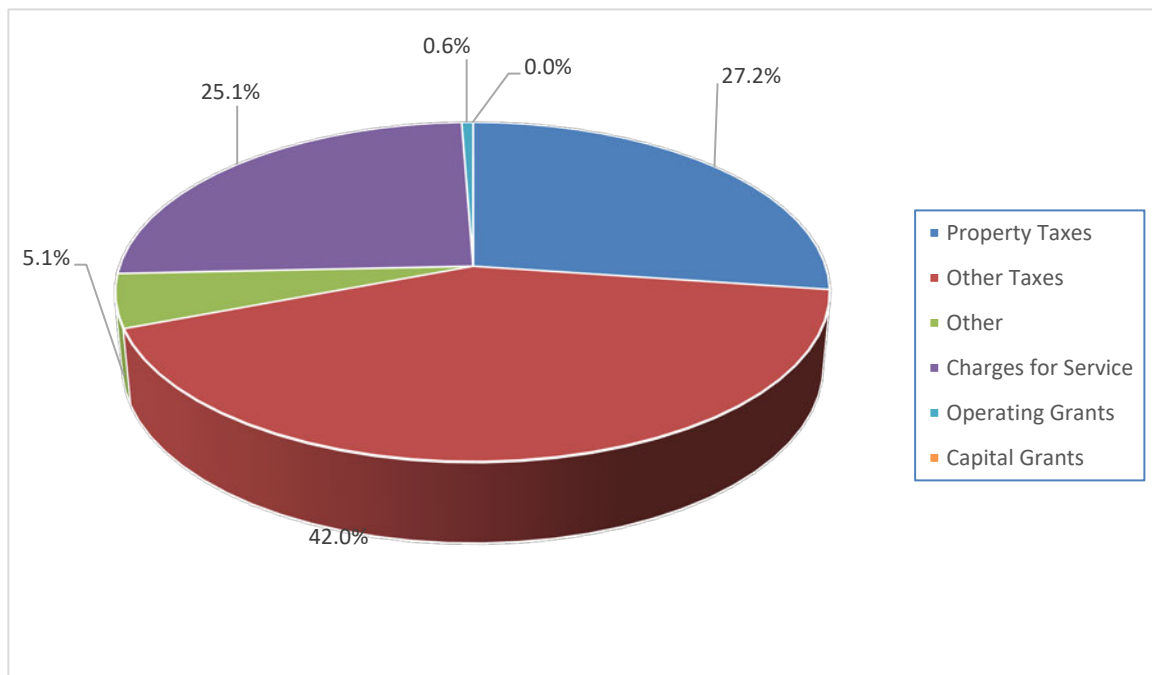
Governmental Activities. Governmental activities increased the City's net position by \$3,567. Key elements of this increase are as follows:

- Charges for services increased by \$1,284 (15%).
- Capital grants and contributions decreased by \$396 (108%).
- Other revenues increased by \$683 (51%).
- General government expenditures increased by \$577 (13%).
- Public safety expenditures decreased by \$475 (2%).

Expenses and Program Revenues - Governmental Activities



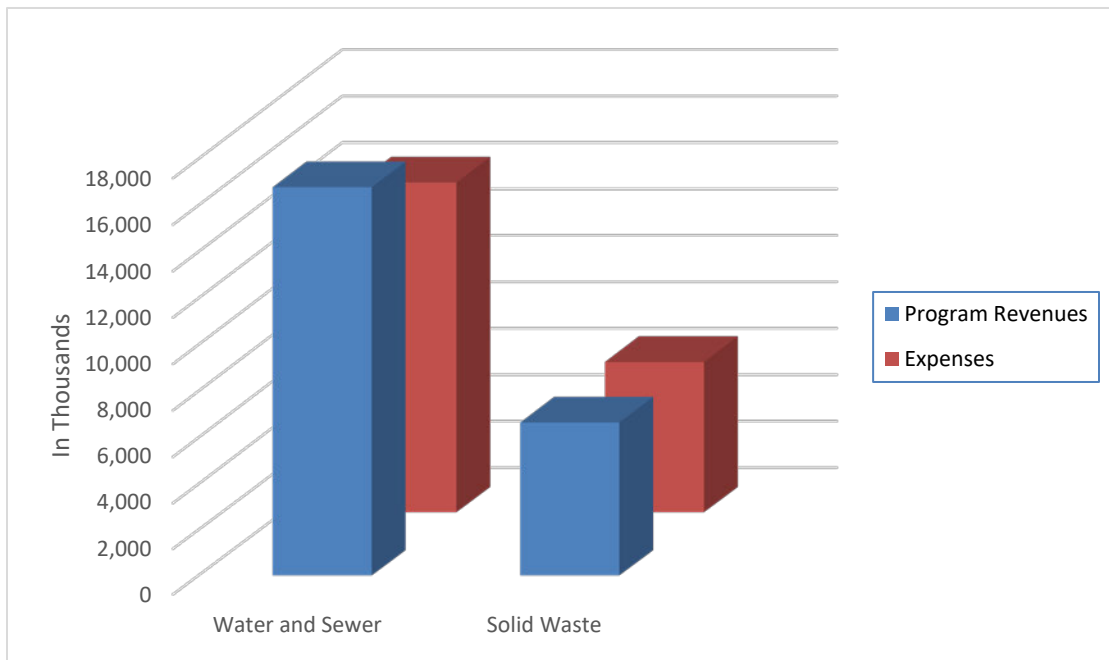
Revenues by Source - Governmental Activities



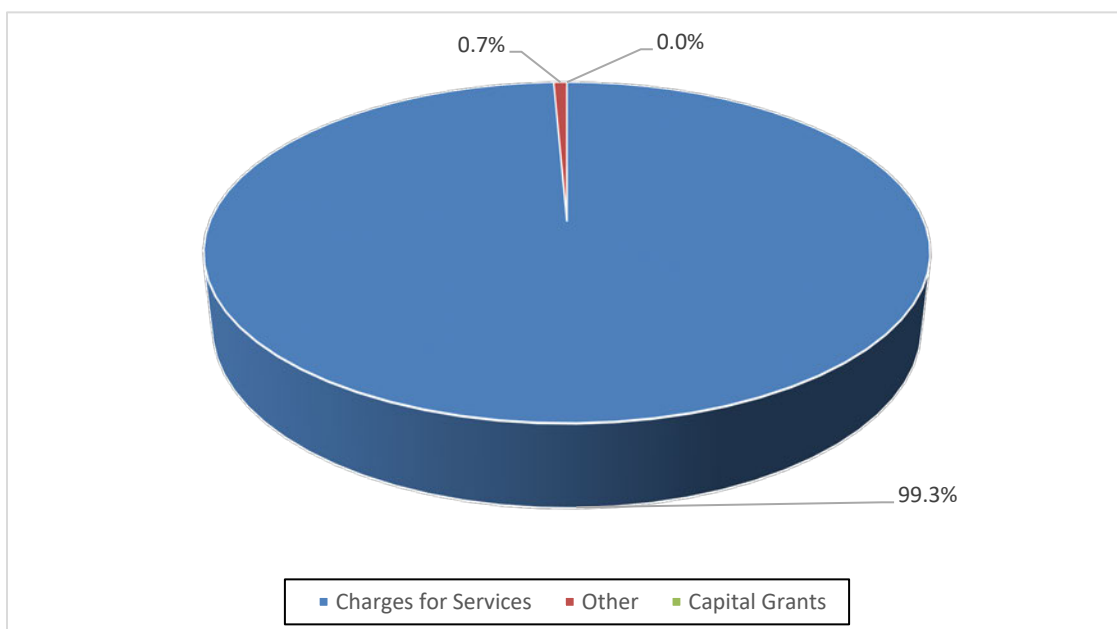
Business-type Activities. Business-type activities decreased the City's net position by \$1,757. Key elements of this decrease are as follows:

- Charges for services increased by \$304 (1%).
- Capital grants and contributions decreased by \$101 (97%).
- Other revenues decreased by \$45 (21%).
- Water and sewer expenses increased by \$760 (6%).
- Solid waste expenses increased by \$237 (4%).
- Transfers out increased by \$929 (25%)

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of the City's Funds

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 City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,954, a decrease of \$273 from the prior year. Eight percent of the ending fund balance, or \$1,158, is unassigned which means it is available for spending at the City's discretion. The portions of fund balance not available for new spending because they have already been assigned, committed, or restricted are \$2,379, \$8,678 and \$2,488, respectively. The remaining amount, \$251, is nonspendable due to the items not being in spendable form. That amount relates to inventory and prepaid items.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$1,158 while total fund balance was \$10,443. 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 3% of total general fund expenditures, while total fund balance represents 31% of the same amount. Fund balance of the General Fund decreased by \$38 during the current fiscal year.

The Debt Service fund has a total fund balance of \$1,828, all of which is restricted for the payment of debt service. The net increase in fund balance in the Debt Service fund during the current year was \$421.

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

Unrestricted net position at the end of the current fiscal year for the Water and Sewer Utility Fund was \$1,631 and for the Solid Waste Disposal Fund was \$3,912. The total net position decreased for the Water and Sewer Utility Fund by \$1,663 and the Solid Waste Disposal Fund decreased by \$94. Other factors concerning these two funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's budget is controlled at the fund and department level with the City Manager authorized to make transfers of budgeted amounts within departments.

The General Fund budget was amended several times during the year. Differences between the original budget and the final budget for the General Fund were significant (\$124 increase in revenues and \$386 increase in expenditures). The major adjustments were:

- Increase of \$199 in tax revenue was primarily due to higher anticipated collections for sales taxes.
- Decrease of \$83 in licenses and permits revenue was primarily due to decreases in building permits and inspections and other permits revenue.
- Decrease of \$31 in intergovernmental revenue was primarily due to a decrease in grant revenue.
- Increase of \$48 in other revenue was primarily due to an increase in miscellaneous revenue.
- Decrease of \$408 for general government expenditures was primarily due to a reduction in non-departmental expenditures.
- Increase of \$741 for public safety expenditures was primarily due to increases in police, fire and animal control expenditures.
- Decrease of \$180 in cultural and recreation expenditures was primarily due to reductions in parks and zoo expenditures.
- Increase of \$241 for public works expenditures was primarily due to an increase in street and fleet management expenditures.

Differences between the actual results and the final budget for the General Fund were significant (\$297 increase in actual revenues and \$356 decrease in actual expenditures) and can be briefly summarized as follows:

- Decrease of \$75 in taxes was due to lower sales tax collections than the City anticipated.
- Increase of \$104 in licenses and permits revenue was primarily due to higher building permits and inspection revenues.
- Increase of \$89 in charges for services was primarily due to higher emergency medical services revenue.
- Increase of \$39 in investment earnings was primarily due to higher interest rates.
- Increase of \$142 in intergovernmental revenue was due to more grant revenues and general and administrative services.
- Decrease of \$113 in general government expenditures was primarily due to less general, finance, building services and information technology expenditures.
- Increase of \$47 in public safety expenditures was primarily due to more police expenditures.
- Decrease of \$204 in public works expenditures was due to less engineering, street and fleet management expenditures.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities amounts to \$178,685 (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 2016. This condition assessment is performed every two years. The average rating for the City's streets at September 30, 2016 was 65; this rating remained flat from the previous 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, 2017 was \$4,248 as compared to \$4,133 for the previous year. Actual expenditures were \$4,071 for fiscal year 2017, reflecting an increase of \$392 from fiscal year 2016.

The information on the detail condition of the City's street system for the past three complete assessments is as follows:

Condition Rating of the City's Street System

| | | PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION | | |
|---------------------|--|---|------|------|
| | | 2016 | 2014 | 2012 |
| Collector Streets | | 55% | 11% | 51% |
| Residential Streets | | 29% | 27% | 38% |

| | | PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION | | |
|---------------------|--|--|------|------|
| | | 2016 | 2014 | 2012 |
| Collector Streets | | 19% | 3% | 11% |
| Residential Streets | | 27% | 19% | 22% |

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

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

Governmental

- 2012 TxDOT Side Walk Project - \$1,113
- Zoo Commissary - \$771
- City Hall Renovation and Security Upgrade - \$889
- Skate Park - \$175

Business-type

- Water plant - \$350
- Kit McConnico I & I projects - \$270
- Water line upgrades and replacements - \$215

City of Lufkin, Texas' Capital Assets (net of depreciation)

| | GOVERNMENTAL ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | | TOTAL | |
|-----------------------------------|----------------------------|------------|-----------------------------|-----------|------------|------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 4,451 | \$ 4,451 | \$ 4,393 | \$ 4,323 | \$ 8,844 | \$ 8,774 |
| Water rights | - | - | 3,989 | 3,971 | 3,989 | 3,971 |
| Works of art | 278 | 278 | - | - | 278 | 278 |
| Buildings | 14,322 | 14,777 | 2,924 | 3,045 | 17,246 | 17,822 |
| Machinery and equipment | 5,056 | 5,668 | 2,717 | 2,969 | 7,773 | 8,637 |
| Vehicles | 4,388 | 4,604 | 210 | 14 | 4,598 | 4,618 |
| Improvements other than buildings | 13,107 | 13,526 | 51,456 | 49,043 | 64,563 | 62,569 |
| Infrastructure | 67,817 | 67,688 | - | - | 67,817 | 67,688 |
| Construction in progress | 2,949 | 2,183 | 628 | 4,312 | 3,577 | 6,495 |
| Total | \$ 112,368 | \$ 113,175 | \$ 66,317 | \$ 67,677 | \$ 178,685 | \$ 180,852 |

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

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$52,045. The full amount of this debt is backed by the full faith and credit of the government.

City of Lufkin, Texas' Outstanding Debt
General Obligation and Revenue Bonds

| | GOVERNMENTAL | | | |
|--------------------------|--------------|-----------|-----------|-----------|
| | ACTIVITIES | | TOTAL | |
| | 2017 | 2016 | 2017 | 2016 |
| General obligation bonds | \$ 52,045 | \$ 56,600 | \$ 52,045 | \$ 56,600 |
| Total | \$ 52,045 | \$ 56,600 | \$ 52,045 | \$ 56,000 |

The City 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 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. of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City, according to Texas Workforce statistics, is 4.6%, a 1.8% decrease from last year. The 4.5% unemployment rate for Angelina County is a decrease of 2.1% from last year. The Texas unemployment rate is 4.0%. The national unemployment rate, as recorded by the Bureau of Labor Statistics is 4.1%.
- The state sales tax revenue for the current fiscal year totaled \$13,130, a decrease of \$140 from the previous year indicating a slight decline 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's budget for the 2018 fiscal year.

The Water and Sewer Utility rates have not increased for the 2018 budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City'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, 2017

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|----------------|--------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,579,724 | \$ 814,667 | \$ 4,394,391 | \$ 473,338 |
| Investments | 16,748,501 | 5,724,115 | 22,472,616 | 5,861,190 |
| Receivables (net of allowance for uncollectibles) | 4,070,725 | 2,939,210 | 7,009,935 | 225,393 |
| Notes receivable | - | - | - | 3,217,327 |
| Inventories | 245,417 | 53,423 | 298,840 | - |
| Restricted Assets: | | | | |
| Cash and cash equivalents | - | 1,006,711 | 1,006,711 | - |
| Investments | - | 8,775,885 | 8,775,885 | - |
| Receivables (net of allowance for uncollectibles) | - | 93,662 | 93,662 | - |
| Prepaid items | 5,916 | - | 5,916 | - |
| Capital assets (net of accumulated depreciation): | | | | |
| Land | 4,451,060 | 4,392,785 | 8,843,845 | - |
| Water rights | - | 3,988,547 | 3,988,547 | - |
| Infrastructure | 67,816,479 | - | 67,816,479 | - |
| Works of art | 278,500 | - | 278,500 | - |
| Buildings | 14,322,111 | 2,923,518 | 17,245,629 | - |
| Improvements other than buildings | 13,106,994 | 51,456,554 | 64,563,548 | - |
| Machinery and equipment | 5,055,992 | 2,716,877 | 7,772,869 | - |
| Vehicles | 4,387,689 | 210,183 | 4,597,872 | - |
| Construction in progress | 2,948,685 | 628,669 | 3,577,354 | - |
| Total Assets | 137,017,793 | 85,724,806 | 222,742,599 | 9,777,248 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred loss on refundings | 1,660,803 | - | 1,660,803 | - |
| Deferred pension outflows | 6,850,011 | 1,142,903 | 7,992,914 | 53,914 |
| Total Deferred Outflows of Resources | 8,510,814 | 1,142,903 | 9,653,717 | 53,914 |
| LIABILITIES | | | | |
| Accounts/claims payable | 1,061,751 | 228,811 | 1,290,562 | 11,635 |
| Accrued interest | 160,859 | - | 160,859 | 7,128 |
| Accrued liabilities | 824,075 | 145,497 | 969,572 | 4,248 |
| Customer deposits | 25,367 | - | 25,367 | 20,000 |
| Payable from restricted assets | - | 294,368 | 294,368 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 6,699,799 | 146,821 | 6,846,620 | 151,871 |
| Due in more than one year | 52,826,842 | 646,231 | 53,473,073 | 684,989 |
| Net pension liability | 33,878,754 | 3,912,878 | 37,791,632 | 182,697 |
| Total Liabilities | 95,477,447 | 5,374,606 | 100,852,053 | 1,062,568 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred pension inflows | 2,199,018 | 66,280 | 2,265,298 | 3,115 |
| Total Deferred Inflows of Resources | 2,199,018 | 66,280 | 2,265,298 | 3,115 |
| NET POSITION | | | | |
| Net investment in capital assets | 60,322,510 | 66,302,156 | 126,624,666 | - |
| Restricted for: | | | | |
| Retirement of debt | 1,828,093 | 1,644 | 1,829,737 | - |
| Capital projects | 291,919 | 1,652,238 | 1,944,157 | - |
| Renewal and replacement | - | 7,928,008 | 7,928,008 | - |
| Other | 368,380 | - | 368,380 | - |
| Unrestricted (deficit) | (14,958,760) | 5,542,777 | (9,415,983) | 8,765,479 |
| Total Net Position | \$ 47,852,142 | \$ 81,426,823 | \$ 129,278,965 | \$ 8,765,479 |

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, 2017

| FUNCTIONS/PROGAMS | EXPENSES | PROGRAM REVENUES | |
|------------------------------------|----------------------|-------------------------|--|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS |
| Primary Government: | | | |
| Governmental Activities: | | | |
| General government | \$ 5,086,355 | \$ 2,452,408 | \$ 75,142 |
| Public safety | 20,990,350 | 4,808,849 | 198,817 |
| Cultural and recreation | 6,423,546 | 1,108,716 | - |
| Planning and community development | 455,021 | 39,770 | - |
| Public works | 5,717,058 | 1,479,579 | - |
| Interest and fiscal charges | 1,838,985 | - | - |
| Total Governmental Activities | <u>40,511,315</u> | <u>9,889,322</u> | <u>273,959</u> |
| Business-Type Activities: | | | |
| Water and sewer | 14,211,363 | 16,774,281 | - |
| Solid waste disposal | 6,484,186 | 6,646,166 | - |
| Total Business-Type Activities | <u>20,695,549</u> | <u>23,420,447</u> | <u>-</u> |
| Total Primary Government | <u>\$ 61,206,864</u> | <u>\$ 33,309,769</u> | <u>\$ 273,959</u> |
| Component Units | <u>\$ 1,791,642</u> | <u>\$ -</u> | <u>\$ -</u> |

General Revenues:

Property taxes

Sales taxes

Franchise taxes

Hotel taxes

Other taxes

Unrestricted investment earnings

Gain on retirement of capital assets

Miscellaneous revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

NET (EXPENSE) REVENUE AND
CHANGES IN NET POSITION

| CAPITAL GRANTS AND CONTRIBUTIONS | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|----------------------------|-----------------------------|-----------------------|---------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| \$ - | \$ (2,558,805) | \$ - | \$ (2,558,805) | \$ - |
| - | (15,982,684) | - | (15,982,684) | - |
| - | (5,314,830) | - | (5,314,830) | - |
| - | (415,251) | - | (415,251) | - |
| (30,611) | (4,268,090) | - | (4,268,090) | - |
| - | (1,838,985) | - | (1,838,985) | - |
| <u>(30,611)</u> | <u>(30,378,645)</u> | <u>-</u> | <u>(30,378,645)</u> | <u>-</u> |
| 3,080 | - | 2,565,998 | 2,565,998 | - |
| - | - | 161,980 | 161,980 | - |
| <u>3,080</u> | <u>-</u> | <u>2,727,978</u> | <u>2,727,978</u> | <u>-</u> |
| <u>\$ (27,531)</u> | <u>(30,378,645)</u> | <u>2,727,978</u> | <u>(27,650,667)</u> | <u>-</u> |
| <u>\$ -</u> | | | | <u>(1,791,642)</u> |
| | 10,713,459 | - | 10,713,459 | - |
| | 13,129,661 | - | 13,129,661 | 1,193,606 |
| | 2,359,118 | - | 2,359,118 | - |
| | 972,248 | - | 972,248 | - |
| | 96,673 | - | 96,673 | 408,344 |
| | 239,900 | 166,785 | 406,685 | 79,899 |
| | 25,300 | - | 25,300 | - |
| | 1,757,908 | - | 1,757,908 | 56,001 |
| | 4,651,923 | (4,651,923) | - | - |
| | <u>33,946,190</u> | <u>(4,485,138)</u> | <u>29,461,052</u> | <u>1,737,850</u> |
| | <u>3,567,545</u> | <u>(1,757,160)</u> | <u>1,810,385</u> | <u>(53,792)</u> |
| | <u>44,284,597</u> | <u>83,183,983</u> | <u>127,468,580</u> | <u>8,819,271</u> |
| | <u>\$ 47,852,142</u> | <u>\$ 81,426,823</u> | <u>\$ 129,278,965</u> | <u>\$ 8,765,479</u> |

CITY OF LUFKIN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

| | GENERAL FUND | DEBT SERVICE FUND | TOTAL NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|----------------------|-------------------------|--|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,169,044 | \$ 322,809 | \$ 1,255,583 | \$ 2,747,436 |
| Investments | 8,748,501 | 1,500,000 | 1,500,000 | 11,748,501 |
| Receivables: | | | | |
| Taxes | 531,051 | 240,961 | - | 772,012 |
| Accounts | 15,678,792 | - | 173,322 | 15,852,114 |
| Intergovernmental | 1,114,657 | - | 300,785 | 1,415,442 |
| Other | 101,984 | 23,116 | 282,406 | 407,506 |
| Allowance for uncollectibles | (14,077,650) | (188,295) | (167,878) | (14,433,823) |
| Due from other funds | 548,112 | - | - | 548,112 |
| Inventories | 245,417 | - | - | 245,417 |
| Prepaid items | 5,916 | - | - | 5,916 |
| Total Assets | <u>\$ 14,065,824</u> | <u>\$ 1,898,591</u> | <u>\$ 3,344,218</u> | <u>\$ 19,308,633</u> |
| LIABILITIES | | | | |
| Accounts/claims payable | \$ 678,670 | \$ - | \$ 188,253 | \$ 866,923 |
| Accrued liabilities | 711,209 | - | 112,866 | 824,075 |
| Due to other funds | - | - | 306,114 | 306,114 |
| Customer deposits | 4,175 | - | 21,192 | 25,367 |
| Total Liabilities | <u>1,394,054</u> | <u>-</u> | <u>628,425</u> | <u>2,022,479</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues | 2,229,153 | 70,498 | 32,341 | 2,331,992 |
| Total Deferred Inflows of Resources | <u>2,229,153</u> | <u>70,498</u> | <u>32,341</u> | <u>2,331,992</u> |
| FUND BALANCES | | | | |
| Nonspendable | 251,333 | - | - | 251,333 |
| Restricted | - | 1,828,093 | 660,299 | 2,488,392 |
| Committed | 8,329,973 | - | 348,040 | 8,678,013 |
| Assigned | 703,565 | - | 1,675,113 | 2,378,678 |
| Unassigned | 1,157,746 | - | - | 1,157,746 |
| Total Fund Balances | <u>10,442,617</u> | <u>1,828,093</u> | <u>2,683,452</u> | <u>14,954,162</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 14,065,824</u> | <u>\$ 1,898,591</u> | <u>\$ 3,344,218</u> | <u>\$ 19,308,633</u> |

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

CITY OF LUFKIN, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total fund balances – governmental funds balance sheet \$ 14,954,162

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

Capital assets used in governmental activities are not financial resources
and therefore, are not reported in the funds. 106,428,719

Certain unavailable revenues are not available to pay current-period
expenditures and therefore, are deferred in the funds. 2,331,992

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. 3,938,500

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. 7,453,227

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds. (58,026,697)

The City's deferred outflows of resources related to pension plans is not
reported in the governmental funds. 6,850,011

The City's net pension liability is not reported in the governmental funds. (33,878,754)

The City's deferred inflows of resources related to pension plans is not
reported in the governmental funds. (2,199,018)

Net position of governmental activities \$ 47,852,142

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, 2017

| | GENERAL FUND | DEBT SERVICE FUND | TOTAL NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|----------------------|-------------------------|--|--------------------------------|
| Revenues: | | | | |
| Taxes: | | | | |
| Property | \$ 7,717,507 | \$ 3,052,878 | \$ - | \$ 10,770,385 |
| Sales | 13,129,661 | - | - | 13,129,661 |
| Franchise | 2,359,118 | - | - | 2,359,118 |
| Other | 96,673 | - | 972,248 | 1,068,921 |
| Licenses and permits | 330,142 | - | - | 330,142 |
| Fines and forfeitures | 1,107,147 | - | - | 1,107,147 |
| Charges for services | 2,765,939 | - | 1,108,716 | 3,874,655 |
| Investment earnings | 99,056 | 25,496 | 22,009 | 146,561 |
| Intergovernmental | 4,359,639 | - | 113,558 | 4,473,197 |
| Other revenues | 538,629 | - | 1,021,335 | 1,559,964 |
| Total Revenues | <u>32,503,511</u> | <u>3,078,374</u> | <u>3,237,866</u> | <u>38,819,751</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 4,218,160 | - | 211,508 | 4,429,668 |
| Public safety | 19,531,368 | - | 179,534 | 19,710,902 |
| Cultural and recreation | 3,919,927 | - | 1,892,267 | 5,812,194 |
| Planning and community development | 429,171 | - | - | 429,171 |
| Public works | 5,221,265 | - | - | 5,221,265 |
| Debt service: | | | | |
| Principal | - | 4,685,000 | - | 4,685,000 |
| Interest and fiscal charges | - | 1,814,683 | - | 1,814,683 |
| Bond issuance costs | - | 122,150 | - | 122,150 |
| Capital outlay | - | - | 1,483,349 | 1,483,349 |
| Total Expenditures | <u>33,319,891</u> | <u>6,621,833</u> | <u>3,766,658</u> | <u>43,708,382</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(816,380)</u> | <u>(3,543,459)</u> | <u>(528,792)</u> | <u>(4,888,631)</u> |
| Other Financing Sources (Uses): | | | | |
| Refunding bond proceeds | - | 9,355,000 | - | 9,355,000 |
| Refunding bond premium | - | 463,601 | - | 463,601 |
| Payment to refunded bond escrow agent | - | (9,689,996) | - | (9,689,996) |
| Transfers in | 998,886 | 3,836,405 | 105,289 | 4,940,580 |
| Transfers out | (220,289) | - | (233,368) | (453,657) |
| Total Other Financing Sources (Uses) | <u>778,597</u> | <u>3,965,010</u> | <u>(128,079)</u> | <u>4,615,528</u> |
| Net Change in Fund Balances | <u>(37,783)</u> | <u>421,551</u> | <u>(656,871)</u> | <u>(273,103)</u> |
| Fund Balances - Beginning | <u>10,480,400</u> | <u>1,406,542</u> | <u>3,340,323</u> | <u>15,227,265</u> |
| Fund Balances - Ending | <u>\$ 10,442,617</u> | <u>\$ 1,828,093</u> | <u>\$ 2,683,452</u> | <u>\$ 14,954,162</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, 2017

| | |
|--|----------------------------|
| Net change in fund balances – total governmental funds | \$ (273,103) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | 325,013 |
| Internal service net revenues are reported with governmental activities and the expenses not recovered through user charges are allocated to the participating funds. | 658,628 |
| 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 depreciation exceeded capital outlays in the current period. | (382,712) |
| The issuance of or acquisition of long-term debt (e.g. bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 4,664,903 |
| Current year pension expenditures are reported on the fiscal year basis in the funds, and as actuarially determined in the statement of activities. | <u>(1,425,184)</u> |
| Change in net position of governmental activities | <u><u>\$ 3,567,545</u></u> |

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

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|---------------------------------------|------------------|--------------|--------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Revenues: | | | | |
| Taxes: | | | | |
| Ad Valorem | \$ 7,682,553 | \$ 7,675,000 | \$ 7,717,507 | \$ 42,507 |
| Sales | 13,007,829 | 13,255,917 | 13,129,661 | (126,256) |
| Franchise | 2,397,000 | 2,352,684 | 2,359,118 | 6,434 |
| Other | 91,000 | 94,100 | 96,673 | 2,573 |
| Total Taxes | 23,178,382 | 23,377,701 | 23,302,959 | (74,742) |
| Licenses and Permits: | | | | |
| Building permits and inspections | 180,000 | 120,000 | 207,785 | 87,785 |
| Plumbing permits and inspections | 15,575 | 11,806 | 14,673 | 2,867 |
| Electric permits and inspections | 16,585 | 12,037 | 18,477 | 6,440 |
| Heat and vent permits | 19,880 | 17,340 | 16,441 | (899) |
| Other permits | 73,110 | 61,864 | 66,693 | 4,829 |
| Licenses | 3,820 | 3,274 | 6,073 | 2,799 |
| Total Licenses and Permits | 308,970 | 226,321 | 330,142 | 103,821 |
| Fines and Forfeitures: | | | | |
| Municipal court fines and forfeitures | 822,500 | 812,627 | 837,871 | 25,244 |
| Red light fines and costs | 273,000 | 273,000 | 269,161 | (3,839) |
| Parking fines | 175 | 175 | 115 | (60) |
| Total Fines and Forfeitures | 1,095,675 | 1,085,802 | 1,107,147 | 21,345 |
| Charges for Services: | | | | |
| Emergency medical services | 2,416,500 | 2,409,000 | 2,487,724 | 78,724 |
| Emergency medical services - County | 236,265 | 236,265 | 240,695 | 4,430 |
| Mowing fees | 4,500 | 1,000 | 1,320 | 320 |
| False alarm fees | 9,000 | 8,300 | 9,705 | 1,405 |
| Other | 20,500 | 22,800 | 26,495 | 3,695 |
| Total Charges for Services | 2,686,765 | 2,677,365 | 2,765,939 | 88,574 |
| Investment earnings | 50,000 | 60,000 | 99,056 | 39,056 |
| Intergovernmental: | | | | |
| Grant revenues | 19,000 | 77,593 | 129,790 | 52,197 |
| General and administrative services | 4,229,849 | 4,139,771 | 4,229,849 | 90,078 |
| Total Intergovernmental | 4,248,849 | 4,217,364 | 4,359,639 | 142,275 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|-----------------------------------|------------------|----------------|----------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Other Revenues: | | | | |
| Parks | 26,000 | 29,000 | 23,371 | (5,629) |
| Library | 27,000 | 18,000 | 16,753 | (1,247) |
| Animal shelter fees | 81,050 | 68,300 | 72,749 | 4,449 |
| Zone change fees | 2,300 | 1,500 | 2,700 | 1,200 |
| Zoo admission fees | 103,000 | 103,000 | 103,147 | 147 |
| Rent on city property | 43,460 | 43,565 | 45,455 | 1,890 |
| Salvage and auction | - | 300 | 25,591 | 25,291 |
| Economic development contribution | 174,875 | 174,875 | 174,875 | - |
| Miscellaneous | 46,000 | 113,400 | 62,357 | (51,043) |
| Salary reimbursements | 10,000 | 10,000 | 11,631 | 1,631 |
| Total Other Revenue | 513,685 | 561,940 | 538,629 | (23,311) |
| Total Revenues | 32,082,326 | 32,206,493 | 32,503,511 | 297,018 |
| Expenditures: | | | | |
| Current: | | | | |
| General Government: | | | | |
| City Council/City Secretary: | | | | |
| Payroll costs | 134,879 | 138,588 | 138,901 | (313) |
| Supplies | 27,535 | 25,535 | 21,977 | 3,558 |
| Miscellaneous services | 99,315 | 91,747 | 78,713 | 13,034 |
| Sundry charges | 112,970 | 114,970 | 111,194 | 3,776 |
| Total City Council/City Secretary | 374,699 | 370,840 | 350,785 | 20,055 |
| City Administration: | | | | |
| Payroll costs | 479,180 | 484,751 | 486,219 | (1,468) |
| Supplies | 14,560 | 13,482 | 10,747 | 2,735 |
| Miscellaneous services | 34,175 | 32,810 | 25,637 | 7,173 |
| Sundry charges | 500 | 500 | 189 | 311 |
| Total City Administration | 528,415 | 531,543 | 522,792 | 8,751 |
| Finance: | | | | |
| Payroll costs | 564,894 | 565,067 | 558,067 | 7,000 |
| Supplies | 35,100 | 32,725 | 24,939 | 7,786 |
| Maintenance | 27,455 | 27,455 | 24,479 | 2,976 |
| Miscellaneous services | 163,185 | 165,073 | 147,703 | 17,370 |
| Sundry charges | - | - | 165 | (165) |
| Total Finance | 790,634 | 790,320 | 755,353 | 34,967 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET |
|------------------------------|------------------|-----------|-----------|-------------------------------|
| | ORIGINAL | FINAL | AMOUNTS | POSITIVE (NEGATIVE) |
| Legal: | | | | |
| Payroll costs | 242,042 | 247,449 | 248,856 | (1,407) |
| Supplies | 4,820 | 4,250 | 3,384 | 866 |
| Miscellaneous services | 56,605 | 36,755 | 40,968 | (4,213) |
| Total Legal | 303,467 | 288,454 | 293,208 | (4,754) |
| Tax: | | | | |
| Miscellaneous services | 198,800 | 211,676 | 205,500 | 6,176 |
| Total Tax | 198,800 | 211,676 | 205,500 | 6,176 |
| Human Resources: | | | | |
| Payroll costs | 356,259 | 349,639 | 359,744 | (10,105) |
| Supplies | 17,750 | 17,750 | 13,803 | 3,947 |
| Miscellaneous services | 52,290 | 49,600 | 41,778 | 7,822 |
| Sundry charges | 30,600 | 30,600 | 27,778 | 2,822 |
| Total Human Resources | 456,899 | 447,589 | 443,103 | 4,486 |
| Building Services: | | | | |
| Payroll costs | 85,694 | 88,701 | 87,367 | 1,334 |
| Supplies | 24,100 | 23,600 | 20,982 | 2,618 |
| Maintenance | 72,500 | 77,000 | 63,120 | 13,880 |
| Miscellaneous services | 133,800 | 134,800 | 119,067 | 15,733 |
| Total Building Services | 316,094 | 324,101 | 290,536 | 33,565 |
| Information Technology: | | | | |
| Payroll costs | 607,004 | 619,477 | 617,748 | 1,729 |
| Supplies | 89,980 | 87,380 | 86,982 | 398 |
| Maintenance | 255,993 | 255,993 | 255,260 | 733 |
| Miscellaneous services | 168,330 | 170,930 | 159,014 | 11,916 |
| Total Information Technology | 1,121,307 | 1,133,780 | 1,119,004 | 14,776 |
| Non-departmental: | | | | |
| Payroll costs | 427,073 | 10,000 | 1,188 | 8,812 |
| Miscellaneous services | 222,233 | 222,233 | 215,691 | 6,542 |
| Sundry charges | - | 1,137 | 21,000 | (19,863) |
| Total Non-departmental | 649,306 | 233,370 | 237,879 | (4,509) |
| Total General Government | 4,739,621 | 4,331,673 | 4,218,160 | 113,513 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|----------------------------|------------------|-----------|-----------|------------------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE (NEGATIVE) |
| Public Safety: | | | | |
| Municipal Court: | | | | |
| Payroll costs | 335,792 | 340,218 | 342,492 | (2,274) |
| Supplies | 19,959 | 14,483 | 14,311 | 172 |
| Miscellaneous services | 71,569 | 87,666 | 89,478 | (1,812) |
| Total Municipal Court | 427,320 | 442,367 | 446,281 | (3,914) |
| Police: | | | | |
| Payroll costs | 8,117,096 | 8,369,947 | 8,624,580 | (254,633) |
| Supplies | 359,465 | 328,110 | 294,072 | 34,038 |
| Maintenance | 161,685 | 191,832 | 163,989 | 27,843 |
| Miscellaneous services | 573,101 | 578,001 | 509,720 | 68,281 |
| Sundry charges | 1,000 | 1,000 | 110 | 890 |
| Total Police | 9,212,347 | 9,468,890 | 9,592,471 | (123,581) |
| Fire: | | | | |
| Payroll costs | 6,778,420 | 7,085,274 | 7,094,695 | (9,421) |
| Supplies | 394,175 | 409,472 | 398,739 | 10,733 |
| Maintenance | 128,165 | 223,326 | 212,090 | 11,236 |
| Miscellaneous services | 382,067 | 372,873 | 357,975 | 14,898 |
| Sundry charges | 100 | 100 | - | 100 |
| Total Fire | 7,682,927 | 8,091,045 | 8,063,499 | 27,546 |
| Inspection: | | | | |
| Payroll costs | 480,960 | 489,902 | 492,584 | (2,682) |
| Supplies | 20,950 | 17,730 | 15,417 | 2,313 |
| Maintenance | 1,500 | 1,200 | 1,162 | 38 |
| Miscellaneous services | 50,832 | 49,515 | 44,765 | 4,750 |
| Total Inspection | 554,242 | 558,347 | 553,928 | 4,419 |
| Emergency Management: | | | | |
| Supplies | 1,320 | 1,320 | 306 | 1,014 |
| Miscellaneous services | 49,300 | 51,675 | 45,915 | 5,760 |
| Total Emergency Management | 50,620 | 52,995 | 46,221 | 6,774 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|-------------------------------|------------------|------------|------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Animal Control: | | | | |
| Payroll costs | 522,734 | 540,978 | 559,791 | (18,813) |
| Supplies | 67,290 | 65,290 | 63,324 | 1,966 |
| Maintenance | 17,500 | 57,350 | 16,328 | 41,022 |
| Miscellaneous services | 121,025 | 121,005 | 109,117 | 11,888 |
| Total Animal Control | 728,549 | 784,623 | 748,560 | 36,063 |
| City Marshall: | | | | |
| Payroll costs | 74,416 | 73,397 | 72,914 | 483 |
| Supplies | 9,427 | 8,805 | 5,980 | 2,825 |
| Maintenance | 300 | 300 | 446 | (146) |
| Miscellaneous services | 3,536 | 3,536 | 1,068 | 2,468 |
| Total City Marshall | 87,679 | 86,038 | 80,408 | 5,630 |
| Total Public Safety | 18,743,684 | 19,484,305 | 19,531,368 | (47,063) |
| Cultural and Recreation: | | | | |
| Parks: | | | | |
| Payroll costs | 1,124,358 | 1,078,385 | 1,095,365 | (16,980) |
| Supplies | 132,484 | 123,484 | 95,345 | 28,139 |
| Maintenance | 103,344 | 120,344 | 112,123 | 8,221 |
| Miscellaneous services | 444,232 | 444,632 | 379,051 | 65,581 |
| Sundry charges | 80 | 80 | 55 | 25 |
| Total Parks | 1,804,498 | 1,766,925 | 1,681,939 | 84,986 |
| Zoo: | | | | |
| Payroll costs | 1,246,001 | 1,071,555 | 1,192,138 | (120,583) |
| Supplies | 202,200 | 209,003 | 207,535 | 1,468 |
| Maintenance | 4,200 | 4,200 | 3,508 | 692 |
| Miscellaneous services | 190,322 | 201,727 | 181,950 | 19,777 |
| Total Zoo | 1,642,723 | 1,486,485 | 1,585,131 | (98,646) |
| Library: | | | | |
| Payroll costs | 515,745 | 530,012 | 531,978 | (1,966) |
| Supplies | 20,950 | 19,200 | 16,559 | 2,641 |
| Maintenance | 35,045 | 36,795 | 35,932 | 863 |
| Miscellaneous services | 76,275 | 76,275 | 68,388 | 7,887 |
| Total Library | 648,015 | 662,282 | 652,857 | 9,425 |
| Total Cultural and Recreation | 4,095,236 | 3,915,692 | 3,919,927 | (4,235) |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|--|------------------|-----------|-----------|---------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Planning and Community Development: | | | | |
| Main Street: | | | | |
| Payroll costs | 167,242 | 154,204 | 173,503 | (19,299) |
| Supplies | 4,367 | 4,367 | 3,067 | 1,300 |
| Miscellaneous services | 10,981 | 10,581 | 8,724 | 1,857 |
| Total Main Street | 182,590 | 169,152 | 185,294 | (16,142) |
| Planning and Zoning: | | | | |
| Payroll costs | 220,271 | 222,888 | 214,449 | 8,439 |
| Supplies | 7,550 | 12,690 | 10,456 | 2,234 |
| Maintenance | 4,900 | 4,800 | 3,736 | 1,064 |
| Miscellaneous services | 19,390 | 17,213 | 15,236 | 1,977 |
| Sundry charges | - | 500 | - | 500 |
| Total Planning and Zoning | 252,111 | 258,091 | 243,877 | 14,214 |
| Total Planning and Community Development | 434,701 | 427,243 | 429,171 | (1,928) |
| Public Works: | | | | |
| Engineering: | | | | |
| Payroll costs | 658,412 | 671,066 | 669,246 | 1,820 |
| Supplies | 15,405 | 16,176 | 12,966 | 3,210 |
| Maintenance | 19,950 | 20,150 | 17,159 | 2,991 |
| Miscellaneous services | 73,808 | 71,522 | 67,196 | 4,326 |
| Total Engineering | 767,575 | 778,914 | 766,567 | 12,347 |
| Street: | | | | |
| Payroll costs | 1,572,539 | 1,569,557 | 1,540,792 | 28,765 |
| Supplies | 218,650 | 232,295 | 224,360 | 7,935 |
| Maintenance | 1,243,650 | 1,354,880 | 1,257,597 | 97,283 |
| Miscellaneous services | 1,015,767 | 1,013,822 | 971,365 | 42,457 |
| Capital outlay | - | 77,120 | 77,120 | - |
| Total Street | 4,050,606 | 4,247,674 | 4,071,234 | 176,440 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|------------------|--------------|---------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Fleet Management: | | | | |
| Payroll costs | 313,627 | 352,938 | 358,908 | (5,970) |
| Supplies | 20,850 | 19,860 | 19,852 | 8 |
| Maintenance | 14,850 | 8,990 | 7,202 | 1,788 |
| Miscellaneous services | 17,438 | 17,338 | 13,631 | 3,707 |
| Sundry charges | - | - | (16,129) | 16,129 |
| Total Fleet Management | 366,765 | 399,126 | 383,464 | 15,662 |
| Total Public Works | 5,184,946 | 5,425,714 | 5,221,265 | 204,449 |
| Debt Service: | | | | |
| Principal | 84,340 | 84,340 | - | 84,340 |
| Interest | 6,541 | 6,541 | - | 6,541 |
| Total Debt Service | 90,881 | 90,881 | - | 90,881 |
| Total Expenditures | 33,289,069 | 33,675,508 | 33,319,891 | 355,617 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,206,743) | (1,469,015) | (816,380) | 652,635 |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 998,886 | 998,886 | 998,886 | - |
| Transfers Out | (220,289) | (220,289) | (220,289) | - |
| Total Other Financing Sources (Uses) | 778,597 | 778,597 | 778,597 | - |
| Net Change in Fund Balance | (428,146) | (690,418) | (37,783) | 652,635 |
| Fund Balance - Beginning | 10,480,400 | 10,480,400 | 10,480,400 | - |
| Fund Balance - Ending | \$ 10,052,254 | \$ 9,789,982 | \$ 10,442,617 | \$ 652,635 |

CITY OF LUFKIN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

| | BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUNDS |
|---|---|---------------------------------|---------------|--|
| | WATER AND SEWER UTILITY FUND | SOLID WASTE DISPOSAL FUND | TOTALS | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 313,245 | \$ 501,422 | \$ 814,667 | \$ 832,288 |
| Investments | 1,724,115 | 4,000,000 | 5,724,115 | 5,000,000 |
| Restricted Assets: | | | | |
| Cash and cash equivalents | 1,512 | - | 1,512 | - |
| Investments - customer deposits | 275,885 | - | 275,885 | - |
| Interest receivable | 132 | - | 132 | - |
| Accounts receivable (net of allowance for uncollectibles) | 2,061,918 | 809,950 | 2,871,868 | - |
| Interest receivable | 22,902 | 44,440 | 67,342 | 57,474 |
| Inventories | 47,454 | 5,969 | 53,423 | - |
| Total Current Assets | 4,447,163 | 5,361,781 | 9,808,944 | 5,889,762 |
| Noncurrent Assets: | | | | |
| Restricted Assets: | | | | |
| Cash and cash equivalents | 872,411 | 132,788 | 1,005,199 | - |
| Investments | 8,000,000 | 500,000 | 8,500,000 | - |
| Interest receivable | 87,339 | 6,191 | 93,530 | - |
| Total Restricted Noncurrent Assets | 8,959,750 | 638,979 | 9,598,729 | - |
| Capital Assets: | | | | |
| Land | 4,231,421 | 161,364 | 4,392,785 | - |
| Water rights | 3,988,547 | - | 3,988,547 | - |
| Buildings | 3,326,288 | 2,379,772 | 5,706,060 | - |
| Machinery and equipment | 16,086,927 | 1,258,133 | 17,345,060 | 5,714,397 |
| Vehicles | 617,273 | 865,393 | 1,482,666 | 9,252,709 |
| Improvements | 85,356,745 | 784,023 | 86,140,768 | - |
| Construction in progress | 628,669 | - | 628,669 | - |
| Less accumulated depreciation | (50,377,963) | (2,989,459) | (53,367,422) | (9,028,315) |
| Total Capital Assets (Net of Accumulated Depreciation) | 63,857,907 | 2,459,226 | 66,317,133 | 5,938,791 |
| Total Noncurrent Assets | 72,817,657 | 3,098,205 | 75,915,862 | 5,938,791 |
| Total Assets | 77,264,820 | 8,459,986 | 85,724,806 | 11,828,553 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred pension outflows | 791,223 | 351,680 | 1,142,903 | - |
| Total Deferred Outflows of Resources | 791,223 | 351,680 | 1,142,903 | - |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts/claims payable | 81,264 | 147,547 | 228,811 | 194,828 |
| Accrued compensated absences | 98,110 | 41,396 | 139,506 | - |
| Accrued liabilities | 105,720 | 39,777 | 145,497 | - |
| Due to other funds | - | - | - | 241,998 |
| Current liabilities payable from Restricted Assets: | | | | |
| Accounts/claims payable | 18,483 | - | 18,483 | - |
| Customer deposits | 275,885 | - | 275,885 | - |
| Notes payable - current maturities | 7,315 | - | 7,315 | - |
| Total Current Liabilities | 586,777 | 228,720 | 815,497 | 436,826 |
| Noncurrent Liabilities: | | | | |
| Accrued compensated absences | 187,936 | 39,244 | 227,180 | - |
| Notes payable | 7,662 | - | 7,662 | - |
| OPEB obligation | 279,543 | 131,846 | 411,389 | - |
| Net pension liability | 2,539,644 | 1,373,234 | 3,912,878 | - |
| Total Noncurrent Liabilities | 3,014,785 | 1,544,324 | 4,559,109 | - |
| Total Liabilities | 3,601,562 | 1,773,044 | 5,374,606 | 436,826 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred pension inflows | 38,043 | 28,237 | 66,280 | - |
| Total Deferred Inflows of Resources | 38,043 | 28,237 | 66,280 | - |
| NET POSITION | | | | |
| Net invested in capital assets | 63,842,930 | 2,459,226 | 66,302,156 | 5,938,791 |
| Restricted for retirement of debt | 1,644 | - | 1,644 | - |
| Restricted for construction | 1,652,238 | - | 1,652,238 | - |
| Restricted for renewal and replacement | 7,289,029 | 638,979 | 7,928,008 | - |
| Unrestricted | 1,630,597 | 3,912,180 | 5,542,777 | 5,452,936 |
| Total Net Position | \$ 74,416,438 | \$ 7,010,385 | \$ 81,426,823 | \$ 11,391,727 |

CITY OF LUFKIN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|---|---|---------------------------------|---------------|--|
| | WATER AND SEWER UTILITY FUND | SOLID WASTE DISPOSAL FUND | TOTALS | ACTIVITIES- INTERNAL SERVICE FUNDS |
| Operating Revenues: | | | | |
| Water sales | \$ 8,752,263 | \$ - | \$ 8,752,263 | \$ - |
| Sewer service charges | 7,548,471 | - | 7,548,471 | - |
| Sanitation collections | - | 6,677,774 | 6,677,774 | - |
| Provision for bad debts | (82,849) | (47,119) | (129,968) | - |
| Service revenue | 324,881 | - | 324,881 | - |
| General and administrative | 123,572 | - | 123,572 | - |
| Employee premiums | - | - | - | 1,007,633 |
| Employer premiums | - | - | - | 3,485,477 |
| Equipment rental | - | - | - | 1,811,279 |
| Miscellaneous | 107,943 | 15,511 | 123,454 | 430,510 |
| Total Operating Revenues | 16,774,281 | 6,646,166 | 23,420,447 | 6,734,899 |
| Operating Expenses: | | | | |
| Utility collections | 870,718 | - | 870,718 | - |
| Water/Sewer utilities | 3,405,669 | - | 3,405,669 | - |
| Wastewater treatment plant | 2,192,631 | - | 2,192,631 | - |
| Water production | 1,938,894 | - | 1,938,894 | - |
| Sanitation department | - | 3,954,089 | 3,954,089 | - |
| Recycling department | - | 476,922 | 476,922 | - |
| Insurance claims and related expenses | - | - | - | 4,788,758 |
| Depreciation and amortization | 2,387,519 | 124,401 | 2,511,920 | 1,687,068 |
| General and administrative | 2,440,991 | 1,899,140 | 4,340,131 | - |
| Non-departmental | 964,302 | 29,634 | 993,936 | - |
| Total Operating Expenses | 14,200,724 | 6,484,186 | 20,684,910 | 6,475,826 |
| Operating Income | 2,573,557 | 161,980 | 2,735,537 | 259,073 |
| Nonoperating Revenues (Expenses): | | | | |
| Investment earnings | 114,821 | 51,964 | 166,785 | 58,928 |
| Interest expense | (569) | - | (569) | - |
| Gain (loss) on sale of assets | (10,070) | - | (10,070) | 175,627 |
| Total Nonoperating Revenues (Expenses) | 104,182 | 51,964 | 156,146 | 234,555 |
| Income Before Contributions and Transfers | 2,677,739 | 213,944 | 2,891,683 | 493,628 |
| Capital contributions | 3,080 | - | 3,080 | - |
| Transfers in | 3,406,294 | - | 3,406,294 | 165,000 |
| Transfers out | (7,749,817) | (308,400) | (8,058,217) | - |
| Total Contributions and Transfers | (4,340,443) | (308,400) | (4,648,843) | 165,000 |
| Change in Net Position | (1,662,704) | (94,456) | (1,757,160) | 658,628 |
| Net Position - Beginning | 76,079,142 | 7,104,841 | 83,183,983 | 10,733,099 |
| Net Position - Ending | \$ 74,416,438 | \$ 7,010,385 | \$ 81,426,823 | \$ 11,391,727 |

CITY OF LUFKIN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS | | | GOVERNMENTAL |
|--|---|---------------------------------|---------------------|--|
| | WATER AND SEWER UTILITY FUND | SOLID WASTE DISPOSAL FUND | TOTALS | ACTIVITIES- INTERNAL SERVICE FUNDS |
| Cash Flows From Operating Activities: | | | | |
| Receipts from customers and users | \$ 16,863,059 | \$ 6,606,821 | \$ 23,469,880 | \$ 1,438,143 |
| Receipts from interfund services provided | 123,572 | - | 123,572 | 5,296,756 |
| Payments to suppliers | (5,494,368) | (2,056,489) | (7,550,857) | (5,041,126) |
| Payments to employees | (2,955,087) | (1,233,373) | (4,188,460) | - |
| Payments for interfund services used | (3,212,959) | (2,937,671) | (6,150,630) | - |
| Net Cash Provided by Operating Activities | <u>5,324,217</u> | <u>379,288</u> | <u>5,703,505</u> | <u>1,693,773</u> |
| Cash Flows From Noncapital Financing Activities: | | | | |
| Transfer from other funds | 3,406,294 | - | 3,406,294 | 165,000 |
| Transfer to other funds | (7,749,817) | (308,400) | (8,058,217) | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(4,343,523)</u> | <u>(308,400)</u> | <u>(4,651,923)</u> | <u>165,000</u> |
| Cash Flows From Capital and Related Financing Activities: | | | | |
| Acquisition and construction of capital assets | (1,194,921) | - | (1,194,921) | (1,267,375) |
| Principal paid on capital debt | (7,130) | - | (7,130) | - |
| Interest and fees paid on capital debt | (569) | - | (569) | - |
| Capital contribution received | 107,500 | - | 107,500 | - |
| Proceeds from sale of capital assets | 33,069 | - | 33,069 | 180,147 |
| Net Cash Used by Capital and Related Financing Activities | <u>(1,062,051)</u> | <u>-</u> | <u>(1,062,051)</u> | <u>(1,087,228)</u> |
| Cash Flows From Investing Activities: | | | | |
| Purchase of investments | (5,778,639) | (2,600,388) | (8,379,027) | (3,311,456) |
| Investment maturities | 5,778,639 | 2,600,388 | 8,379,027 | 2,311,456 |
| Investment earnings received | 86,917 | 38,399 | 125,316 | 38,502 |
| Net Cash Provided (Used) by Investing Activities | <u>86,917</u> | <u>38,399</u> | <u>125,316</u> | <u>(961,498)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 5,560 | 109,287 | 114,847 | (189,953) |
| Cash and Cash Equivalents - Beginning | 1,181,608 | 524,923 | 1,706,531 | 1,022,241 |
| Cash and Cash Equivalents - Ending | <u>\$ 1,187,168</u> | <u>\$ 634,210</u> | <u>\$ 1,821,378</u> | <u>\$ 832,288</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | | |
| Operating income | <u>\$ 2,573,557</u> | <u>\$ 161,980</u> | <u>\$ 2,735,537</u> | <u>\$ 259,073</u> |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | |
| Depreciation and amortization | 2,387,519 | 124,401 | 2,511,920 | 1,687,068 |
| (Increase) decrease in accounts receivable, net | 200,372 | (40,200) | 160,172 | - |
| Decrease in inventories | 22,866 | - | 22,866 | - |
| Decrease in deferred pension outflows | 160,398 | 68,052 | 228,450 | - |
| Increase (decrease) in accounts/claims payable | (103,619) | 29,550 | (74,069) | (252,368) |
| Increase in accrued compensated absences | 37,092 | 11,034 | 48,126 | - |
| Increase in accrued liabilities | 19,657 | 5,805 | 25,462 | - |
| Increase in customer deposits | 4,529 | - | 4,529 | - |
| Increase in OPEB obligation | 12,504 | 14,652 | 27,156 | - |
| Increase in net pension liability | 40,088 | 17,233 | 57,321 | - |
| (Decrease) in deferred pension inflows | (30,746) | (13,219) | (43,965) | - |
| Total Adjustments | <u>2,750,660</u> | <u>217,308</u> | <u>2,967,968</u> | <u>1,434,700</u> |
| Net Cash Provided by Operating Activities | <u>\$ 5,324,217</u> | <u>\$ 379,288</u> | <u>\$ 5,703,505</u> | <u>\$ 1,693,773</u> |

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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. 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. The Texas Housing Finance Corporation Act and the approval of the City Council created Lufkin Housing Finance Corporation to encourage safe, decent housing in the City. The Texas Health Facilities Development Act and the approval of the City Council created Lufkin Health Facilities Development Corporation to encourage health care, research, and education and to assist with the maintenance of public health. As of September 30, 2017 and for the year then ended, there were no assets, liabilities, fund equity, revenues or expenditures for the Authority, the Texas Housing Finance Corporation, or the 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 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.

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.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

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:

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 as well as the purchase cost and depreciation of equipment (rolling stock).

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 fund, solid waste disposal fund, and 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.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

The City, as well as its component units, is authorized to invest in 1) U.S. Treasury securities, 2) obligations of U.S. Government Agencies and Instrumentalities (excluding principal only and interest only mortgage backed securities, collateralized mortgage obligations, and real estate mortgage investment conduits), 3) obligations of the State of Texas or its agencies or instrumentalities along with obligations of counties, cities, and other political subdivisions of this State 4) fully insured and collateralized deposits at eligible depositories, 4) repurchase agreements, 5) money market mutual funds registered with and regulated by the Securities & Exchange Commission categorized as "Treasury" or "Government", and 6) eligible investment pools authorized by City Council and the Board of Directors. The EDC is also authorized to invest in land and improvements for economic development. 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.

The City invests two in local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operate under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The local government investment pools are valued and reported at amortized cost, which approximates fair value.

The Texas Local Government Investment Pool (TexPool) is overseen by the State Comptroller of Public Accounts. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool and are qualified to advise the TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure.

The Texas Short Term Asset Reserve Program (TexSTAR) is governed by a Board of Directors. JP Morgan Investment Management, Inc. and Hilltop Securities, Inc. serve as co-administrators of TexSTAR under an agreement with the board of directors.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Receivables and Payables

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

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

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The trade accounts receivable allowance for uncollectibles is based on an aging of past due accounts and historical collections. The property tax receivable allowance is equal to 74% and 78% of outstanding taxes at September 30, 2017, for the General Fund and Debt Service Fund, respectively.

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

The City is permitted by the City Charter (Article VI, Section 1) to levy taxes up to \$1.75 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on long-term debt. The combined tax rate to finance general governmental services and the payment of principal and interest on long-term debt for the year ended September 30, 2017, was .529942 per \$100 of assessed valuation. The adjusted total tax levy for fiscal year 2017 was \$10,685,461, and \$10,500,550 was collected for a current collection rate of 98%.

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.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Restricted Assets

Restricted assets include cash and cash equivalents, investments, and receivables of 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 Utility Fund, and renewal and replacement for the Solid Waste Disposal 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 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.

6. Deferred Outflows and Inflows of Resources

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

For the year ended September 30, 2017, the City has items that qualify for reporting as deferred outflows of resources and deferred inflows of resources. The City reports the deferred outflows related to the deferred loss on refundings related to refunding bonds issued in 2017 and prior years on the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows and inflows related to the Texas Municipal Retirement System (TMRS) and the Firemen's Relief and Retirement Fund of Lufkin, Texas (Firemen's Fund) net pension liability are reported on the government-wide and proprietary fund statements of net position. The TMRS and Firemen's Fund deferred outflows and inflows are detailed in detail notes on all funds (K).

On the governmental funds balance sheet, unavailable revenue is reported as deferred inflows of resources. This revenue is recognized in the period in which the revenue becomes available. Those items are detailed in detail notes on all funds (H).

7. Compensated Absences

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

8. Long-Term Obligations

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

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

9. Interfund Activity

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Fund Balances

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.

As of September 30, 2017, fund balances are composed of the following:

| | GENERAL FUND | DEBT SERVICE FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|----------------------|----------------------|-------------------------|-----------------------------------|--------------------------------|
| Nonspendable: | | | | |
| Inventories | \$ 245,417 | \$ | \$ | \$ 245,417 |
| Prepaid items | 5,916 | | | 5,916 |
| Restricted: | | | | |
| Public safety | | | 285,974 | 285,974 |
| Debt service | | 1,828,093 | | 1,828,093 |
| Capital projects | | | 291,919 | 291,919 |
| Other purposes | | | 82,406 | 82,406 |
| Committed: | | | | |
| Financial operations | 8,329,973 | | | 8,329,973 |
| Capital projects | | | 136,316 | 136,316 |
| Other purposes | | | 211,724 | 211,724 |
| Assigned: | | | | |
| 2017 budget deficit | 703,565 | | | 703,565 |
| Other purposes | | | 1,675,113 | 1,675,113 |
| Unassigned | 1,157,746 | | | 1,157,746 |
| Total Fund Balances | \$ <u>10,442,617</u> | \$ <u>1,828,093</u> | \$ <u>2,683,452</u> | \$ <u>14,954,162</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2017, the City has accumulated the following amounts in support of these policies:

| FUND | POLICY AMOUNT | FUND TOTAL |
|---|------------------|---------------|
| Governmental Funds: | | |
| General Fund - 25% | \$ 8,329,373 | \$ 10,442,617 |
| Hotel/Motel Tax Fund - 12.5% | 151,805 | 45,805 |
| Recreation Fund - 12.5% | 44,083 | 94,560 |
| Total Policy Reserves and Fund Balances | \$ 8,525,261 | \$ 10,582,982 |

11. Net Position and Fund Balance Flow Assumptions

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

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

12. Use of Estimates

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

13. Statement of Cash Flows

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of TMRS and the Firemen's Fund and additions to/deductions from both plans' fiduciary net position have been determined on the same basis as they are reported by TMRS and the Fireman's Fund. 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.

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this \$58,026,697 are as follows:

| | |
|---|-------------------------------|
| Bonds payable | \$ (52,045,000) |
| Bond premiums | (1,999,072) |
| Deferred loss on refundings | 1,660,803 |
| Accrued interest payable | (160,859) |
| Compensated absences | (4,041,031) |
| Other postemployment benefits | <u>(1,441,538)</u> |
| Net adjustment to reduce fund balance – total governmental funds to arrive at net position of governmental activities | \$ <u><u>(58,026,697)</u></u> |

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. 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 depreciation exceeded capital outlays in the current period." The details of this \$382,712 difference are as follows:

| | |
|--|----------------------------|
| Capital outlay | \$ 1,299,299 |
| Depreciation expense | <u>(1,682,011)</u> |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities | \$ <u><u>(382,712)</u></u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - CONTINUED

Another element of that reconciliation explains that "Current year pension expenditures are reported on the fiscal year basis in the funds, but as actuarially determined in the statement of activities." The details of this \$1,425,184 difference are as follows:

| | |
|--|------------------------------|
| Fiscal year 2017 contributions before December 31, 2016 | \$ 728,326 |
| Fiscal year 2017 contributions after December 31, 2016 | 2,542,700 |
| Amortization of deferred outflows and inflows of resources | (3,290,181) |
| Recognition of pension plan expense | <u>(1,406,029)</u> |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities | \$ <u><u>(1,425,184)</u></u> |

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Accounting

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

B. Excess Expenditures over Appropriations in Individual Departments

For the year ended September 30, 2017, total expenditures did not exceed the budget in the General Fund; however, certain departments exceeded their appropriations as follows:

| Department | Amount |
|------------------|------------|
| Legal | \$ (4,754) |
| Municipal Court | (3,914) |
| Police | (123,581) |
| City Marshall | (47,063) |
| Zoo | (98,646) |
| Main Street | (16,142) |
| Non-departmental | (4,509) |

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

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

| FUND NAME | DEFICIT AMOUNT | REMARKS |
|--------------------------------------|-------------------|--|
| Pines Theater Special Events Fund | \$ 20,236 | The Pines events did not meet expected revenues for the show season. Since acts are booked so far in advance, it is not possible to reduce expenditures when revenues are decreased. |

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, 2017 and had restricted debt service fund balance of \$1,828,093 at year end.

DETAIL NOTES ON ALL FUNDS

A. Deposits and Investments

1. Cash Deposits

At September 30, 2017, the City's carrying amount for cash deposits including certificates of deposit was \$38,355,158 and the bank balance was \$39,876,755. The City's deposits were entirely insured or collateralized with securities held by the pledging financial institution's agent bank in the City's name or letters of credit.

2. Investments

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

The Act requires an annual review of investment practices and controls over investments to be performed in conjunction with the annual financial audit. The District is in compliance with the requirements of the Act and with local policies.

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

Investments at September 30, 2017 consisted of the following:

| | CARRYING AMOUNT | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) | SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) |
|--|----------------------|---|---|--|
| Primary Government: | | | | |
| Non-negotiable certificates of deposits | \$ 31,248,501 | \$ - | \$ - | \$ - |
| TexPool investment pool | 97,132 | - | - | - |
| TexStar investment pool | 136,679 | - | - | - |
| Total primary government | <u>31,482,312</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Component Units: | | | | |
| EDC: | | | | |
| Non-negotiable certificates of deposits | 1,500,000 | - | - | - |
| Land and improvements | 4,361,190 | - | 4,361,190 | - |
| TexPool investment pool | 3,189 | - | - | - |
| TexStar investment pool | 4,488 | - | - | - |
| Total EDC | <u>5,868,867</u> | <u>-</u> | <u>4,361,190</u> | <u>-</u> |
| LCVB: | | | | |
| TexPool investment pool | 5,345 | - | - | - |
| TexStar investment pool | 7,521 | - | - | - |
| Total LCVB | <u>12,866</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total component units | <u>5,881,733</u> | <u>-</u> | <u>4,361,190</u> | <u>-</u> |
| Total investments | \$ <u>37,364,045</u> | \$ <u>-</u> | \$ <u>4,361,190</u> | \$ <u>-</u> |

All of the above items with a maturity dates of three months or less from the date of purchase and investment pools are included in cash equivalents for financial reporting purposes.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS – CONTINUED

GASB Statement No. 40 requires a determination as to whether the City and its component units are exposed to specific deposits and investment risks at year end and if so, the reporting of certain related disclosures. Non-negotiable certificates of deposits are considered deposits for GASB 40; therefore, they are only included in custodial credit risk disclosures.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rating of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City's investment policy limits its investments in investment pools to those that maintain a rating of a least AAA or AAAM. TexPool and TexSTAR are both rated AAAM by Standard & Poor's.

Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City requires its deposits to be secured by pledged collateral with a fair value equal to or greater than 102% of the deposits, less any amount insured by the FDIC. At September 30, 2017, the City was not exposed to custodial credit risk for deposits.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy does not limit the amount it may invest in any one issuer. Investments in external investment pools are excluded from this disclosure by GASB 40. There were no issuers that exceeded 5% of total investments at September 30, 2017.

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity to changes in interest rates. The City's investment policy limits investment maturities for each fund type as follows: 1) for operating funds and the internal investment fund - the weighted average days to maturity is limited to less than 300 days with a maximum allowable maturity of two years, 2) for construction, bond and loan funds – maturity limited to the anticipated cash flow requirements of the projects or the "temporary period" as defined by federal tax law whichever is shorter, 3) for debt service and bond reserve funds – maturity limited to debt payment dates, and 4) for depreciation funds – maturity limited to anticipated cash flow requirements. The weighted average maturities at September 30, 2017 for TexPool and TexSTAR were 30 days and 29 days, respectively.

Investment Valuation

The City, including component units, categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value. It established a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities. Those three levels are as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets and liabilities in active markets that the government can access at the measurement date.
- Level 2 inputs are inputs (other than quoted prices within Level 1) that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS – CONTINUED

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

For the City and its component units, investment pools are measured at amortized cost and are exempt from fair value reporting.

B. Receivables

Receivables as of September 30, 2017 for the City's governmental activities by individual major and nonmajor funds (governmental funds) and internal service funds in the aggregate, including the related allowances for uncollectible accounts are as follows:

| | GENERAL FUND | DEBT SERVICE FUND | NONMAJOR FUNDS | INTERNAL SERVICE FUNDS | TOTAL |
|-----------------------------------|---------------------|-------------------------|-------------------|------------------------------|---------------------|
| Receivables: | | | | | |
| Taxes | \$ 531,051 | \$ 240,961 | \$ - | \$ - | \$ 772,012 |
| Accounts | 15,678,792 | - | 173,322 | - | 15,852,114 |
| Other | 101,984 | 23,116 | 282,406 | - | 407,506 |
| Intergovernmental | 1,114,657 | - | 300,785 | 57,474 | 1,472,916 |
| Less allowance for uncollectibles | <u>(14,077,650)</u> | <u>(188,295)</u> | <u>(167,878)</u> | <u>-</u> | <u>(14,433,823)</u> |
| Total | \$ <u>3,348,834</u> | \$ <u>75,782</u> | \$ <u>588,635</u> | \$ <u>57,474</u> | \$ <u>4,070,725</u> |

At September 30, 2017, receivables for the City's business-type activities by major fund are as follows:

| | WATER AND SEWER UTILITY FUND | SOLID WASTE DISPOSAL FUND | TOTAL |
|-----------------------------------|------------------------------------|---------------------------------|---------------------|
| Receivables: | | | |
| Accounts | \$ 2,551,003 | \$ 994,176 | \$ 3,545,179 |
| Other | 110,373 | 50,631 | 161,004 |
| Less allowance for uncollectibles | <u>(489,085)</u> | <u>(184,226)</u> | <u>(673,311)</u> |
| Total | \$ <u>2,172,291</u> | \$ <u>860,581</u> | \$ <u>3,032,872</u> |

For the City's component units, receivables at September 30, 2017, including the related allowances for uncollectible accounts, consisted of the following:

| | EDC | LCVB | TOTAL |
|-----------------------------------|---------------------|-------------------|---------------------|
| Receivables: | | | |
| Notes | \$ 3,217,327 | \$ - | \$ 3,217,327 |
| Taxes | 94,049 | 106,815 | 200,864 |
| Other | 21,603 | 2,926 | 24,529 |
| Less allowance for uncollectibles | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>3,332,979</u> | \$ <u>109,741</u> | \$ <u>3,442,720</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

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. Amounts due from and to other funds at September 30, 2017 consisted of the following:

| <u>DUE FROM</u> | <u>DUE TO</u> | <u>AMOUNT</u> | <u>PURPOSE</u> |
|-----------------|-----------------------------------|-------------------|---------------------|
| | Special Revenue Funds: | | |
| General Fund | Hotel/Motel Fund | \$ 39,512 | Short-term advances |
| General Fund | Pines Theater Special Events Fund | 16,783 | Short-term advances |
| | Internal Service Funds: | | |
| General Fund | Group Health Insurance Fund | 241,998 | Short-term advances |
| | Capital Projects Funds: | | |
| General Fund | 2010 Capital Improvement Fund | <u>249,819</u> | Short-term advances |
| | | <u>\$ 548,112</u> | |

Transfers at September 30, 2017 consisted of the following:

| <u>TRANSFER OUT</u> | <u>TRANSFER IN</u> | | | | | <u>TOTAL</u> |
|-----------------------|---------------------|--------------------------|------------------------------------|-------------------------------|-------------------------------------|---------------------|
| | <u>GENERAL FUND</u> | <u>DEBT SERVICE FUND</u> | <u>NONMAJOR GOVERNMENTAL FUNDS</u> | <u>INTERNAL SERVICE FUNDS</u> | <u>WATER AND SEWER UTILITY FUND</u> | |
| General Fund | \$ - | \$ - | \$ 55,289 | \$ 165,000 | \$ - | \$ 220,289 |
| Nonmajor Governmental | 233,368 | - | - | - | - | 233,368 |
| Water and Sewer | | | | | | |
| Utility Fund | 565,518 | 3,778,005 | - | - | 3,406,294 | 7,749,817 |
| Solid Waste Disposal | 200,000 | 58,400 | 50,000 | - | - | 308,400 |
| Fund | | | | | | |
| TOTAL | <u>\$ 998,886</u> | <u>\$ 3,836,405</u> | <u>\$ 105,289</u> | <u>\$ 165,000</u> | <u>\$ 3,406,294</u> | <u>\$ 8,511,874</u> |

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

D. Restricted Assets

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

| | <u>BOND RESERVE</u> | <u>CONSTRUCTION</u> | <u>RENEWAL AND REPLACEMENT</u> | <u>OPERATIONS</u> | <u>TOTAL</u> |
|-------------------------------|---------------------|---------------------|--------------------------------|-------------------|---------------------|
| | | | | | |
| Cash and cash equivalents | \$ 1,512 | \$ 640,144 | \$ 365,055 | \$ - | \$ 1,006,711 |
| Investments | - | 1,000,000 | 7,500,000 | - | 8,500,000 |
| Customer deposits | - | - | - | 275,885 | 275,885 |
| Intergovernmental receivables | - | - | - | - | - |
| Interest receivable | 132 | 16,083 | 77,447 | - | 93,662 |
| Total Restricted | | | | | |
| Assets | <u>\$ 1,644</u> | <u>\$ 1,656,227</u> | <u>\$ 7,942,502</u> | <u>\$ 275,885</u> | <u>\$ 9,876,258</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

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, 2017.

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 | \$ 876,133 |
| Capitalized Contract for Water Rights: | |
| 50 year contract | 220,000 |
| 40 year contract | 305,600 |
| Water Rights in Sam Rayburn Reservoir | <u>\$ 1,401,733</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

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, 2017 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 | \$ 4,451,060 | \$ - | \$ - | \$ 4,451,060 |
| Infrastructure | 67,687,649 | 128,830 | - | 67,816,479 |
| Works of art | 278,500 | - | - | 278,500 |
| Construction in progress | 2,183,028 | 1,283,227 | (517,570) | 2,948,685 |
| Total capital assets not being depreciated | <u>74,600,237</u> | <u>1,412,057</u> | <u>(517,570)</u> | <u>75,494,724</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 22,485,451 | - | - | 22,485,451 |
| Improvements other than buildings | 20,926,059 | 252,268 | - | 21,178,327 |
| Machinery and equipment | 16,608,923 | 380,345 | (21,261) | 16,968,007 |
| Vehicles | 12,769,854 | 1,039,576 | (615,223) | 13,194,207 |
| Total capital assets being depreciated | <u>72,790,287</u> | <u>1,672,189</u> | <u>(636,484)</u> | <u>73,825,992</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (7,708,721) | (454,619) | - | (8,163,340) |
| Improvements other than buildings | (7,400,210) | (671,123) | - | (8,071,333) |
| Machinery and equipment | (10,940,746) | (992,530) | 21,261 | (11,912,015) |
| Vehicles | (8,166,412) | (1,250,808) | 610,702 | (8,806,518) |
| Total accumulated depreciation | <u>(34,216,089)</u> | <u>(3,369,080)</u> | <u>631,963</u> | <u>(36,953,206)</u> |
| Total capital assets being depreciated, net | <u>38,574,198</u> | <u>(1,696,891)</u> | <u>(4,521)</u> | <u>36,872,786</u> |
| Governmental activities capital assets, net | \$ <u>113,174,435</u> | \$ <u>(284,836)</u> | \$ <u>(522,089)</u> | 112,367,510 |
| Governmental activities, capital related debt | | | | <u>(52,045,000)</u> |
| Governmental activities, net investment in capital assets | | | | \$ <u>60,322,510</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

| BUSINESS-TYPE ACTIVITIES | BEGINNING BALANCE | INCREASES | DECREASES | ENDING BALANCE |
|--|----------------------|--------------|----------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,323,326 | \$ 69,459 | \$ - | \$ 4,392,785 |
| Water rights | 3,971,336 | 17,211 | - | 3,988,547 |
| Construction in progress | 4,311,792 | 1,123,825 | (4,806,948) | 628,669 |
| Total capital assets not being depreciated | 12,606,454 | 1,210,495 | (4,806,948) | 9,010,001 |
| Capital assets being depreciated: | | | | |
| Buildings | 5,706,060 | - | - | 5,706,060 |
| Improvements other than buildings | 81,909,672 | 4,320,337 | (89,241) | 86,140,768 |
| Machinery and equipment | 17,087,093 | 257,967 | - | 17,345,060 |
| Vehicles | 1,408,343 | 213,070 | (138,747) | 1,482,666 |
| Total capital assets being depreciated | 106,111,168 | 4,791,374 | (227,988) | 110,674,554 |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,660,966) | (121,576) | - | (2,782,542) |
| Improvements other than buildings | (32,867,255) | (1,863,061) | 46,102 | (34,684,214) |
| Machinery and equipment | (14,118,387) | (509,796) | - | (14,628,183) |
| Vehicles | (1,393,743) | (17,487) | 138,747 | (1,272,483) |
| Total accumulated depreciation | (51,040,351) | (2,511,920) | 184,849 | (53,367,422) |
| Total capital assets being depreciated, net | 55,070,817 | 2,279,454 | (43,139) | 57,307,132 |
| Business-type activities capital assets, net | \$ 67,677,271 | \$ 3,489,949 | \$ (4,850,087) | 66,317,133 |
| Business-type activities, capital related debt | | | | (14,977) |
| Business-type activities, net investment in capital assets | | | | \$ 66,302,156 |

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

| | TOTAL |
|--|--------------|
| Governmental activities: | |
| General government | \$ 252,401 |
| Public safety | 545,561 |
| Cultural and recreation | 488,654 |
| Public works | 395,396 |
| Capital assets held by the government's internal service funds are charged to activities based on their equipment rental | 1,687,068 |
| Total governmental activities | \$ 3,369,080 |
| Business-type activities: | |
| Water and sewer | \$ 2,387,519 |
| Solid waste disposal | 124,401 |
| Total business-type activities | \$ 2,511,920 |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

4. Construction and Other Commitments

The government has active construction and maintenance projects as of September 30, 2017. 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 September 30, 2017, the City's commitments on construction projects are as follows:

| PROJECT | EXPENDED TO DATE | REMAINING COMMITMENT | FUNDING SOURCE |
|---|---------------------|-------------------------|-------------------------------------|
| City Hall renovation & security upgrade | \$ 889,226 | \$ 4,563 | Street Construction Fund |
| Inez Tims Detention Pond | 22,768 | 252,232 | Street Construction Fund |
| Sybil Street | 42,461 | 277,539 | Street Construction Fund |
| 2012 TxDOT Sidewalk Project | 1,112,762 | 106,238 | TxDOT grant |
| Knight Avenue drainage | 13,849 | 106,151 | 2012 Capital Improvements Fund |
| Lufkin Avenue Reconstruction | 96,732 | 23,248 | 2012 Capital Improvements Fund |
| Leach Street improvements | 119,353 | 155,647 | 2013 Certificate of Obligation Fund |
| Kit McConnico I & I projects | 269,968 | 1,290,032 | 2013 Certificate of Obligation Fund |
| Central I & I Project | - | 250,000 | 2013 Certificate of Obligation Fund |
| Fixed Read Ant/Meter Repl | 215,924 | 2,076 | Water/Wastewater Depreciation Fund |
| Work Order System-Util Collections | 18,339 | 3,276 | Water/Wastewater Depreciation Fund |
| Recoat Final Clarifier | 1,310 | 133,690 | Water/Wastewater Depreciation Fund |
| Chlorine Contact Basin | 4,774 | 915,226 | Water/Wastewater Depreciation Fund |
| Total | \$ 2,807,466 | \$ 3,519,918 | |

F. Current Liabilities

1. Accounts/Claims Payable and Accrued Liabilities

Accounts/claims payable in the governmental activities is composed of amounts due vendors of \$1,051,751 and retainage of \$10,000. The governmental activities accrued liabilities are composed of accrued salaries and benefits of \$278,380 and other accrued liabilities of \$545,695. The business-type activities accounts/claims payable are all for amounts due vendors. The business-type activities payable from restricted assets includes accounts/claims payable of \$18,483 for retainage and \$275,885 for customer deposits. The business-type activities accrued liabilities are composed of accrued salaries and benefits of \$51,609 and other accrued liabilities of \$93,888.

2. Compensated Absences

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

- Obligations are attributable to employees' services already rendered,
- Compensated absence rights vest or are accumulated,
- Payment of the compensated absences compensation is probable, and
- Amount 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, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

G. Long-term Debt

1. General Obligation Bonds Payable

General obligation bonds payable at September 30, 2017 are comprised of the following individual issues:

| | |
|--|----------------------|
| \$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 through February 15, 2034; interest at 2.50% to 5.00%. | \$ 1,375,000 |
| \$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 through August 15, 2031; interest at 2.00% to 4.00%. | 4,810,000 |
| \$12,130,000 Series 2010 General Obligation Refunding bonds due in annual installments of \$610,000 to \$1,340,000 through August 15, 2021; interest at 2.00% to 4.00%. | 3,690,000 |
| \$9,680,000 Series 2011 General Obligation Refunding bonds due in annual installments of \$195,000 to \$1,125,000 through August 15, 2024; interest at 2.00% to 2.50%. | 4,935,000 |
| \$7,100,000 Series 2012 Water and Sewer Certificates of Obligation due in annual installments of \$300,000 to \$425,000 through August 15, 2034; interest at 1.00% to 2.25%. | 5,900,000 |
| \$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 through August 15, 2033; interest at 2.50% to 2.75%. | 4,250,000 |
| \$5,350,000 Series 2014 General Obligation Refunding bonds due in annual installments of \$405,000 to \$580,000 through August 15, 2025; interest at 2.00% to 3.00%. | 4,085,000 |
| \$4,900,000 Series 2015 General Obligation Refunding bonds due in annual installments of \$440,000 to \$650,000 through August 15, 2027; interest at 2.00% to 4.00%. | 4,900,000 |
| \$9,080,000 Series 2016 General Obligation Refunding Bonds due in annual installments of \$50,000 to \$1,105,000 through August 15, 2034; interest at 3.00% to 5.00%. | 8,745,000 |
| \$9,355,000 Series 2017 General Obligation Refunding Bonds due in annual installments of \$55,000 to \$1,290,000 through August 15, 2031; interest at 2.00% to 3.00%. | 9,355,000 |
| Total general obligation bonds payable | <u>\$ 52,045,000</u> |

The City expended \$1,802,833 for interest on general obligation bonds for the year ended September 30, 2017.

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

| YEAR ENDING SEPTEMBER 30, | GOVERNMENTAL ACTIVITIES | | |
|------------------------------|-------------------------|----------------------|----------------------|
| | PRINCIPAL | INTEREST | TOTAL |
| 2018 | \$ 5,205,000 | \$ 1,470,817 | \$ 6,675,817 |
| 2019 | 5,265,000 | 1,352,146 | 6,617,146 |
| 2020 | 5,385,000 | 1,208,620 | 6,593,620 |
| 2021 | 4,880,000 | 1,054,221 | 5,934,221 |
| 2022 | 3,980,000 | 900,845 | 4,880,845 |
| 2023-2027 | 14,740,000 | 3,086,034 | 17,826,034 |
| 2028-2032 | 10,270,000 | 1,112,712 | 11,382,712 |
| 2033-2034 | 2,320,000 | 68,371 | 2,388,371 |
| TOTAL | <u>\$ 52,045,000</u> | <u>\$ 10,253,766</u> | <u>\$ 62,298,766</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

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 |
| 2018 | \$ 7,315 | \$ 384 | \$ 7,699 | \$ 151,871 | \$ 27,194 | \$ 179,065 |
| 2019 | 7,662 | 194 | 7,856 | 157,233 | 21,832 | 179,065 |
| 2020 | - | - | - | 162,784 | 16,281 | 179,065 |
| 2021 | - | - | - | 168,531 | 10,534 | 179,065 |
| 2022 | - | - | - | 174,207 | 4,584 | 178,791 |
| TOTAL | \$ 14,977 | \$ 578 | \$ 15,555 | \$ 814,626 | \$ 80,425 | \$ 895,051 |

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, 2017 was \$14,977.

The City expended \$569 for interest on notes payable for business-type activities for the year ended September 30, 2017.

The EDC has entered into financing agreements with an industry. As a part of the agreement, the EDC has acquired notes for the improvements for this industry. The amount of the notes payable at September 30, 2017 was \$814,626.

The City expended \$32,459 for interest on notes payable for the component units for the year ended September 30, 2017.

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 | \$ 56,600,000 | \$ 9,355,000 | \$ (13,910,000) | \$ 52,045,000 | \$ 5,205,000 |
| Bond premiums | 1,653,315 | 463,601 | (117,844) | 1,999,072 | 148,186 |
| Compensated absences | 4,173,845 | - | (132,814) | 4,041,031 | 1,346,613 |
| OPEB obligation | 1,319,384 | 122,154 | - | 1,441,538 | - |
| Total | \$ 63,746,544 | \$ 9,940,755 | \$ (14,160,658) | \$ 59,526,641 | \$ 6,699,799 |
| BUSINESS-TYPE ACTIVITIES | BEGINNING BALANCE | ADDITIONS | REDUCTIONS | ENDING BALANCE | DUE WITHIN ONE YEAR |
| Notes payable | \$ 22,107 | \$ - | \$ (7,130) | \$ 14,977 | \$ 7,315 |
| Compensated absences | 318,560 | 48,126 | - | 366,686 | 139,506 |
| OPEB obligation | 384,233 | 27,156 | - | 411,389 | - |
| Total | \$ 724,900 | \$ 75,282 | \$ (7,130) | \$ 793,052 | \$ 146,821 |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Component Units

| | BEGINNING BALANCE | ADDITIONS | REDUCTIONS | ENDING BALANCE | DUE WITHIN ONE YEAR |
|----------------------|----------------------|---------------|---------------------|-------------------|------------------------|
| Notes payable | \$ 961,232 | \$ - | \$ (146,606) | \$ 814,626 | \$ 151,871 |
| Compensated absences | 10,025 | 275 | - | 10,299 | - |
| OPEB obligation | 14,778 | - | (2,843) | 11,935 | - |
| Total | <u>\$ 986,035</u> | <u>\$ 275</u> | <u>\$ (149,449)</u> | <u>\$ 836,860</u> | <u>\$ 151,871</u> |

5. Advance Refundings

During the year, the City issued \$9,355,000 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 payments on the refunded bonds. The net proceeds of \$9,689,996 (after issuance costs of \$125,000, plus premium of \$463,601) were used to advance refund the General Obligation Refunding Bonds Series 2010 of \$3,425,000 and the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2009 of \$5,800,000 with a total principal amount of \$8,965,000. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

This advance refunding was undertaken to reduce total debt service payments over the years by \$954,491 and resulted in an economic gain of \$94,707.

5. Defeased Debt

Defeased debt at September 30, 2017 was \$7,125,000 related to the 2016 advance refunding and \$9,225,000 related to the 2017 advance refunding for a total defeased debt of \$16,350,000.

6. Debt Issuance Costs

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

7. Deferred Loss on Refundings

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

H. Deferred Inflows of Resources

Deferred inflows of resources at September 30, 2017 on the governmental funds balance sheet consisted of the following:

| | AMOUNT |
|------------------------------------|---------------------|
| Unavailable ad valorem taxes | \$ 187,612 |
| Unavailable fines and forfeitures | 683,505 |
| Unavailable EMS/Ambulance charges | 1,243,020 |
| Unavailable miscellaneous billings | 76,166 |
| Unavailable interest income | 141,689 |
| Total unavailable revenues | \$ <u>2,331,992</u> |

I. 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 (the Fund), a public entity risk pool, which is self-sustaining through member contributions. The Fund reinsures through commercial companies for claims in excess of \$1,100,000 per occurrence. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. The City pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the City is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. The members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premiums. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to cover its liabilities.

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

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

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, 2017, 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.

The City accounts for the transactions of the plan in the Group Health Insurance fund, an internal service fund. At September 30, 2017, the City had recorded a liability of \$194,828 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.

Changes in the balance of claims payable are as follows:

| FISCAL YEAR | CLAIMS PAYABLE OCTOBER 1, | CLAIMS INCURRED | CLAIMS PAID | CLAIMS PAYABLE SEPTEMBER 30, |
|-------------|------------------------------|--------------------|----------------|---------------------------------|
| 2015 | \$ 124,829 | \$ 4,063,347 | \$ 3,827,111 | \$ 361,065 |
| 2016 | 361,065 | 4,015,172 | 3,929,041 | 447,196 |
| 2017 | 447,196 | 3,862,257 | 4,114,625 | 194,828 |

J. Contingent Liabilities

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

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

K. Defined Benefit Pension Plans

1. Texas Municipal Retirement System

A. Plan Description

The City of Lufkin participates as one of 872 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' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

B. Benefits Provided

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

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

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

Employees Covered by Benefit Terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------------|
| Inactive employees or beneficiaries currently receiving benefits | 217 |
| Inactive employees entitled to but not yet receiving benefits | 160 |
| Active employees | 365 |
| | <hr/> 742 <hr/> |

C. Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lufkin were 15.72% and 16.62% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$2,668,749, and were equal to the required contributions.

D. Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Actuarial Assumptions:

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were 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 EAN actuarial cost method. Assumptions are reviewed annually. 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.

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

| ASSET CLASS | TARGET ALLOCATION | LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC) |
|-----------------------|----------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.35% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 4.15% |
| Real Return | 10.0% | 4.15% |
| Real Estate | 10.0% | 4.75% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 7.75% |
| Total | 100.0% | |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Discount Rate

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

Changes in the Net Pension Liability

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

| | TOTAL PENSION LIABILITY | INCREASE (DECREASE) PLAN FIDUCIARY NET POSITION | NET PENSION LIABILITY |
|--|----------------------------|---|--------------------------|
| | (A) | (B) | (A) - (B) |
| Balance at December 31, 2015 | \$ 90,148,636 | \$ 70,596,289 | \$ 19,552,347 |
| Changes for the year: | | | |
| Service cost | 2,515,515 | - | 2,515,515 |
| Interest | 6,052,902 | - | 6,052,902 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | (83,312) | - | (83,312) |
| Changes of assumptions | - | - | - |
| Contributions - Employer | - | 2,520,598 | (2,520,598) |
| Contributions - Employee | - | 1,122,282 | (1,122,282) |
| Net investment income | - | 4,771,526 | (4,771,526) |
| Benefit payments, including refunds of employee | (3,467,542) | (3,467,542) | - |
| Administrative expense | - | (53,883) | 53,883 |
| Other changes | - | (2,903) | 2,903 |
| Net changes | 5,184,187 | 4,890,078 | 294,109 |
| Balance at December 31, 2016 | \$ 95,332,823 | 75,486,367 | 19,846,456 |

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

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

| | 1% DECREASE IN DISCOUNT RATE (5.75%) | DISCOUNT RATE (6.75%) | 1% INCREASE IN DISCOUNT RATE (7.75%) |
|-----------------------|--|--------------------------|--|
| Net pension liability | \$ 33,089,311 | \$ 19,846,456 | \$ 8,952,387 |

Pension Plan Fiduciary Net Position

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Financial Statement Breakdown

The City's NPL at September 30, 2017 is included in the financial statements as follows:

| | |
|--------------------------|----------------------|
| Governmental activities | \$ 15,750,880 |
| Business-type activities | 3,912,878 |
| Component units | 182,697 |
| Total | <u>\$ 19,846,455</u> |

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

For the year ended September 30, 2017, the City recognized pension expense of \$3,908,481.

At September 30, 2017, 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 | \$ 63,091 | \$ 325,607 |
| Changes in actuarial assumptions | 463,379 | - |
| Difference between projected and actual investment earnings | 3,248,431 | 5,021 |
| Contributions subsequent to the measurement date | 2,075,914 | - |
| Total | <u>\$ 5,850,815</u> | <u>\$ 330,628</u> |

The City reported \$2,075,914 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>PLAN YEAR ENDED DECEMBER 31,</u> | |
|-------------------------------------|---------------------|
| 2017 | \$ 1,170,810 |
| 2018 | 1,284,549 |
| 2019 | 987,742 |
| 2020 | 1,172 |
| Total | <u>\$ 3,444,273</u> |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

2. Firemen's Relief and Retirement Fund of Lufkin, Texas

A. Plan Description

The City sponsors the Firemen's Relief and Retirement Fund of Lufkin, Texas ("Plan"). The Plan is a single-employer defined benefit pension plan covering all employees of the City's Fire Department. The benefit provisions are authorized by the "Texas Local Fire Fighters Retirement Act" (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The Plan is administered by the Board of Trustees. The City does not have access to nor can it utilize the assets within the retirement plan trust. The Plan issues a publicly available financial report. That report can be obtained by writing to the Plan at 300 East Shepherd Street, Lufkin, Texas 75901 or on the Plan's website at www.lufkinfirepension.com.

B. Benefits Provided

The Plan provides retirement, disability, and death benefits. Benefit provisions are established by the Plan's Board of Trustees. The plan allows for retirement at various ages and years of service depending on the members date of hire. Members hired before September 1, 2005 are eligible to retire at age 50 with 10 years of services while members hired between September 1, 2005 and June 24, 2013 are eligible to retire at age 50 with 15 years of service. For members hired between June 25, 2013 and January 5, 2016, retirement age is 52 with 20 years of service. Members hired on or after January 6, 2016 are eligible to retire at age 55 with 20 years of service.

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

Employees Covered by Benefit Terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|------------|
| Retirees or beneficiaries currently receiving benefits | 61 |
| Inactive employees entitled to but not yet receiving benefits | 2 |
| Active employees | <u>77</u> |
| | <u>140</u> |

C. Contributions

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

Members were required to contribute 14.20% of their annual gross earnings for calendar years 2016 and 2017. The contributions rates for the City were 21.92% and 23.02% in calendar years 2016 and 2017, respectively. The City's contributions for the year ended September 30, 2017 were \$1,145,898 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of December 31, 2016.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Actuarial Assumptions:

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 3.0% per year |
| Salary Increases | 3.0%, per year plus promotion, step, and longevity increases that vary by service |
| Investment Rate of Return | 7.5%, net of pension plan investment expense including inflation |

Actuarial assumptions used in the December 31, 2016, 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, 2016, the mortality assumption was based on the RP-2000 Combine Healthy Mortality Tables for males and females (sex distinct) projected by scale AA to 2024.

The long-term expected rate of return on pension plan investments is reviewed each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.50% assumption was selected by "rounding down" and thereby reflects a reduction of 0.06% for adverse deviation. The target allocation and expected arithmetic net real rates of return for each major asset class as of December 31, 2016 actuarial valuation are summarized in the following table:

| <u>ASSET CLASS</u> | <u>TARGET ALLOCATION</u> | <u>LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)</u> |
|----------------------------|--------------------------|--|
| Equities | | |
| Large/all cap domestic | 21.00% | 5.79% |
| Small/mid cap domestic | 8.00% | 6.29% |
| International developed | 13.00% | 6.29% |
| Emerging markets | 6.00% | 7.79% |
| Specialty | | |
| Income opportunity | 9.00% | 4.49% |
| Real estate | 3.00% | 4.29% |
| Master limited partnership | 4.00% | 7.79% |
| Global convertibles | 5.00% | 3.29% |
| Fixed Income | | |
| Domestic core | 19.00% | 1.29% |
| Domestic high yield | 9.00% | 2.79% |
| Global | 3.00% | 1.79% |
| Total | <u>100.00%</u> | |

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

Discount Rate

The discount rate used to measure the TPL was 7.50%. No projection of cash flows was used to determine the discount rate because the December 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 33 years. Because of the 33 year amortization period, the pension plan's Fiduciary Net Position is expected to be available to make all projected future benefit payments of all current active and inactive 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 TPL.

Changes in the Net Pension Liability

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

| | TOTAL PENSION LIABILITY | INCREASE (DECREASE) PLAN FIDUCIARY NET POSITION | NET PENSION LIABILITY |
|--|----------------------------|---|--------------------------|
| | (A) | (B) | (A) - (B) |
| Balance at December 31, 2015 | \$ 33,736,368 | \$ 13,723,045 | \$ 20,013,323 |
| Changes for the year: | | | |
| Service cost | 717,504 | - | 717,504 |
| Interest | 2,502,453 | - | 2,502,453 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | (1,480,396) | - | (1,480,396) |
| Changes of assumptions | (836,604) | - | (836,604) |
| Contributions – Employer | - | 1,112,799 | (1,112,799) |
| Contributions - Employee | - | 718,762 | (718,762) |
| Net investment income | - | 982,695 | (982,695) |
| Benefit payments, including refunds of employee | (2,175,654) | (2,175,654) | - |
| Administrative expense | - | (25,850) | 25,850 |
| Other changes | - | - | - |
| Net changes | (1,272,697) | 612,752 | (1,885,449) |
| Balance at December 31, 2016 | \$ 32,463,671 | 14,335,797 | 18,127,874 |

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 NPL would be if it were calculated using a discount rate that is 1-percent lower (6.5%) or 1-percent higher (8.5%) than the current rate:

| | 1% DECREASE IN DISCOUNT RATE (6.5%) | DISCOUNT RATE (7.55%) | 1% INCREASE IN DISCOUNT RATE (8.5%) |
|-----------------------|---|--------------------------|---|
| Net pension liability | \$ 21,770,757 | \$ 18,127,874 | \$ 15,039,824 |

Pension Plan Fiduciary Net Position

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,585,217.

At September 30, 2017, 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 | \$ 113,598 | \$ 1,238,105 |
| Changes in actuarial assumptions | 210,792 | 699,680 |
| Difference between projected and actual investment earnings | 981,974 | - |
| Contributions subsequent to the measurement date | 889,649 | - |
| Total | <u>\$ 2,196,013</u> | <u>\$ 1,937,785</u> |

The City reported \$889,649 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| PLAN YEAR ENDED DECEMBER 31, | |
|------------------------------|---------------------|
| 2017 | \$ 73,528 |
| 2018 | 73,530 |
| 2019 | 15,128 |
| 2020 | (372,682) |
| 2021 | (379,215) |
| Thereafter | (41,710) |
| Total | <u>\$ (631,421)</u> |

L. Other Postemployment Benefits (OPEB)

1. Retiree Health Insurance

By ordinance enacted by the City Council, the City has established the Retiree Health Insurance Fund (the Fund) that provides health care coverage for eligible retirees from the City. The Fund is a single-employer defined benefit plan administered by the City. Benefit provisions are established and may be amended by the City as authorized by the local ordinance. The City contributes a portion of the premiums for health insurance for retirees. At September 30, 2017, there were 23 retirees and 10 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 that range from \$341 to \$817 for single coverage and \$793 to \$1,226 for single plus spouse coverage. Retirees contributed \$144,804 for fiscal year 2016. The City has elected to use the Pay-As-You-Go option for funding and in previous years funding has been provided through the General Fund.

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS - CONTINUED

2. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The components of the City's annual OPEB cost, the amount actually contributed, and the changes in the City's net OPEB obligation for the fiscal year ended September 30, 2017 were as follows:

| | |
|-------------------------------------|---------------------|
| Annual required contribution | \$ 309,695 |
| Interest on net OPEB obligation | 68,736 |
| Amortization of net OPEB obligation | <u>(66,964)</u> |
| Annual OPEB cost | 311,467 |
| Contributions made | <u>(165,000)</u> |
| Increase in Net OPEB obligation | 146,467 |
| Net OPEB obligation, beginning | 1,718,395 |
| Net OPEB obligation, ending | <u>\$ 1,864,862</u> |

The City's annual OPEB cost, the percentage contributed, and the net OPEB obligations for fiscal years 2017, 2016, and 2015 were as follows:

| YEAR ENDED | ANNUAL OPEB COST | ANNUAL CONTRIBUTION | PERCENTAGE CONTRIBUTED | NET OPEB OBLIGATION |
|---------------|---------------------|------------------------|---------------------------|------------------------|
| 09/30/2017 | \$ 311,467 | \$ (165,000) | 53% | \$ 1,864,862 |
| 09/30/2016 | 324,480 | (172,500) | 53% | 1,718,395 |
| 09/30/2015 | 322,892 | (217,500) | 67% | 1,566,415 |

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

3. Funded Status and Funding Progress

As of October 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$4,754,508, all of which was unfunded. The estimated covered payroll (annual payroll of active employees covered by the Plan) was \$7,490,486, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 63 percent.

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

CITY OF LUFKIN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2017

DETAIL NOTES ON ALL FUNDS – CONTINUED

4. Actuarial Methods and Assumptions

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

In the October 1, 2016 actuarial valuation, the Projected Unit Cost method was used. The actuarial assumptions included a 4.00% investment rate of return, net of expenses. The period used to determine amortization costs for the initial UAAL is a level period for thirty years.

2. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$32,900, \$34,136, and \$30,237, respectively, which equaled the required contributions each year.

M. Tax Abatements

The City participated in multiple agreements during fiscal year 2017 which resulted in the abatement of tax revenue. The City has concluded that the dollar amounts of these tax abatements are immaterial to the financial statements; therefore, the City has elected not to present a full disclosure as required by GASB Statement No. 77, *Tax Abatements* since it states that the provisions of the statement need not be applied to immaterial items.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
CONDITION RATING OF THE CITY'S STREET SYSTEM
SEPTEMBER 30, 2017**

The City performed a complete inventory and condition assessment during the fiscal year 2016. 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 |

The detail condition of the City's street system for the past three complete assessments are as follows:

| CONDITION | PERCENTAGE OF STREETS | | |
|-------------------|-----------------------|------|------|
| | 2016 | 2014 | 2012 |
| Excellent to Good | 27% | 38% | 39% |
| Fair to Good | 39% | 39% | 40% |
| Substandard | 30% | 23% | 21% |

| | PERCENTAGE OF LANE-MILES IN EXCELLENT TO VERY GOOD CONDITION | | |
|---------------------|---|------|------|
| | 2016 | 2014 | 2012 |
| Collector Streets | 55% | 11% | 51% |
| Residential Streets | 29% | 27% | 38% |

| | PERCENTAGE OF LANE-MILES IN SUBSTANDARD CONDITION | | |
|---------------------|--|------|------|
| | 2016 | 2014 | 2012 |
| Collector Streets | 19% | 3% | 11% |
| Residential Streets | 27% | 19% | 22% |

The average rating for the City's streets at September 30, 2016 was 65; this rating remained flat from the previous assessment.

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.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
COMPARISON OF NEEDED TO ACTUAL MAINTENANCE/PRESERVATION
SEPTEMBER 30, 2017

The City's streets are constantly deteriorating resulting from traffic using the streets, the sun's ultra-violet rays drying out and breaking down the top layer of pavement, trenching operations for repair work on water and sewer lines and water damage from natural precipitation. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching and street sweeping. A schedule of estimated annual amounts and actual expenditures for street maintenance for the past five years is as follows (in thousands):

| <u>FISCAL YEAR</u> | | <u>BUDGET</u> | | <u>ACTUAL</u> |
|--------------------|----|---------------|----|---------------|
| 2017 | \$ | 4,248 | \$ | 4,071 |
| 2016 | | 4,133 | | 3,679 |
| 2015 | | 3,650 | | 3,290 |
| 2014 | | 3,937 | | 3,414 |
| 2013 | | 3,845 | | 3,589 |

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

| | 2017 | 2016 | 2015 |
|--|----------------------|----------------------|----------------------|
| Total Pension Liability | | | |
| Service cost | \$ 2,515,515 | \$ 2,299,919 | \$ 2,123,077 |
| Interest (on the total pension liability) | 6,052,902 | 5,894,713 | 5,650,445 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 83,312 | (192,026) | (776,242) |
| Change of assumptions | - | 948,593 | - |
| Benefit payments, including refunds of employee contributions | (3,467,542) | (3,725,580) | (3,466,727) |
| Net change in total pension liability | 5,184,187 | 5,225,619 | 3,530,553 |
| Total pension liability - beginning | 90,148,636 | 84,923,017 | 81,392,464 |
| Total pension liability - ending (a) | <u>\$ 95,332,823</u> | <u>\$ 90,148,636</u> | <u>\$ 84,923,017</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | \$ 2,520,598 | \$ 2,509,431 | \$ 2,486,016 |
| Contributions - employee | 1,122,282 | 1,086,453 | 1,034,606 |
| Net investment income | 4,771,526 | 104,308 | 3,824,460 |
| Benefit payments, including refunds of employee contributions | (3,467,542) | (3,725,580) | (3,466,727) |
| Administrative expense | (53,883) | (63,532) | (39,929) |
| Other | (2,903) | (3,138) | (3,283) |
| Net change in plan fiduciary net position | 4,890,078 | (92,058) | 3,835,143 |
| Plan fiduciary net position - beginning | 70,596,289 | 70,688,347 | 66,853,204 |
| Plan fiduciary net position - ending (b) | <u>\$ 75,486,367</u> | <u>\$ 70,596,289</u> | <u>\$ 70,688,347</u> |
| Net pension liability - ending (a) - (b) | <u>\$ 19,846,456</u> | <u>\$ 19,552,347</u> | <u>\$ 14,234,670</u> |
| Plan fiduciary net position as a percentage of total pension liability | 79.18% | 78.31% | 83.24% |
| Covered payroll | \$ 16,032,603 | \$ 15,446,063 | \$ 14,772,880 |
| Net pension liability as a percentage of covered payroll | 123.79% | 126.58% | 96.36% |

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

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

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 2,668,749 | \$ 2,606,843 | \$ 2,507,504 |
| Contributions in relation to actuarially determined contribution | <u>(2,668,749)</u> | <u>(2,606,843)</u> | <u>(2,507,504)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 16,261,675 | \$ 16,454,792 | \$15,328,570 |
| Contributions as a percentage of covered payroll | 16.41% | 15.84% | 16.36% |

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

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

**CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017**

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 29 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.5% to 10.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

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

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LUFKIN FIREMEN'S RELIEF AND RETIREMENT FUND
LAST TEN FISCAL YEARS

| | 2017 | 2016 | 2015 |
|--|----------------------|----------------------|----------------------|
| Total Pension Liability | | | |
| Service cost | \$ 717,504 | \$ 696,606 | \$ 648,006 |
| Interest (on the total pension liability) | 2,502,453 | 2,373,987 | 2,282,146 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | (1,480,396) | - | 227,196 |
| Change of assumptions | (836,604) | - | - |
| Administrative expense | | | 421,584 |
| Benefit payments, including refunds of employee contributions | (2,175,654) | (1,974,776) | (1,437,981) |
| Net change in total pension liability | (1,272,697) | 1,095,817 | 2,140,951 |
| Total pension liability - beginning | 33,736,368 | 32,640,551 | 30,499,600 |
| Total pension liability - ending (a) | <u>\$ 32,463,671</u> | <u>\$ 33,736,368</u> | <u>\$ 32,640,551</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | \$ 1,112,799 | \$ 1,146,462 | \$ 1,094,156 |
| Contributions - employee | 718,762 | 666,247 | 627,405 |
| Net investment income | 982,695 | (336,255) | 714,645 |
| Benefit payments, including refunds of employee contributions | (2,175,654) | (1,974,776) | (1,437,981) |
| Administrative expense | (25,850) | (43,114) | (28,082) |
| Other | - | - | - |
| Net change in plan fiduciary net position | 612,752 | (541,436) | 970,143 |
| Plan fiduciary net position - beginning | 13,723,045 | 14,264,481 | 13,294,338 |
| Plan fiduciary net position - ending (b) | <u>\$ 14,335,797</u> | <u>\$ 13,723,045</u> | <u>\$ 14,264,481</u> |
| Net pension liability - ending (a) - (b) | <u>\$ 18,127,874</u> | <u>\$ 20,013,323</u> | <u>\$ 18,376,070</u> |
| Plan fiduciary net position as a percentage of total pension liability | 44.20% | 40.70% | 43.70% |
| Covered payroll | \$ 5,061,704 | \$ 5,047,326 | \$ 4,753,068 |
| Net pension liability as a percentage of covered payroll | 358.10% | 396.50% | 386.60% |

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

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

Notes to Schedule:

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

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
LUFKIN FIREMEN'S RELIEF AND RETIREMENT FUND
LAST TEN FISCAL YEARS

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|--------------------|--------------------|
| Contractually determined contribution | \$ 889,649 | \$ 1,164,215 | \$ 1,135,860 |
| Contributions in relation to contractually determined contribution | <u>(889,649)</u> | <u>(1,164,215)</u> | <u>(1,135,860)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 5,033,699 | \$ 5,281,114 | \$ 5,032,044 |
| Contributions as a percentage of covered payroll | 17.67% | 22.04% | 22.57% |

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

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

Notes to Schedule:

Contributions are based on the TLFFRA requirements rather than an actuarially determined rate. Contribution rates for the City were 23.02%, 21.92%, and 22.40% for calendar years 2017, 2016, and 2015, respectively.

CITY OF LUFKIN, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
RETIREE HEALTH INSURANCE PLAN
SEPTEMBER 30, 2017

| 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 |
|--------------------------------|---|---|---|------------------------------|-------------------------------------|------------------------------------|
| 10/01/2013 | \$ - | \$ 7,666,299 | \$ 7,666,299 | \$ - | \$ 12,294,717 | 62% |
| 10/01/2014 | - | 4,655,762 | 4,655,762 | - | 7,860,931 | 59% |
| 10/01/2016 | - | 4,754,508 | 4,754,508 | - | 7,490,486 | 63% |

SUPPLEMENTAL INFORMATION

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF NET POSITION
COMPONENT UNITS
SEPTEMBER 30, 2017

| | ECONOMIC DEVELOPMENT CORPORATION | LUFKIN CONVENTION AND VISITORS BUREAU | TOTAL COMPONENT UNITS |
|---------------------------------------|--|--|-----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 176,893 | \$ 296,445 | \$ 473,338 |
| Investments: | | | |
| Certificates of deposit | 1,500,000 | - | 1,500,000 |
| Land and improvements | 4,361,190 | - | 4,361,190 |
| Receivables - net | 115,652 | 109,741 | 225,393 |
| Notes receivable | 3,217,327 | - | 3,217,327 |
| Total Assets | <u>9,371,062</u> | <u>406,186</u> | <u>9,777,248</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred pension outflows | 15,739 | 38,175 | 53,914 |
| Total Deferred Outflows of Resources | <u>15,739</u> | <u>38,175</u> | <u>53,914</u> |
| LIABILITIES | | | |
| Accounts/claims payable | 8,103 | 3,532 | 11,635 |
| Accrued interest | 7,128 | - | 7,128 |
| Accrued liabilities | 547 | 3,701 | 4,248 |
| Deposits | 20,000 | - | 20,000 |
| Noncurrent liabilities: | | | |
| Due within one year | 151,871 | - | 151,871 |
| Due in more than one year | 666,671 | 18,318 | 684,989 |
| Net pension liability | 75,383 | 107,314 | 182,697 |
| Total Liabilities | <u>929,703</u> | <u>132,865</u> | <u>1,062,568</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred pension inflows | 2,043 | 1,072 | 3,115 |
| Total Deferred Inflows of Resources | <u>2,043</u> | <u>1,072</u> | <u>3,115</u> |
| NET POSITION | | | |
| Unrestricted | 8,455,055 | 310,424 | 8,765,479 |
| Total Net Position | <u>\$ 8,455,055</u> | <u>\$ 310,424</u> | <u>\$ 8,765,479</u> |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| FUNCTIONS/PROGAMS | PROGRAM REVENUES | | | NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION | | |
|---------------------------------------|------------------|-------------------------|--|--|--------------------------------------|----------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | LUFKIN | | TOTAL |
| | | | | ECONOMIC DEVELOPMENT CORPORATION | CONVENTION AND VISITORS BUREAU | |
| Economic Development Corporation | \$ 1,365,102 | \$ - | \$ - | \$ (1,365,102) | \$ - | \$ (1,365,102) |
| Lufkin Convention and Visitors Bureau | 426,540 | - | - | - | (426,540) | (426,540) |
| Total | \$ 1,791,642 | \$ - | \$ - | (1,365,102) | (426,540) | (1,791,642) |
| General Revenues: | | | | | | |
| Sales taxes | | | | 1,193,606 | - | 1,193,606 |
| Other taxes | | | | - | 408,344 | 408,344 |
| Unrestricted investment earnings | | | | 76,493 | 3,406 | 79,899 |
| Miscellaneous revenues | | | | - | 56,001 | 56,001 |
| Total General Revenues | | | | 1,270,099 | 467,751 | 1,737,850 |
| Change in Net Position | | | | (95,003) | 41,211 | (53,792) |
| Net Position - Beginning | | | | 8,550,058 | 269,213 | 8,819,271 |
| Net Position - Ending | | | | \$ 8,455,055 | \$ 310,424 | \$ 8,765,479 |

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

FEMA Grant Fund - To account for FEMA Grant.

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

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

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

CAPITAL PROJECTS FUNDS

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

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

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

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

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

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

INTERNAL SERVICE FUNDS

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

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

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

| | SPECIAL REVENUE FUNDS | CAPITAL PROJECTS FUNDS | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|---|-----------------------------|------------------------------|--|
| ASSETS | | | |
| Cash and cash equivalents | \$ 867,686 | \$ 387,897 | \$ 1,255,583 |
| Investments | 1,500,000 | - | 1,500,000 |
| Receivables: | | | |
| Accounts | 173,322 | - | 173,322 |
| Intergovernmental | - | 300,785 | 300,785 |
| Other | 278,585 | 3,821 | 282,406 |
| Allowance for uncollectibles | (167,878) | - | (167,878) |
| Total assets | <u>\$ 2,651,715</u> | <u>\$ 692,503</u> | <u>\$ 3,344,218</u> |
| LIABILITIES | | | |
| Accounts/claims payable | \$ 177,598 | \$ 10,655 | \$ 188,253 |
| Accrued liabilities | 112,866 | - | 112,866 |
| Due to other funds | 56,295 | 249,819 | 306,114 |
| Customer deposits | 21,192 | - | 21,192 |
| Total Liabilities | <u>367,951</u> | <u>260,474</u> | <u>628,425</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenues | 28,547 | 3,794 | 32,341 |
| Total Deferred Inflows of Resources | <u>28,547</u> | <u>3,794</u> | <u>32,341</u> |
| FUND BALANCES | | | |
| Restricted | 368,380 | 291,919 | 660,299 |
| Committed | 211,724 | 136,316 | 348,040 |
| Assigned | 1,675,113 | - | 1,675,113 |
| Total Fund Balances | <u>2,255,217</u> | <u>428,235</u> | <u>2,683,452</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 2,651,715</u> | <u>\$ 692,503</u> | <u>\$ 3,344,218</u> |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | SPECIAL REVENUE FUNDS | CAPITAL PROJECTS FUNDS | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|--|-----------------------------|------------------------------|--|
| Revenues: | | | |
| Other taxes | \$ 972,248 | \$ - | \$ 972,248 |
| Charges for services | 1,108,716 | - | 1,108,716 |
| Investment earnings | 18,711 | 3,298 | 22,009 |
| Intergovernmental | 144,169 | (30,611) | 113,558 |
| Other revenues | 701,335 | 320,000 | 1,021,335 |
| Total Revenues | <u>2,945,179</u> | <u>292,687</u> | <u>3,237,866</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 211,508 | - | 211,508 |
| Public safety | 179,534 | - | 179,534 |
| Cultural and recreation | 1,892,267 | - | 1,892,267 |
| Capital outlay: | | | |
| General government | - | 1,112,872 | 1,112,872 |
| Cultural and recreation | - | 224,872 | 224,872 |
| Public works | - | 145,605 | 145,605 |
| Total Expenditures | <u>2,283,309</u> | <u>1,483,349</u> | <u>3,766,658</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>661,870</u> | <u>(1,190,662)</u> | <u>(528,792)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers in | 105,289 | - | 105,289 |
| Transfers out | (233,368) | - | (233,368) |
| Total Other Financing Sources (Uses) | <u>(128,079)</u> | <u>-</u> | <u>(128,079)</u> |
| Net Change in Fund Balances | 533,791 | (1,190,662) | (656,871) |
| Fund Balances - Beginning | <u>1,721,426</u> | <u>1,618,897</u> | <u>3,340,323</u> |
| Fund Balances - Ending | <u><u>\$ 2,255,217</u></u> | <u><u>\$ 428,235</u></u> | <u><u>\$ 2,683,452</u></u> |

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | HOTEL/ MOTEL TAX FUND | ZOO BUILDING FUND | MAIN STREET DOWNTOWN DEVELOPMENT FUND | POLICE SEIZED FUND |
|---|--------------------------------|-------------------------|---|--------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 400 | \$ 117,715 | \$ 34,646 | \$ 326,229 |
| Investments | - | 1,500,000 | - | - |
| Receivables: | | | | |
| Accounts | - | - | - | - |
| Other | 254,250 | 15,957 | 339 | 3,234 |
| Allowance for uncollectibles | - | - | - | - |
| Total Assets | <u>\$ 254,650</u> | <u>\$ 1,633,672</u> | <u>\$ 34,985</u> | <u>\$ 329,463</u> |
| LIABILITIES | | | | |
| Accounts/claims payable | \$ 41,047 | \$ 694 | \$ 38 | \$ 100,470 |
| Accrued liabilities | 111,245 | - | - | - |
| Due to other funds | 39,512 | - | - | - |
| Customer deposits | 17,041 | - | - | - |
| Total Liabilities | <u>208,845</u> | <u>694</u> | <u>38</u> | <u>100,470</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues | - | 15,825 | 339 | 3,191 |
| Total Deferred Inflows of Resources | <u>-</u> | <u>15,825</u> | <u>339</u> | <u>3,191</u> |
| FUND BALANCES | | | | |
| Restricted | - | - | - | 225,802 |
| Committed | 45,805 | - | - | - |
| Assigned | - | 1,617,153 | 34,608 | - |
| Total Fund Balances | <u>45,805</u> | <u>1,617,153</u> | <u>34,608</u> | <u>225,802</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 254,650</u> | <u>\$ 1,633,672</u> | <u>\$ 34,985</u> | <u>\$ 329,463</u> |

| HOME INVESTMENT PROGRAM FUND | COURT SECURITY/ TECHNOLOGY FUND | POLICE GRANTS FUND | PINES THEATER SPECIAL EVENTS FUND | SPECIAL RECREATION FUND | INSURANCE LOSS FUND |
|---------------------------------------|--|--------------------------|---|-------------------------------|---------------------------|
| \$ 4 | \$ 20,851 | \$ 54,225 | \$ - | \$ 110,895 | \$ 71,857 |
| - | - | - | - | - | - |
| - | 173,322 | - | - | - | - |
| - | 204 | 531 | 1,036 | 1,090 | 705 |
| - | (167,878) | - | - | - | - |
| <u>\$ 4</u> | <u>\$ 26,499</u> | <u>\$ 54,756</u> | <u>\$ 1,036</u> | <u>\$ 111,985</u> | <u>\$ 72,562</u> |
| \$ - | \$ - | \$ 19,786 | \$ 338 | \$ 14,725 | \$ 500 |
| - | - | - | - | 1,621 | - |
| - | - | - | 16,783 | - | - |
| - | - | - | 4,151 | - | - |
| <u>-</u> | <u>-</u> | <u>19,786</u> | <u>21,272</u> | <u>16,346</u> | <u>500</u> |
| - | 5,648 | 531 | - | 1,079 | 703 |
| <u>-</u> | <u>5,648</u> | <u>531</u> | <u>-</u> | <u>1,079</u> | <u>703</u> |
| 4 | 20,851 | 34,439 | - | - | - |
| - | - | - | - | 94,560 | 71,359 |
| - | - | - | (20,236) | - | - |
| <u>4</u> | <u>20,851</u> | <u>34,439</u> | <u>(20,236)</u> | <u>94,560</u> | <u>71,359</u> |
| <u>\$ 4</u> | <u>\$ 26,499</u> | <u>\$ 54,756</u> | <u>\$ 1,036</u> | <u>\$ 111,985</u> | <u>\$ 72,562</u> |

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET - CONTINUED
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | ANIMAL CONTROL - KURTH GRANT FUND | POLICE DARE CONTRIBUTION GRANT FUND | ANIMAL'S ATTIC GIFT SHOP FUND | FIRE GRANTS FUND |
|---|---|--|--|------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 57,911 | \$ 109 | \$ 43,479 | \$ 4,882 |
| Investments | - | - | - | - |
| Receivables: | | | | |
| Accounts | - | - | - | - |
| Other | 574 | - | 425 | - |
| Allowance for uncollectibles | - | - | - | - |
| Total Assets | <u>\$ 58,485</u> | <u>\$ 109</u> | <u>\$ 43,904</u> | <u>\$ 4,882</u> |
| LIABILITIES | | | | |
| Accounts/claims payable | \$ - | \$ - | \$ - | \$ - |
| Accrued liabilities | - | - | - | - |
| Due to other funds | - | - | - | - |
| Customer deposits | - | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues | 566 | - | 425 | - |
| Total Deferred Inflows of Resources | <u>566</u> | <u>-</u> | <u>425</u> | <u>-</u> |
| FUND BALANCES | | | | |
| Restricted | 57,919 | - | - | 4,882 |
| Committed | - | - | - | - |
| Assigned | - | 109 | 43,479 | - |
| Total Fund Balances | <u>57,919</u> | <u>109</u> | <u>43,479</u> | <u>4,882</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 58,485</u> | <u>\$ 109</u> | <u>\$ 43,904</u> | <u>\$ 4,882</u> |

| FEMA GRANT FUND | TOTAL NONMAJOR SPECIAL REVENUE FUNDS |
|-----------------------|---|
| \$ 24,483 | \$ 867,686 |
| - | 1,500,000 |
| - | 173,322 |
| 240 | 278,585 |
| - | (167,878) |
| <u>\$ 24,723</u> | <u>\$ 2,651,715</u> |
| \$ - | \$ 177,598 |
| - | 112,866 |
| - | 56,295 |
| - | 21,192 |
| <u>-</u> | <u>367,951</u> |
| 240 | 28,547 |
| <u>240</u> | <u>28,547</u> |
| 24,483 | 368,380 |
| - | 211,724 |
| - | 1,675,113 |
| <u>24,483</u> | <u>2,255,217</u> |
| <u>\$ 24,723</u> | <u>\$ 2,651,715</u> |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | HOTEL/ MOTEL TAX FUND | ZOO BUILDING FUND | MAIN STREET DOWNTOWN DEVELOPMENT FUND | POLICE SEIZED FUND |
|--|--------------------------------|-------------------------|---|--------------------------|
| Revenues: | | | | |
| Other taxes | \$ 972,248 | \$ - | \$ - | \$ - |
| Charges for services | 203,307 | 357,519 | - | - |
| Investment earnings | 217 | 12,205 | 213 | 3,684 |
| Intergovernmental | - | - | - | - |
| Other revenues | 60 | 3,153 | 23,788 | 236,289 |
| Total Revenues | <u>1,175,832</u> | <u>372,877</u> | <u>24,001</u> | <u>239,973</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | 85,682 |
| Cultural and recreation | 1,214,443 | 145,948 | 17,326 | - |
| Total Expenditures | <u>1,214,443</u> | <u>145,948</u> | <u>17,326</u> | <u>85,682</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(38,611)</u> | <u>226,929</u> | <u>6,675</u> | <u>154,291</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | 100,000 | - | - | - |
| Transfers out | - | (28,599) | - | - |
| Total Other Financing Sources (Uses) | <u>100,000</u> | <u>(28,599)</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 61,389 | 198,330 | 6,675 | 154,291 |
| Fund Balances - Beginning | <u>(15,584)</u> | <u>1,418,823</u> | <u>27,933</u> | <u>71,511</u> |
| Fund Balances - Ending | <u>\$ 45,805</u> | <u>\$ 1,617,153</u> | <u>\$ 34,608</u> | <u>\$ 225,802</u> |

| HOME INVESTMENT PROGRAM FUND | COURT SECURITY/ TECHNOLOGY FUND | POLICE GRANTS FUND | PINES THEATER SPECIAL EVENTS FUND | SPECIAL RECREATION FUND | INSURANCE LOSS FUND |
|---------------------------------------|--|--------------------------|---|-------------------------------|---------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | 139,108 | 408,782 | - |
| - | 17 | 24 | - | 945 | 149 |
| - | - | 47,458 | - | - | - |
| - | 28,073 | 57,337 | 562 | 4,500 | 326,331 |
| - | 28,090 | 104,819 | 139,670 | 414,227 | 326,480 |
| - | - | - | - | - | 211,508 |
| - | 21,452 | 72,400 | - | - | - |
| - | - | - | 145,019 | 352,667 | - |
| - | 21,452 | 72,400 | 145,019 | 352,667 | 211,508 |
| - | 6,638 | 32,419 | (5,349) | 61,560 | 114,972 |
| - | - | - | - | - | - |
| - | - | - | - | (59,769) | - |
| - | - | - | - | (59,769) | - |
| - | 6,638 | 32,419 | (5,349) | 1,791 | 114,972 |
| 4 | 14,213 | 2,020 | (14,887) | 92,769 | (43,613) |
| \$ 4 | \$ 20,851 | \$ 34,439 | \$ (20,236) | \$ 94,560 | \$ 71,359 |

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, 2017

| | ANIMAL CONTROL - KURTH GRANT FUND | POLICE DARE CONTRIBUTION GRANT FUND | ANIMAL'S ATTIC GIFT SHOP FUND | FIRE GRANTS FUND |
|--|---|--|--|------------------------|
| Revenues: | | | | |
| Other taxes | \$ - | \$ - | \$ - | \$ - |
| Charges for services | - | - | - | - |
| Investment earnings | 746 | - | 337 | - |
| Intergovernmental | 96,711 | - | - | - |
| Other revenues | - | - | 21,242 | - |
| Total Revenues | <u>97,457</u> | <u>-</u> | <u>21,579</u> | <u>-</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Public safety | - | - | - | - |
| Cultural and recreation | - | - | 16,864 | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>16,864</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>97,457</u> | <u>-</u> | <u>4,715</u> | <u>-</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | - | - | - | 5,289 |
| Transfers out | (145,000) | - | - | - |
| Total Other Financing Sources (Uses) | <u>(145,000)</u> | <u>-</u> | <u>-</u> | <u>5,289</u> |
| Net Change in Fund Balances | (47,543) | - | 4,715 | 5,289 |
| Fund Balances - Beginning | <u>105,462</u> | <u>109</u> | <u>38,764</u> | <u>(407)</u> |
| Fund Balances - Ending | <u>\$ 57,919</u> | <u>\$ 109</u> | <u>\$ 43,479</u> | <u>\$ 4,882</u> |

| FEMA GRANT FUND | TOTAL NONMAJOR SPECIAL REVENUE FUNDS |
|-----------------------|---|
| \$ - | \$ 972,248 |
| - | 1,108,716 |
| 174 | 18,711 |
| - | 144,169 |
| - | 701,335 |
| <u>174</u> | <u>2,945,179</u> |
| - | 211,508 |
| - | 179,534 |
| - | <u>1,892,267</u> |
| - | <u>2,283,309</u> |
| <u>174</u> | <u>661,870</u> |
| - | 105,289 |
| - | <u>(233,368)</u> |
| - | <u>(128,079)</u> |
| 174 | 533,791 |
| <u>24,309</u> | <u>1,721,426</u> |
| <u>\$ 24,483</u> | <u>\$ 2,255,217</u> |

CITY OF LUFKIN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2017

| | STREET CONSTRUCTION FUND | DRAINAGE MITIGATION FUND | TEXAS CAPITAL GRANT FUND |
|---|--------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 146,971 | \$ 18,656 | \$ 53 |
| Investments | | | |
| Receivables: | | | |
| Intergovernmental | - | - | - |
| Other | 1,438 | 182 | - |
| Total Assets | <u>\$ 148,409</u> | <u>\$ 18,838</u> | <u>\$ 53</u> |
| LIABILITIES | | | |
| Accounts/claims payable | \$ 10,655 | \$ - | \$ - |
| Due to other funds | - | - | - |
| Total Liabilities | <u>10,655</u> | <u>-</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenues | 1,438 | 182 | - |
| Total Deferred Inflows of Resources | <u>1,438</u> | <u>182</u> | <u>-</u> |
| FUND BALANCES | | | |
| Restricted | - | 18,656 | 53 |
| Committed | 136,316 | - | - |
| Total Fund Balances | <u>136,316</u> | <u>18,656</u> | <u>53</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 148,409</u> | <u>\$ 18,838</u> | <u>\$ 53</u> |

| CONVENTION CENTER FUND | 2010 CAPITAL IMPROVEMENT FUND | 2012 CAPITAL IMPROVEMENT FUND | TOTAL NONMAJOR CAPITAL PROJECTS FUNDS |
|------------------------------|-------------------------------------|-------------------------------------|---|
| \$ 94,588 | \$ - | \$ 127,629 | \$ 387,897 |
| - | 300,785 | - | 300,785 |
| 925 | - | 1,276 | 3,821 |
| <u>\$ 95,513</u> | <u>\$ 300,785</u> | <u>\$ 128,905</u> | <u>\$ 692,503</u> |
| \$ - | \$ - | \$ - | \$ 10,655 |
| - | 249,819 | - | 249,819 |
| <u>-</u> | <u>249,819</u> | <u>-</u> | <u>260,474</u> |
| 925 | - | 1,249 | 3,794 |
| <u>925</u> | <u>-</u> | <u>1,249</u> | <u>3,794</u> |
| 94,588 | 50,966 | 127,656 | 291,919 |
| - | - | - | 136,316 |
| <u>94,588</u> | <u>50,966</u> | <u>127,656</u> | <u>428,235</u> |
| <u>\$ 95,513</u> | <u>\$ 300,785</u> | <u>\$ 128,905</u> | <u>\$ 692,503</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, 2017

| | STREET CONSTRUCTION FUND | DRAINAGE MITIGATION FUND | TEXAS CAPITAL GRANT FUND |
|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Investment earnings | \$ 96 | \$ 155 | \$ - |
| Intergovernmental | 6,300 | - | - |
| Other revenues | 320,000 | - | - |
| Total Revenues | <u>326,396</u> | <u>155</u> | <u>-</u> |
| Expenditures: | | | |
| Capital outlay: | | | |
| General government | 1,112,872 | - | - |
| Cultural and recreation | - | - | - |
| Public works | 65,229 | - | - |
| Total Expenditures | <u>1,178,101</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | (851,705) | 155 | - |
| Fund Balances - Beginning | <u>988,021</u> | <u>18,501</u> | <u>53</u> |
| Fund Balances - Ending | <u><u>\$ 136,316</u></u> | <u><u>\$ 18,656</u></u> | <u><u>\$ 53</u></u> |

| CONVENTION CENTER FUND | 2010 CAPITAL IMPROVEMENT FUND | 2012 CAPITAL IMPROVEMENT FUND | TOTAL NONMAJOR CAPITAL PROJECTS FUNDS |
|------------------------------|-------------------------------------|-------------------------------------|---|
| \$ 118 | \$ - | \$ 2,929 | \$ 3,298 |
| - | (36,911) | - | (30,611) |
| - | - | - | 320,000 |
| 118 | (36,911) | 2,929 | 292,687 |
| - | - | - | 1,112,872 |
| - | - | 224,872 | 224,872 |
| - | (16,376) | 96,752 | 145,605 |
| - | (16,376) | 321,624 | 1,483,349 |
| 118 | (20,535) | (318,695) | (1,190,662) |
| 94,470 | 71,501 | 446,351 | 1,618,897 |
| \$ 94,588 | \$ 50,966 | \$ 127,656 | \$ 428,235 |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2017

| | GROUP HEALTH INSURANCE | EQUIPMENT ACQUISITION AND REPLACEMENT | TOTAL |
|--|------------------------------|--|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 332,618 | \$ 499,670 | \$ 832,288 |
| Investments | 4,000,000 | 1,000,000 | 5,000,000 |
| Interest receivable | 42,708 | 14,766 | 57,474 |
| Total Current Assets | <u>4,375,326</u> | <u>1,514,436</u> | <u>5,889,762</u> |
| Noncurrent Assets: | | | |
| Capital Assets: | | | |
| Machinery and equipment | - | 5,714,397 | 5,714,397 |
| Vehicles | - | 9,252,709 | 9,252,709 |
| Less accumulated depreciation | - | (9,028,315) | (9,028,315) |
| Total Capital Assets (Net of Accumulated Depreciation) | <u>-</u> | <u>5,938,791</u> | <u>5,938,791</u> |
| Total Assets | <u>4,375,326</u> | <u>7,453,227</u> | <u>11,828,553</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts/claims payable | 194,828 | - | 194,828 |
| Due to other funds | 241,998 | - | 241,998 |
| Total Current Liabilities | <u>436,826</u> | <u>-</u> | <u>436,826</u> |
| Total Liabilities | <u>436,826</u> | <u>-</u> | <u>436,826</u> |
| NET POSITION | | | |
| Net investment in capital assets | - | 5,938,791 | 5,938,791 |
| Unrestricted | 3,938,500 | 1,514,436 | 5,452,936 |
| Total Net Position | <u>\$ 3,938,500</u> | <u>\$ 7,453,227</u> | <u>\$ 11,391,727</u> |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | GROUP HEALTH INSURANCE | EQUIPMENT ACQUISITION AND REPLACEMENT | TOTAL |
|--|------------------------------|--|----------------------|
| Operating Revenues: | | | |
| Employee premiums | \$ 1,007,633 | \$ - | \$ 1,007,633 |
| Employer premiums | 3,485,477 | - | 3,485,477 |
| Equipment rental | - | 1,811,279 | 1,811,279 |
| Miscellaneous | 430,510 | - | 430,510 |
| Total Operating Revenues | <u>4,923,620</u> | <u>1,811,279</u> | <u>6,734,899</u> |
| Operating Expenses: | | | |
| Insurance claims and related expenses | 4,776,337 | 12,421 | 4,788,758 |
| Depreciation and amortization | - | 1,687,068 | 1,687,068 |
| Total Operating Expenses | <u>4,776,337</u> | <u>1,699,489</u> | <u>6,475,826</u> |
| Operating Income | <u>147,283</u> | <u>111,790</u> | <u>259,073</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment earnings | 40,946 | 17,982 | 58,928 |
| Gain on sale of assets | - | 175,627 | 175,627 |
| Total Nonoperating Revenues (Expenses) | <u>40,946</u> | <u>193,609</u> | <u>234,555</u> |
| Income Before Transfers | 188,229 | 305,399 | 493,628 |
| Transfers in | <u>165,000</u> | <u>-</u> | <u>165,000</u> |
| Change in Net Position | 353,229 | 305,399 | 658,628 |
| Net Position - Beginning | <u>3,585,271</u> | <u>7,147,828</u> | <u>10,733,099</u> |
| Net Position - Ending | <u>\$ 3,938,500</u> | <u>\$ 7,453,227</u> | <u>\$ 11,391,727</u> |

CITY OF LUFKIN, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2017

| | GROUP HEALTH INSURANCE | EQUIPMENT ACQUISITION AND REPLACEMENT | TOTAL |
|--|------------------------------|--|---------------------|
| Cash Flows From Operating Activities: | | | |
| Receipts from customers and users | \$ 1,438,143 | \$ - | \$ 1,438,143 |
| Receipts from interfund services provided | 3,485,477 | 1,811,279 | 5,296,756 |
| Payments to suppliers | (5,028,705) | (12,421) | (5,041,126) |
| Net Cash Provided (Used) by Operating Activities | <u>(105,085)</u> | <u>1,798,858</u> | <u>1,693,773</u> |
| Cash Flows From Noncapital Financing Activities: | | | |
| Transfer from other funds | 165,000 | - | 165,000 |
| Net Cash Provided by Noncapital Financing Activities | <u>165,000</u> | <u>-</u> | <u>165,000</u> |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Acquisition and construction of capital assets | - | (1,267,375) | (1,267,375) |
| Proceeds from sale of capital assets | - | 180,147 | 180,147 |
| Net Cash Used by Capital and Related Financing Activities | <u>-</u> | <u>(1,087,228)</u> | <u>(1,087,228)</u> |
| Cash Flows From Investing Activities: | | | |
| Purchases of investments | (2,522,524) | (788,932) | (3,311,456) |
| Investment maturities | 2,022,524 | 288,932 | 2,311,456 |
| Investment earnings received | 29,539 | 8,963 | 38,502 |
| Net Cash Used by Investing Activities | <u>(470,461)</u> | <u>(491,037)</u> | <u>(961,498)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (410,546) | 220,593 | (189,953) |
| Cash and Cash Equivalents - Beginning | 743,164 | 279,077 | 1,022,241 |
| Cash and Cash Equivalents - Ending | <u>\$ 332,618</u> | <u>\$ 499,670</u> | <u>\$ 832,288</u> |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating income | \$ 147,283 | \$ 111,790 | \$ 259,073 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation and amortization | - | 1,687,068 | 1,687,068 |
| (Decrease) in accounts/claims payable | (252,368) | - | (252,368) |
| Total Adjustments | <u>(252,368)</u> | <u>1,687,068</u> | <u>1,434,700</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (105,085)</u> | <u>\$ 1,798,858</u> | <u>\$ 1,693,773</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
WATER AND SEWER UTILITY ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | |
|----------------------------------|----------------------|
| Utility Collections: | |
| Payroll costs | \$ 649,551 |
| Supplies | 90,775 |
| Maintenance of equipment | 16,853 |
| Miscellaneous services | 113,539 |
| Total Utility Collections | <u>870,718</u> |
| Water/Sewer Utilities | |
| Payroll costs | 1,874,232 |
| Supplies | 254,862 |
| Maintenance of equipment | 927,749 |
| Miscellaneous services | 348,826 |
| Total Water/Sewer Utilities | <u>3,405,669</u> |
| Wastewater Treatment Plant: | |
| Payroll costs | 1,106,555 |
| Supplies | 248,228 |
| Maintenance of equipment | 195,835 |
| Miscellaneous services | 642,013 |
| Total Wastewater Treatment Plant | <u>2,192,631</u> |
| Water Production: | |
| Payroll costs | 77,579 |
| Supplies | 313,674 |
| Maintenance of equipment | 140,349 |
| Miscellaneous services | 1,407,292 |
| Total Water Production | <u>1,938,894</u> |
| Depreciation and amortization | 2,387,519 |
| General and administrative | 2,440,991 |
| Non-departmental | 964,302 |
| Total Operating Expenses | <u>\$ 14,200,724</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT
SOLID WASTE DISPOSAL ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | |
|-------------------------------|---------------------|
| Sanitation: | |
| Payroll costs | \$ 1,351,341 |
| Supplies | 454,653 |
| Maintenance of equipment | 274,774 |
| Miscellaneous services | 1,873,321 |
| Total Sanitation | <u>3,954,089</u> |
| Recycling: | |
| Payroll costs | 232,107 |
| Supplies | 48,518 |
| Maintenance of equipment | 44,302 |
| Miscellaneous services | 151,995 |
| Total Recycling | <u>476,922</u> |
| Depreciation and amortization | 124,401 |
| General and administrative | 1,899,140 |
| Non-departmental | 29,634 |
| Total Operating Expenses | <u>\$ 6,484,186</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGET AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|---------------------|---------------------|---------------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 3,052,312 | \$ 3,049,812 | \$ 3,052,878 | \$ 3,066 |
| Investment earnings | 8,000 | 11,000 | 25,496 | 14,496 |
| Total Revenues | <u>3,060,312</u> | <u>3,060,812</u> | <u>3,078,374</u> | <u>17,562</u> |
| Expenditures: | | | | |
| Debt service: | | | | |
| Principal: | | | | |
| 2007 general obligation bonds | 85,000 | 85,000 | 85,000 | - |
| 2007 certificates of obligation | 190,000 | 190,000 | 190,000 | - |
| 2009 certificates of obligation | 520,000 | 520,000 | 520,000 | - |
| 2010 general obligation refunding bonds | 1,165,000 | 1,165,000 | 1,165,000 | - |
| 2010 certificates of obligation | 380,000 | 380,000 | 380,000 | - |
| 2011 general obligation refunding bonds | 1,060,000 | 1,060,000 | 1,060,000 | - |
| 2012 certificates of obligation | 300,000 | 300,000 | 300,000 | - |
| 2013 certificates of obligation | 210,000 | 210,000 | 210,000 | - |
| 2014 general obligation refunding bonds | 440,000 | 440,000 | 440,000 | - |
| 2016 general obligation refunding bonds | 345,000 | 335,000 | 335,000 | - |
| Total Principal | <u>4,695,000</u> | <u>4,685,000</u> | <u>4,685,000</u> | <u>-</u> |
| Interest: | | | | |
| 2007 general obligation bonds | 3,528 | 3,528 | 3,527 | 1 |
| 2007 certificates of obligation | 8,550 | 8,550 | 8,550 | - |
| 2009 certificates of obligation | 307,285 | 307,285 | 307,285 | - |
| 2010 general obligation refunding bonds | 239,000 | 239,000 | 239,000 | - |
| 2010 certificates of obligation | 299,800 | 299,800 | 299,800 | - |
| 2011 general obligation refunding bonds | 123,300 | 123,300 | 123,300 | - |
| 2012 certificates of obligation | 118,688 | 118,688 | 118,688 | - |
| 2013 certificates of obligation | 137,158 | 137,158 | 137,158 | - |
| 2014 general obligation refunding bonds | 117,450 | 117,450 | 117,450 | - |
| 2015 general obligation refunding bonds | 145,750 | 145,750 | 145,750 | - |
| 2016 general obligation refunding bonds | 322,050 | 302,325 | 302,325 | - |
| Paying agent fees | 9,000 | 9,000 | 11,850 | (2,850) |
| Total Interest and Fiscal Charges | <u>1,831,559</u> | <u>1,811,834</u> | <u>1,814,683</u> | <u>(2,849)</u> |
| Bond issuance costs | - | - | 122,150 | (122,150) |
| Total Expenditures | <u>6,526,559</u> | <u>6,496,834</u> | <u>6,621,833</u> | <u>(124,999)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(3,466,247)</u> | <u>(3,436,022)</u> | <u>(3,543,459)</u> | <u>(107,437)</u> |
| Other Financing Sources (Uses): | | | | |
| Refunding bond proceeds | - | - | 9,355,000 | 9,355,000 |
| Refunding bond premium | - | - | 463,601 | 463,601 |
| Payment to refunded bond escrow agent | - | - | (9,689,996) | (9,689,996) |
| Transfers in | 3,304,867 | 3,836,405 | 3,836,405 | - |
| Total Other Financing Sources (Uses) | <u>3,304,867</u> | <u>3,836,405</u> | <u>3,965,010</u> | <u>128,605</u> |
| Net Change in Fund Balances | (161,380) | 400,383 | 421,551 | 21,168 |
| Fund Balances - Beginning | <u>1,406,542</u> | <u>1,406,542</u> | <u>1,406,542</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ 1,245,162</u> | <u>\$ 1,806,925</u> | <u>\$ 1,828,093</u> | <u>\$ 21,168</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
HOTEL/MOTEL TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|--------------------------------------|-------------------|------------------|------------------|------------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Other taxes | \$ 875,000 | \$ 950,000 | \$ 972,248 | \$ 22,248 |
| Charges for services | 211,875 | 196,490 | 203,307 | 6,817 |
| Intergovernmental | | | | - |
| Investment earnings | 200 | 200 | 217 | 17 |
| Other revenues | 75 | 75 | 60 | (15) |
| Total Revenues | <u>1,087,150</u> | <u>1,146,765</u> | <u>1,175,832</u> | <u>29,067</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | <u>1,177,598</u> | <u>1,220,386</u> | <u>1,214,443</u> | <u>5,943</u> |
| Total Expenditures | <u>1,177,598</u> | <u>1,220,386</u> | <u>1,214,443</u> | <u>5,943</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | <u>(90,448)</u> | <u>(73,621)</u> | <u>(38,611)</u> | <u>35,010</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Net Change in Fund Balances | 9,552 | 26,379 | 61,389 | 35,010 |
| Fund Balances - Beginning | <u>(15,584)</u> | <u>(15,584)</u> | <u>(15,584)</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ (6,032)</u> | <u>\$ 10,795</u> | <u>\$ 45,805</u> | <u>\$ 35,010</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
ZOO BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|--|---------------------|---------------------|---------------------|-------------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Charges for services | \$ 300,336 | \$ 326,110 | \$ 357,519 | \$ 31,409 |
| Investment earnings | 7,000 | 8,000 | 12,205 | 4,205 |
| Other revenues | 4,955 | 1,300 | 3,153 | 1,853 |
| Total Revenues | <u>312,291</u> | <u>335,410</u> | <u>372,877</u> | <u>37,467</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | 253,500 | 389,105 | 145,948 | 243,157 |
| Total Expenditures | <u>253,500</u> | <u>389,105</u> | <u>145,948</u> | <u>243,157</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>58,791</u> | <u>(53,695)</u> | <u>226,929</u> | <u>280,624</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers out | (28,599) | (28,599) | (28,599) | - |
| Total Other Financing Sources (Uses) | <u>(28,599)</u> | <u>(28,599)</u> | <u>(28,599)</u> | <u>-</u> |
| Net Change in Fund Balances | 30,192 | (82,294) | 198,330 | 280,624 |
| Fund Balances - Beginning | <u>1,418,823</u> | <u>1,418,823</u> | <u>1,418,823</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ 1,449,015</u> | <u>\$ 1,336,529</u> | <u>\$ 1,617,153</u> | <u>\$ 280,624</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
COURT SECURITY/TECHNOLOGY SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|-----------------------------|------------------|-----------|-----------|---------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Investment earnings | \$ - | \$ - | \$ 17 | \$ 17 |
| Other revenues | 40,000 | 40,000 | 28,073 | (11,927) |
| Total Revenues | 40,000 | 40,000 | 28,090 | (11,910) |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 37,955 | 25,311 | 21,452 | 3,859 |
| Total Expenditures | 37,955 | 25,311 | 21,452 | 3,859 |
| Net Change in Fund Balances | 2,045 | 14,689 | 6,638 | (8,051) |
| Fund Balances - Beginning | 14,213 | 14,213 | 14,213 | - |
| Fund Balances - Ending | \$ 16,258 | \$ 28,902 | \$ 20,851 | \$ (8,051) |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
SPECIAL RECREATION SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|--|-------------------|------------------|------------------|---|
| | ORIGINAL | FINAL | AMOUNTS | |
| Revenues: | | | | |
| Charges for services | \$ 478,555 | \$ 443,160 | \$ 408,782 | \$ (34,378) |
| Investment earnings | 400 | 600 | 945 | 345 |
| Intergovernmental | 7,000 | 8,500 | 4,500 | (4,000) |
| Total Revenues | <u>485,955</u> | <u>452,260</u> | <u>414,227</u> | <u>(38,033)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | 405,925 | 393,954 | 352,667 | 41,287 |
| Total Expenditures | <u>405,925</u> | <u>393,954</u> | <u>352,667</u> | <u>41,287</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>80,030</u> | <u>58,306</u> | <u>61,560</u> | <u>3,254</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 | 20,261 | (1,463) | 1,791 | 3,254 |
| Fund Balances - Beginning | <u>92,769</u> | <u>92,769</u> | <u>92,769</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ 113,030</u> | <u>\$ 91,306</u> | <u>\$ 94,560</u> | <u>\$ 3,254</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
ANIMAL CONTROL-KURTH GRANT SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|--|------------------|-----------|-----------|---------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Investment earnings | \$ 1,200 | \$ 1,200 | \$ 746 | \$ (454) |
| Other revenue | 145,000 | 90,000 | 96,711 | 6,711 |
| Total Revenues | 146,200 | 91,200 | 97,457 | 6,257 |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | - | - | - | - |
| Total Expenditures | - | - | - | - |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 146,200 | 91,200 | 97,457 | 6,257 |
| Other Financing Sources (Uses): | | | | |
| Transfers out | (145,000) | (145,000) | (145,000) | - |
| Total Other Financing Sources (Uses) | (145,000) | (145,000) | (145,000) | - |
| Net Change in Fund Balances | 1,200 | (53,800) | (47,543) | 6,257 |
| Fund Balances - Beginning | 105,462 | 105,462 | 105,462 | - |
| Fund Balances - Ending | \$ 106,662 | \$ 51,662 | \$ 57,919 | \$ 6,257 |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
ANIMAL'S ATTIC GIFT SHOP SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|--------------------------------------|------------------|-----------|-----------|---------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Investment earnings | \$ 150 | \$ 150 | \$ 337 | \$ 187 |
| Other revenues | 10,000 | 19,056 | 21,242 | 2,186 |
| Total Revenues | 10,150 | 19,206 | 21,579 | 2,373 |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | 20,590 | 29,646 | 16,864 | 12,782 |
| Total Expenditures | 20,590 | 29,646 | 16,864 | 12,782 |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | (10,440) | (10,440) | 4,715 | 15,155 |
| Other Financing Sources (Uses): | | | | |
| Transfers out | - | (5,000) | - | 5,000 |
| Total Other Financing Sources (Uses) | - | (5,000) | - | 5,000 |
| Net Change in Fund Balances | (10,440) | (10,440) | 4,715 | 15,155 |
| Fund Balances - Beginning | 38,764 | 38,764 | 38,764 | - |
| Fund Balances - Ending | \$ 28,324 | \$ 28,324 | \$ 43,479 | \$ 15,155 |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
PINES THEATER SPECIAL EVENTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|-------------------------------------|--------------------|--------------------|--------------------|-------------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Charges for services | \$ 172,463 | \$ 151,938 | \$ 139,108 | \$ (12,830) |
| Investment earnings | 100 | - | - | - |
| Other revenue | 300 | 503 | 562 | 59 |
| Total Revenues | <u>172,863</u> | <u>152,441</u> | <u>139,670</u> | <u>(12,771)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | 172,835 | 153,954 | 145,019 | 8,935 |
| Total Expenditures | <u>172,835</u> | <u>153,954</u> | <u>145,019</u> | <u>8,935</u> |
| Net Change in Fund Balances | 28 | (1,513) | (5,349) | (3,836) |
| Fund Balances - Beginning (deficit) | <u>(14,887)</u> | <u>(14,887)</u> | <u>(14,887)</u> | <u>-</u> |
| Fund Balances - Ending (deficit) | <u>\$ (14,859)</u> | <u>\$ (16,400)</u> | <u>\$ (20,236)</u> | <u>\$ (3,836)</u> |

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
MAIN STREET/DOWNTOWN DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | BUDGETED AMOUNTS | | ACTUAL | VARIANCE WITH |
|-----------------------------|------------------|-----------|-----------|---------------|
| | ORIGINAL | FINAL | AMOUNTS | FINAL BUDGET |
| | | | | POSITIVE |
| | | | | (NEGATIVE) |
| Revenues: | | | | |
| Investment earnings | \$ 50 | \$ 120 | \$ 213 | \$ 93 |
| Other revenue | 18,895 | 22,593 | 23,788 | 1,195 |
| Total Revenues | 18,945 | 22,713 | 24,001 | 1,288 |
| Expenditures: | | | | |
| Current: | | | | |
| Cultural and recreation | 17,700 | 17,700 | 17,326 | 374 |
| Total Expenditures | 17,700 | 17,700 | 17,326 | 374 |
| Net Change in Fund Balances | 1,245 | 5,013 | 6,675 | 1,662 |
| Fund Balances - Beginning | 27,933 | 27,933 | 27,933 | - |
| Fund Balances - Ending | \$ 29,178 | \$ 32,946 | \$ 34,608 | \$ 1,662 |

STATISTICAL SECTION

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

| | FISCAL YEAR | | | | | | | | | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Governmental Activities | | | | | | | | | | |
| Net investment in capital assets | \$ 60,323 | \$ 56,575 | \$ 51,434 | \$ 38,764 | \$ 43,330 | \$ 76,984 | \$ 30,728 | \$ 67,637 | \$ 63,259 | \$ 50,394 |
| Restricted | 2,488 | 2,263 | 5,016 | 6,604 | 7,133 | 5,789 | 8,564 | 3,019 | 3,857 | 3,155 |
| Unrestricted | (14,959) | (14,553) | (11,680) | 15,691 | 7,863 | (29,381) | 10,486 | (14,334) | (13,751) | 11,788 |
| Total Governmental Activities | <u>\$ 47,852</u> | <u>\$ 44,285</u> | <u>\$ 44,770</u> | <u>\$ 61,059</u> | <u>\$ 58,326</u> | <u>\$ 53,392</u> | <u>\$ 49,778</u> | <u>\$ 56,322</u> | <u>\$ 53,365</u> | <u>\$ 65,337</u> |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ 66,302 | \$ 67,655 | \$ 67,005 | \$ 67,260 | \$ 65,900 | \$ 31,354 | \$ 66,072 | \$ 55,837 | \$ 56,454 | \$ 44,884 |
| Restricted | 9,582 | 8,583 | 1,294 | 1,308 | 2,419 | 7,729 | 9,285 | 10,033 | 10,909 | 7,191 |
| Unrestricted | 5,543 | 6,946 | 14,873 | 16,603 | 14,075 | 45,344 | 8,060 | 7,151 | 7,159 | 8,362 |
| Total Business-Type Activities | <u>\$ 81,427</u> | <u>\$ 83,184</u> | <u>\$ 83,172</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> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 126,625 | \$ 124,230 | \$ 118,439 | \$ 106,024 | \$ 109,230 | \$ 108,339 | \$ 96,800 | \$ 96,800 | \$ 123,474 | \$ 119,713 |
| Restricted | 12,070 | 11,629 | 6,310 | 7,912 | 9,552 | 13,518 | 17,849 | 17,849 | 13,052 | 14,766 |
| Unrestricted | (9,416) | (8,390) | 3,193 | 32,294 | 21,938 | 15,963 | 18,546 | 18,546 | (7,183) | (6,592) |
| Total Primary Government | <u>\$ 129,279</u> | <u>\$ 127,469</u> | <u>\$ 127,942</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> |

Source: City of Lufkin accounting records.

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

| | FISCAL YEAR | | | | |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Expenses: | | | | | |
| Governmental Activities: | | | | | |
| General government | \$ 5,086 | \$ 4,509 | \$ 2,786 | \$ 1,789 | \$ 2,069 |
| Public safety | 20,990 | 21,465 | 19,892 | 20,712 | 20,204 |
| Cultural and recreation | 6,424 | 6,475 | 6,381 | 6,259 | 7,113 |
| Planning and community development | 455 | 528 | 97 | 487 | 359 |
| Public works | 5,717 | 5,447 | 1,678 | 3,368 | 4,285 |
| Interest and fiscal charges | 1,839 | 2,094 | 2,323 | 2,654 | 2,467 |
| Total Governmental Activities | <u>40,511</u> | <u>40,518</u> | <u>33,157</u> | <u>35,269</u> | <u>36,497</u> |
| Business-Type Activities: | | | | | |
| Water and sewer | 14,211 | 13,450 | 12,277 | 13,635 | 13,229 |
| Solid waste disposal | 6,484 | 6,247 | 5,751 | 5,882 | 5,477 |
| Total Business-Type Activities | <u>20,695</u> | <u>19,697</u> | <u>18,028</u> | <u>19,517</u> | <u>18,706</u> |
| Total Primary Government | <u>\$ 61,206</u> | <u>\$ 60,215</u> | <u>\$ 51,185</u> | <u>\$ 54,786</u> | <u>\$ 55,203</u> |
| Program Revenues: | | | | | |
| Governmental Activities: | | | | | |
| Charges for services: | | | | | |
| General government | \$ 2,452 | \$ 2,386 | \$ 2,940 | \$ 3,065 | \$ 4,896 |
| Public safety | 4,809 | 3,627 | 3,748 | 3,607 | 2,017 |
| Cultural and recreation | 1,109 | 1,091 | 1,311 | 1,285 | 1,293 |
| Planning and community development | 40 | 39 | - | - | 117 |
| Public works | 1,479 | 1,461 | - | - | 681 |
| Operating grants and contributions | 274 | 248 | 410 | - | - |
| Capital grants and contributions | (31) | 965 | 702 | - | - |
| Total Governmental Activities | <u>10,132</u> | <u>9,817</u> | <u>9,111</u> | <u>7,957</u> | <u>9,004</u> |
| Business-type activities: | | | | | |
| Charges for services: | | | | | |
| Water and sewer | 16,774 | 16,880 | 16,172 | 15,493 | 16,316 |
| Solid waste disposal | 6,646 | 6,236 | 6,374 | 6,221 | 6,137 |
| Capital grants and contributions | 3 | 104 | 102 | - | - |
| Total Business-Type Activities | <u>23,423</u> | <u>23,220</u> | <u>22,648</u> | <u>21,714</u> | <u>22,453</u> |
| Total Primary Government | <u>\$ 33,555</u> | <u>\$ 33,037</u> | <u>\$ 31,759</u> | <u>\$ 29,671</u> | <u>\$ 31,457</u> |
| Net (expense)/revenue: | | | | | |
| Governmental Activities | \$ (30,379) | \$ (30,701) | \$ (24,046) | \$ (27,312) | \$ (27,493) |
| Business-Type Activities | 2,728 | 3,523 | 4,620 | 2,197 | 3,747 |
| Total Primary Government | <u>\$ (27,651)</u> | <u>\$ (27,178)</u> | <u>\$ (19,426)</u> | <u>\$ (25,115)</u> | <u>\$ (23,746)</u> |
| General Revenues and Transfers: | | | | | |
| Governmental Activities: | | | | | |
| Taxes: | | | | | |
| Property taxes | \$ 10,713 | \$ 10,685 | \$ 10,802 | \$ 10,768 | \$ 9,535 |
| Sales taxes | 13,130 | 13,270 | 12,909 | 12,054 | 12,286 |
| Franchise taxes | 2,359 | 2,383 | 2,480 | 2,513 | 2,322 |
| Hotel tax | 972 | 1,151 | 926 | 877 | 1,171 |
| Other | 97 | 117 | 93 | 95 | 661 |
| Unrestricted investment earnings | 240 | 252 | 108 | 143 | 145 |
| Gain on retirement of capital assets | 25 | 75 | 98 | 94 | 471 |
| Miscellaneous revenues | 1,758 | 1,014 | 461 | 752 | - |
| Transfers | 4,652 | 3,723 | 4,023 | 253 | 5,835 |
| Total Governmental Activities | <u>33,946</u> | <u>32,670</u> | <u>31,900</u> | <u>27,549</u> | <u>32,426</u> |
| Business-Type Activities: | | | | | |
| Unrestricted investment earnings | 167 | 168 | 55 | 81 | 48 |
| Gain on retirement of capital assets | - | 43 | 35 | 57 | 7 |
| Miscellaneous revenues | - | - | - | 131 | - |
| Transfers | (4,652) | (3,723) | (4,023) | (253) | (5,835) |
| Total Business-Type Activities | <u>(4,485)</u> | <u>(3,512)</u> | <u>(3,933)</u> | <u>16</u> | <u>(5,780)</u> |
| Total Primary Government | <u>\$ 29,461</u> | <u>\$ 29,158</u> | <u>\$ 27,967</u> | <u>\$ 27,565</u> | <u>\$ 26,646</u> |
| Change in Net Position: | | | | | |
| Governmental Activities | \$ 3,567 | \$ 1,969 | \$ 7,854 | \$ 237 | \$ 4,933 |
| Business-type activities | (1,757) | 11 | 687 | 2,213 | (2,033) |
| Total Primary Government | <u>\$ 1,810</u> | <u>\$ 1,980</u> | <u>\$ 8,541</u> | <u>\$ 2,450</u> | <u>\$ 2,900</u> |

Source: City of Lufkin accounting records.

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

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

| FISCAL YEAR | PROPERTY TAXES | SALES TAXES | FRANCHISE TAXES | MIXED BEVERAGE TAXES | HOTEL TAXES | TOTAL |
|----------------|-------------------|----------------|--------------------|----------------------------|----------------|-----------|
| 2017 | \$ 10,713 | \$ 13,130 | \$ 2,359 | \$ 97 | \$ 972 | \$ 27,271 |
| 2016 | 10,685 | 13,270 | 2,383 | 117 | 1,151 | 27,606 |
| 2015 | 10,802 | 12,909 | 2,480 | 93 | 926 | 27,210 |
| 2014 | 10,768 | 12,055 | 2,513 | 94 | 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 |

Source: City of Lufkin accounting records

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

| | FISCAL YEAR | | | | | | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|-----------------|-----------------|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| General Fund: | | | | | | | | | | |
| Nonspendable | \$ 251 | \$ 214 | \$ 253 | \$ 249 | \$ 199 | \$ 212 | \$ 208 | \$ 218 | \$ 214 | \$ 146 |
| Restricted | - | - | - | - | - | - | 9 | - | - | - |
| Committed | 8,330 | 8,148 | 7,733 | 7,645 | 7,841 | 7,416 | 7,267 | 7,380 | 7,077 | 6,861 |
| Assigned | 704 | 428 | - | - | 398 | 720 | 774 | 1,353 | 711 | 884 |
| Unassigned | 1,158 | 1,690 | 3,183 | 2,411 | 1,190 | 1,343 | 3,207 | 2,297 | 3,791 | 3,410 |
| Total General Fund | <u>\$ 10,443</u> | <u>\$ 10,480</u> | <u>\$ 11,169</u> | <u>\$ 10,305</u> | <u>\$ 9,628</u> | <u>\$ 9,691</u> | <u>\$ 11,465</u> | <u>\$ 11,248</u> | <u>\$ 11,793</u> | <u>\$ 11,301</u> |
| All Other Governmental Funds: | | | | | | | | | | |
| Restricted: | | | | | | | | | | |
| Debt Service Fund | \$ 1,828 | \$ 1,407 | \$ 1,811 | \$ 1,991 | \$ 2,280 | \$ 2,022 | \$ 1,612 | \$ 983 | \$ 973 | \$ 1,582 |
| Special Revenue Funds | 368 | 217 | 309 | 484 | 440 | 155 | 594 | 583 | 736 | 687 |
| Capital Project Funds | 292 | 639 | 1,501 | 2,165 | 4,413 | 1,806 | 6,347 | 1,453 | 2,884 | 1,573 |
| Committed: | | | | | | | | | | |
| Special Revenue Funds | 212 | 49 | 1,786 | 92 | 104 | 1,789 | 1,698 | 1,648 | 1,507 | 1,384 |
| Capital Project Funds | 136 | 980 | | | | | | | | |
| Assigned: | | | | | | | | | | |
| Special Revenue Funds | <u>1,675</u> | <u>1,455</u> | <u>(52)</u> | <u>1,871</u> | <u>1,879</u> | <u>411</u> | <u>189</u> | <u>117</u> | <u>89</u> | <u>26</u> |
| Total All Other Governmental Funds | <u>\$ 4,511</u> | <u>\$ 4,747</u> | <u>\$ 5,355</u> | <u>\$ 6,603</u> | <u>\$ 9,116</u> | <u>\$ 6,183</u> | <u>\$ 10,440</u> | <u>\$ 4,784</u> | <u>\$ 6,189</u> | <u>\$ 5,252</u> |

Source: City of Lufkin accounting records

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

| | FISCAL YEAR | | | |
|---|-------------|------------|-----------|------------|
| | 2017 | 2016 | 2015 | 2014 |
| Revenues: | | | | |
| Taxes | \$ 27,328 | \$ 27,557 | \$ 26,816 | \$ 25,961 |
| Licenses and permits | 330 | 322 | 298 | 319 |
| Fines and forfeitures | 1,107 | 1,064 | 1,048 | 1,192 |
| Charges for services | 3,875 | 3,905 | 3,606 | 3,386 |
| Investment earnings | 146 | 110 | 90 | 127 |
| Intergovernmental | 4,473 | 5,353 | 5,126 | 6,577 |
| Other revenues | 1,560 | 1,039 | 875 | 1,063 |
| Total Revenues | 38,819 | 39,350 | 37,859 | 38,625 |
| Expenditures: | | | | |
| General government | 4,430 | 4,195 | 4,071 | 3,843 |
| Public safety | 19,711 | 19,543 | 18,726 | 18,177 |
| Cultural and recreation | 5,812 | 6,445 | 5,721 | 5,597 |
| Planning and community development | 429 | 421 | 390 | 431 |
| Public works | 5,221 | 4,788 | 4,345 | 4,570 |
| Debt service: | | | | |
| Principal | 4,685 | 4,535 | 5,054 | 5,010 |
| Interest and fiscal charges | 1,815 | 1,926 | 2,193 | 2,455 |
| Bond issuance costs | 122 | 233 | 131 | 104 |
| Capital outlay | 1,483 | 2,153 | 1,568 | 4,569 |
| Total Expenditures | 43,708 | 44,239 | 42,199 | 44,756 |
| Excess of Revenues Over (Under) Expenditures | (4,889) | (4,889) | (4,340) | (6,131) |
| Other Financing Sources (Uses): | | | | |
| Capital lease proceeds | - | - | - | - |
| Bond proceeds | - | - | 151 | 5,259 |
| Note proceeds | - | - | - | - |
| Refunding bonds proceeds | 9,355 | 9,080 | - | - |
| Loss on refunding | - | - | - | - |
| Refunding bond premium | 464 | 898 | - | - |
| Insurance recovery | - | - | - | - |
| Bonds/Certificates of Obligations issued | - | - | - | - |
| Payment to refunded bond escrow agent | (9,690) | (9,893) | - | - |
| Capital contributions | - | - | - | - |
| Transfers in | 4,941 | 4,956 | 4,191 | 4,717 |
| Transfers out | (454) | (1,450) | (725) | (5,681) |
| Total Other Financing Sources (Uses) | 4,616 | 3,591 | 3,617 | 4,295 |
| Net Change In Fund Balances | \$ (273) | \$ (1,298) | \$ (723) | \$ (1,836) |
| Debt service as a percentage of noncapital expenditures | 15.68% | 15.91% | 18.11% | 23.21% |

Source: City of Lufkin accounting records

| FISCAL YEAR | | | | | |
|-------------|------------|-----------|------------|-----------|------------|
| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| \$ 25,220 | \$ 24,983 | \$ 24,528 | \$ 23,985 | \$ 25,090 | \$ 24,203 |
| 287 | 285 | 292 | 241 | 343 | 387 |
| 1,186 | 1,157 | 1,213 | 1,020 | 1,233 | 1,018 |
| 3,227 | 2,945 | 3,022 | 3,112 | 3,082 | 2,710 |
| 141 | 174 | 242 | 131 | 481 | 796 |
| 4,992 | 4,211 | 4,999 | 4,719 | 5,103 | 7,099 |
| 1,174 | 1,353 | 523 | 629 | 740 | 1,472 |
| 36,227 | 35,108 | 34,819 | 33,837 | 36,072 | 37,685 |
| 3,522 | 3,903 | 3,888 | 4,295 | 3,539 | 4,686 |
| 17,148 | 16,881 | 16,721 | 16,172 | 15,829 | 17,357 |
| 5,410 | 5,056 | 4,770 | 4,748 | 4,765 | 4,480 |
| 473 | 437 | 376 | 377 | 314 | 324 |
| 4,575 | 4,494 | 4,546 | 4,825 | 7,638 | 5,889 |
| 4,334 | 13,758 | 6,572 | 3,949 | 4,409 | 4,141 |
| 2,448 | 2,451 | 2,678 | 2,776 | 1,871 | 2,002 |
| 100 | 174 | 382 | - | - | - |
| 6,107 | 6,787 | 5,611 | 2,172 | 1,421 | 7,177 |
| 44,117 | 53,941 | 45,544 | 39,314 | 39,786 | 46,056 |
| (7,890) | (18,833) | (10,725) | (5,477) | (3,714) | (8,371) |
| - | - | 140 | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 91 | - | 746 |
| - | 9,680 | 12,130 | - | - | - |
| - | (375) | (74) | - | - | - |
| 48 | 125 | 968 | - | - | - |
| - | 50 | 168 | 534 | - | - |
| 7,100 | - | 9,660 | - | 17,400 | - |
| - | - | - | - | - | - |
| - | - | - | - | - | 1,087 |
| 4,752 | 7,482 | 3,702 | 3,453 | 7,396 | 3,735 |
| (1,141) | (4,160) | (10,070) | (552) | (20,641) | (2,216) |
| 10,759 | 12,802 | 16,624 | 3,526 | 4,155 | 3,352 |
| \$ 2,869 | \$ (6,031) | \$ 5,899 | \$ (1,951) | \$ 441 | \$ (5,019) |
| 23.15% | 17.87% | 17.99% | 16.44% | 16.58% | 15.58% |

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

| <u>FISCAL YEAR</u> | <u>PROPERTY TAXES</u> | <u>SALES TAXES</u> | <u>FRANCHISE TAXES</u> | <u>MIXED BEVERAGE TAXES</u> | <u>HOTEL TAXES</u> | <u>TOTAL</u> |
|------------------------|---------------------------|------------------------|----------------------------|-------------------------------------|------------------------|--------------|
| 2017 | \$ 10,770 | \$ 13,130 | \$ 2,359 | \$ 97 | \$ 972 | \$ 27,328 |
| 2016 | 10,637 | 13,270 | 2,383 | 117 | 1,151 | 27,558 |
| 2015 | 10,408 | 12,909 | 2,480 | 93 | 926 | 26,816 |
| 2014 | 10,422 | 12,055 | 2,513 | 94 | 877 | 25,961 |
| 2013 | 9,894 | 12,286 | 2,322 | 57 | 661 | 25,220 |
| 2012 | 9,867 | 11,841 | 2,388 | 78 | 809 | 24,983 |
| 2011 | 9,813 | 11,350 | 2,423 | 95 | 848 | 24,529 |
| 2010 | 9,918 | 10,949 | 2,262 | 90 | 766 | 23,985 |
| 2009 | 9,972 | 11,438 | 2,795 | 92 | 792 | 25,089 |
| 2008 | 9,360 | 11,122 | 2,851 | 86 | 784 | 24,203 |

Source: City of Lufkin accounting records

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

| FISCAL YEAR | TAX RATE | | | | # OF OUTLETS | | SALES INFORMATION | | | |
|----------------|-----------------|--------------------------------|--|---------------|--------------------|---------------------------|---------------------------|-----------------------------|-------------------------------------|---|
| | REGULAR RATE | PROPERTY TAX RELIEF RATE | ECONOMIC/ INDUSTRIAL DEV SEC 4B RATE | TOTAL RATE | AVERAGE OUTLETS | % CHANGE PRIOR YEAR | GROSS SALES (000's) | TAXABLE SALES (000's) | % CHANGE PRIOR YEAR TAX SALES | TAXABLE SALES AS % OF GROSS SALES |
| 2017 | 1.000% | 0.375% | 0.125% | 1.500% | 1,641 | 0.29% | \$ 3,006,669 | \$ 844,194 | (2.88)% | 28.08% |
| 2016 | 1.000% | 0.375% | 0.125% | 1.500% | 1,636 | 2.47% | 3,298,349 | 869,218 | 0.62% | 26.35% |
| 2015 | 1.000% | 0.375% | 0.125% | 1.500% | 1,596 | 5.80% | 3,200,576 | 863,900 | (0.41)% | 26.99% |
| 2014 | 1.000% | 0.375% | 0.125% | 1.500% | 1,509 | (1.54)% | 3,299,928 | 867,456 | 4.67% | 26.29% |
| 2013 | 1.000% | 0.375% | 0.125% | 1.500% | 1,532 | 1.39% | 3,134,183 | 828,784 | 4.99% | 26.44% |
| 2012 | 1.000% | 0.375% | 0.125% | 1.500% | 1,511 | 3.07% | 2,995,077 | 789,429 | 5.75% | 26.36% |
| 2011 | 1.000% | 0.375% | 0.125% | 1.500% | 1,466 | 0.94% | 2,928,866 | 746,515 | 2.00% | 25.49% |
| 2010 | 1.000% | 0.375% | 0.125% | 1.500% | 1,453 | 2.66% | 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% |

TAXABLE SALES BY INDUSTRY
LAST TEN FISCAL YEARS

| FISCAL YEAR | TAXABLE SALES BY INDUSTRY | | | | | | MISC ⁽¹⁾ (000's) |
|----------------|---------------------------|----------------------------|--|-------------------------------|------------------------|-----------|--------------------------------|
| | MANUFACTURING (000's) | RETAIL TRADE (000's) | ACCOMMODATION FOOD SERVICE (000's) | WHOLESALE TRADE (000's) | INFORMATION (000's) | | |
| 2017 | \$ 20,768 | \$ 495,452 | \$ 132,118 | \$ 41,734 | \$ 63,598 | \$ 90,523 | |
| 2016 | 25,236 | 506,108 | 130,113 | 51,875 | 67,801 | 88,087 | |
| 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 | |

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

Source: Texas Comptroller Public Accounts website

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

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| FISCAL YEAR | 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 | MINERALS | | | | | |
| 2017 | \$ 740,765 | \$ 974,620 | \$ 533,422 | \$ - | \$ 197,027 | \$ 2,051,780 | 0.52994 | \$ 2,248,907 | 91.23% |
| 2016 | 768,569 | 936,793 | 568,133 | - | 224,415 | 2,049,080 | 0.52380 | 2,273,494 | 90.13% |
| 2015 | 758,004 | 935,930 | 533,785 | - | 214,697 | 2,013,023 | 0.52380 | 2,227,720 | 90.36% |
| 2014 | 764,341 | 927,495 | 550,627 | - | 227,004 | 2,015,459 | 0.05038 | 2,242,462 | 89.88% |
| 2013 | 773,305 | 883,472 | 541,395 | - | 208,709 | 1,989,464 | 0.05038 | 2,198,174 | 90.51% |
| 2012 | 776,165 | 875,537 | 512,846 | - | 201,141 | 1,936,207 | 0.05138 | 2,164,348 | 89.46% |
| 2011 | 787,785 | 881,832 | 466,059 | - | 198,699 | 1,936,977 | 0.05138 | 2,135,676 | 90.70% |
| 2010 | 736,618 | 848,592 | 500,690 | - | 200,075 | 1,885,825 | 0.05338 | 2,085,900 | 90.41% |
| 2009 | 702,468 | 768,224 | 496,381 | 4 | 163,968 | 1,803,109 | 0.05554 | 1,967,077 | 91.66% |
| 2008 | 658,775 | 692,076 | 505,176 | 15 | 151,349 | 1,704,693 | 0.05554 | 1,856,042 | 91.85% |

Source: Angelina County Appraisal District

**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 MILLAGE | DEBT SERVICE MILLAGE | TOTAL CITY MILLAGE | OPERATING MILLAGE | DEBT SERVICE MILLAGE | TOTAL SCHOOL MILLAGE | |
| 2017 | 0.37994 | 0.15000 | 0.52994 | 1.17000 | 0.04300 | 1.21300 | |
| 2016 | 0.37380 | 0.15000 | 0.52380 | 1.17000 | 0.04300 | 1.21300 | |
| 2015 | 0.36380 | 0.16000 | 0.52380 | 1.04000 | 0.17300 | 1.21300 | |
| 2014 | 0.33380 | 0.17000 | 0.50380 | 1.04000 | 0.16700 | 1.20700 | |
| 2013 | 0.33380 | 0.17000 | 0.50380 | 1.04000 | 0.17000 | 1.21000 | |
| 2012 | 0.33380 | 0.18000 | 0.51380 | 1.04000 | 0.16500 | 1.20500 | |
| 2011 | 0.33380 | 0.18000 | 0.51380 | 1.04000 | 0.16000 | 1.20000 | |
| 2010 | 0.33160 | 0.20220 | 0.53380 | 1.04000 | 0.17200 | 1.21200 | |
| 2009 | 0.35320 | 0.20220 | 0.55540 | 1.04000 | 0.11300 | 1.15300 | |
| 2008 | 0.35320 | 0.20220 | 0.55540 | 1.04000 | 0.07000 | 1.11000 | |
| FISCAL YEAR | ANGELINA COUNTY | | | ANGELINA COLLEGE | | | TOTAL ESTIMATED MILLAGE |
| | OPERATING MILLAGE | DEBT SERVICE MILLAGE | TOTAL COUNTY MILLAGE | OPERATING MILLAGE | DEBT SERVICE MILLAGE | TOTAL COLLEGE MILLAGE | |
| 2017 | 0.44081 | 0.02104 | 0.46185 | 0.13496 | 0.04420 | 0.17916 | 2.38395 |
| 2016 | 0.41400 | 0.04229 | 0.45629 | 0.12744 | 0.04446 | 0.17190 | 2.36499 |
| 2015 | 0.42160 | 0.04380 | 0.46540 | 0.12610 | 0.04580 | 0.17190 | 2.37410 |
| 2014 | 0.42300 | 0.04390 | 0.46690 | 0.12240 | 0.04828 | 0.17068 | 2.34838 |
| 2013 | 0.41630 | 0.04560 | 0.46190 | 0.12240 | 0.04828 | 0.17068 | 2.34638 |
| 2012 | 0.41930 | 0.03290 | 0.45220 | 0.11880 | 0.04820 | 0.16700 | 2.33800 |
| 2011 | 0.40380 | 0.04370 | 0.44750 | 0.11000 | 0.04900 | 0.15900 | 2.32030 |
| 2010 | 0.38940 | 0.04340 | 0.43280 | 0.10350 | 0.05170 | 0.15520 | 2.33380 |
| 2009 | 0.38940 | 0.04340 | 0.43280 | 0.10350 | 0.05170 | 0.15520 | 2.29640 |
| 2008 | 0.46120 | - | 0.46120 | 0.10180 | 0.03570 | 0.13750 | 2.26410 |

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

CITY OF LUFKIN, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts expressed in thousands)

| TAXPAYER | 2017 | | | 2008 | | |
|-----------------------------------|------------------------------|------|--|------------------------------|------|--|
| | TAXABLE ASSESSED VALUE | RANK | PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE | TAXABLE ASSESSED VALUE | RANK | PERCENTAGE OF TOTAL TAXABLE ASSESSED VALUE |
| Lufkin Industries | \$ 31,354 | 1 | 1.53% | \$ 62,961 | 1 | 3.69% |
| Brookshire Brothers Inc. | 26,305 | 2 | 1.28% | 28,427 | 3 | 1.67% |
| Consolidated Comm of Texas Co | 22,965 | 3 | 1.14% | 29,087 | 2 | 1.71% |
| Oncor Electric Delivery Co | 22,875 | 4 | 1.13% | 22,997 | 4 | 1.35% |
| Pilgrim Industries | 22,691 | 5 | 1.14% | 20,925 | 5 | 1.23% |
| Georgia Pacific Chemicals | 16,726 | 6 | 0.86% | 14,192 | 10 | 0.83% |
| Lufkin GKD Partners LP | 14,846 | 7 | 0.77% | 15,244 | 9 | 0.89% |
| Pineywoods Health Care Systems LP | 13,698 | 8 | 0.73% | 20,236 | 6 | 1.19% |
| BVMC Lufkin LLC | 13,000 | 9 | 0.72% | | - | |
| Piney Woods Healthcare Systems LP | 12,582 | 10 | 0.74% | 18,750 | 7 | 1.10% |
| Texas Foundries | | - | | 17,350 | 8 | 1.02% |

Source: Angelina County Appraisal District

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 |
| 2017 | \$ 10,615 | \$ 10,428 | 98.24% | \$ 114 | \$ 10,542 | 99.31% |
| 2016 | 10,552 | 10,307 | 97.68% | 239 | 10,546 | 99.94% |
| 2015 | 10,311 | 10,103 | 97.97% | 102 | 10,205 | 98.97% |
| 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% |

Source: Angelina County Tax Assessor's Office

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

| FISCAL YEAR | GOVERNMENTAL ACTIVITIES | | | | BUSINESS-TYPE ACTIVITIES | | | TOTAL PRIMARY GOVERNMENT | PERCENTAGE OF PERSONAL INCOME ¹ | PER CAPITA ¹ |
|----------------|--------------------------------|----------------------------------|-------------------|------------------|--|------------------|-------------------|--------------------------------|--|----------------------------|
| | GENERAL OBLIGATION BONDS | CERTIFICATES OF OBLIGATION | CAPITAL LEASES | NOTES PAYABLE | WATER WORKS AND SEWER SYSTEM BONDS | NOTES PAYABLE | CAPITAL LEASES | | | |
| 2017 | \$ 36,830 | \$ 15,215 | \$ - | \$ - | \$ - | \$ 15 | \$ - | \$ 52,060 | 6.35% | 1,439.75 |
| 2016 | 30,560 | 26,040 | - | - | - | 22 | - | 56,622 | 6.72% | 1,558.42 |
| 2015 | 26,460 | 34,985 | - | - | - | 29 | - | 61,474 | 8.03% | 1,700.95 |
| 2014 | 21,670 | 44,425 | - | - | - | 48 | - | 66,143 | 8.65% | 1,832.98 |
| 2013 | 24,430 | 41,400 | - | 147 | 1,070 | 66 | - | 67,113 | 8.53% | 1,863.78 |
| 2012 | 27,085 | 35,800 | - | 364 | 1,135 | 83 | - | 64,467 | 8.95% | 1,819.82 |
| 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 |

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

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

| <u>FISCAL YEAR</u> | <u>GENERAL OBLIGATION BONDS</u> | <u>LESS: AMOUNTS AVAILABLE IN DEBT SERVICE FUND</u> | <u>TOTAL</u> | <u>PERCENTAGE OF ESTIMATED ACTUAL TAXABLE VALUE ¹ OF PROPERTY</u> | <u>PER CAPITA ²</u> |
|------------------------|---|---|--------------|--|------------------------------------|
| 2017 | \$ 36,830 | \$ 1,828 | \$ 35,002 | 1.56% | 968.00 |
| 2016 | 30,560 | 1,407 | 29,153 | 1.28% | 802.38 |
| 2015 | 26,480 | 1,811 | 24,669 | 1.11% | 682.58 |
| 2014 | 21,670 | 1,991 | 19,679 | 0.88% | 545.35 |
| 2013 | 24,430 | 2,280 | 22,150 | 1.01% | 615.12 |
| 2012 | 27,085 | 2,022 | 25,063 | 1.16% | 707.49 |
| 2011 | 24,100 | 1,612 | 22,488 | 1.05% | 641.29 |
| 2010 | 13,990 | 984 | 13,006 | 0.62% | 360.09 |
| 2009 | 15,825 | 973 | 14,852 | 0.76% | 430.12 |
| 2008 | 18,185 | 1,582 | 16,603 | 0.89% | 486.59 |

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

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

CITY OF LUFKIN, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
SEPTEMBER 30, 2017
(amounts expressed in thousands)

| GOVERNMENTAL UNIT | DEBT OUTSTANDING | ESTIMATED PERCENTAGE APPLICABLE ¹ | ESTIMATED SHARE OF OVERLAPPING DEBT |
|------------------------------------|---------------------|--|--|
| Direct: | | | |
| City of Lufkin | \$ 52,045 | 100.00% | \$ 52,045 |
| Overlapping: | | | |
| Angelina County | 4,180 | 50.77% | 2,122 |
| Angelina College | 15,110 | 50.14% | 7,576 |
| Hudson Independent School District | 16,818 | 14.17% | 2,383 |
| Lufkin Independent School District | 45,837 | 80.07% | 36,702 |
| Total Overlapping | 81,945 | | 48,783 |
| Total Direct and Overlapping Debt | \$ 133,990 | | \$ 100,828 |

Sources: Angelina County, Angelina College, Hudson ISD and Lufkin ISD.

Assessed value data used to estimate applicable percentages provided by Tax Assessor-Collector and Appraisal District.

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

CITY OF LUFKIN, TEXAS
LEGAL DEBT MARGIN INFORMATION
SEPTEMBER 30, 2017

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 at September 30, 2017 is \$ 0.529942 per \$100 of assessed valuation with assessed valuation being 100% of appraised value.

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 ¹</u> | <u>NET AVAILABLE REVENUE</u> | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>COVERAGE</u> |
|------------------------|--|--|--------------------------------------|------------------|-----------------|-----------------|
| 2017 | 16,879 | 11,813 | 5,066 | - | - | - |
| 2016 | 17,025 | 11,075 | 5,950 | - | - | - |
| 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 |

¹ Excludes depreciation

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

| 139 | FISCAL YEAR | POPULATION ¹ | PERSONAL INCOME ¹ (AMOUNTS EXPRESSED IN THOUSANDS) | PER CAPITA PERSONAL INCOME | MEDIAN AGE | EDUCATION LEVEL IN YEARS OF FORMAL SCHOOLING | SCHOOL ENROLLMENT ² | UNEMPLOYMENT RATE ¹ |
|-----|----------------|-------------------------|---|-------------------------------|---------------|--|-----------------------------------|-----------------------------------|
| | 2017 | 36,159 | 820,484 | 22.69 | 34.0 | 13.1 | 8,176 | 4.6 |
| | 2016 | 36,333 | 842,054 | 23.18 | 34.0 | 13.1 | 8,348 | 6.4 |
| | 2015 | 36,141 | 765,611 | 21.18 | 34.0 | 13.1 | 8,271 | 3.8 |
| | 2014 | 36,085 | 764,425 | 21.18 | 34.0 | 13.1 | 8,271 | 3.8 |
| | 2013 | 36,009 | 787,013 | 21.86 | 35.4 | 13.1 | 8,325 | 7.1 |
| | 2012 | 35,425 | 720,580 | 20.34 | 34.0 | 13.1 | 8,448 | 7.2 |
| | 2011 | 35,067 | 713,298 | 20.34 | 34.0 | 13.1 | 8,514 | 8.5 |
| | 2010 | 36,119 | 673,836 | 18.66 | 35.8 | 13.1 | 8,540 | 7.9 |
| | 2009 | 34,530 | 709,056 | 20.53 | 35.5 | 13.1 | 8,656 | 8.7 |
| | 2008 | 34,121 | 721,659 | 21.15 | 35.3 | 13.1 | 8,514 | 4.6 |

Data Sources

¹ Texas Workforce Solutions

² 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.

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

| EMPLOYER | 2017 | | | 2012 | | |
|--------------------------------------|-----------|------|---|-----------|------|---|
| | EMPLOYEES | RANK | PERCENTAGE OF TOTAL CITY EMPLOYMENT | EMPLOYEES | RANK | PERCENTAGE OF TOTAL CITY EMPLOYMENT |
| Lufkin ISD | 1000+ | 1 | 4.26% | 1000+ | 1 | 3.80% |
| Pilgrim's Pride | 1000+ | 2 | 3.60% | 1000+ | 2 | 3.72% |
| Brookshire Brothers/Polk Oil | 1000+ | 3 | 3.05% | 1000+ | 4 | 3.54% |
| Lufkin State Supported Living Center | 1000+ | 4 | 3.05% | 1000+ | 5 | 2.87% |
| CHI St. Lukes Health | 1000+ | 5 | 3.10% | - | - | |
| Woodland Heights Medical Center | 500-999 | 6 | 1.57% | 500-999 | 9 | 1.27% |
| Georgia Pacific | 500-999 | 7 | 1.51% | - | - | |
| City of Lufkin | 400-500 | 8 | 1.27% | 500-999 | 10 | 1.11% |
| Walmart | 400-500 | 9 | 1.25% | 50-999 | 8 | 1.33% |
| Lufkin Industries | - | - | | 1000+ | 3 | 4.42% |
| Memorial Health Systems | - | - | | 1000+ | 6 | 2.84% |
| Temple-Inland | - | - | | 500-599 | 7 | 1.40% |

Source: Lufkin Economic Development

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

| FUNCTION | FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30, | | | | | | | | | |
|-------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| General government | 32 | 31 | 31 | 27 | 27 | 26 | 26 | 27 | 22 | 22 |
| Public Safety: | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Officers | 77 | 79 | 78 | 76 | 76 | 76 | 76 | 76 | 76 | 76 |
| Civilians | 49 | 39 | 37 | 39 | 39 | 41 | 40 | 40 | 39 | 39 |
| Fire: | | | | | | | | | | |
| Officers | 79 | 79 | 79 | 79 | 79 | 79 | 79 | 78 | 77 | 77 |
| Civilians | 1 | 2 | 2 | 2 | 2 | 2 | 4 | 5 | 5 | 5 |
| Cultural and recreation | 69 | 69 | 69 | 67 | 66 | 64 | 61 | 61 | 58 | 58 |
| Community development | 10 | 10 | 10 | 11 | 11 | 11 | 10 | 10 | 7 | 7 |
| Public works | 50 | 58 | 58 | 58 | 58 | 57 | 57 | 58 | 56 | 56 |
| Water | 33 | 33 | 33 | 33 | 33 | 33 | 31 | 31 | 33 | 33 |
| Sewer | 38 | 37 | 38 | 38 | 38 | 38 | 40 | 40 | 42 | 42 |
| Solid waste | 33 | 33 | 33 | 34 | 34 | 33 | 33 | 33 | 36 | 36 |
| Total | <u>471</u> | <u>470</u> | <u>468</u> | <u>464</u> | <u>463</u> | <u>460</u> | <u>457</u> | <u>459</u> | <u>451</u> | <u>451</u> |

Source: City of Lufkin Budget Document

Note: Beginning FY 2017- Inspections Dept was added to Public Safety.

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

| Function | FISCAL YEAR | | | | | | | | | |
|--|-------------|--------|--------|--------|--------|--------|--------|--------|-------|--------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Police | | | | | | | | | | |
| Physical arrests | 1,678 | 1,534 | 1,589 | 1,779 | 1,770 | 1,663 | 1,995 | 1,913 | 2,021 | 1,534 |
| Parking violations | 199 | 37 | 25 | 178 | 26 | 44 | 533 | 857 | 808 | 37 |
| Traffic violations | 6,892 | 5,905 | 6,708 | 9,481 | 8,401 | 10,793 | 12,298 | 12,136 | 9,803 | 5,905 |
| Fire | | | | | | | | | | |
| Number of calls answered ⁽¹⁾ | 11,972 | 12,975 | 13,181 | 12,465 | 11,969 | 8,283 | 2,546 | 1,201 | 1,238 | 12,975 |
| Inspections | 276 | 517 | 337 | 375 | 458 | 672 | 314 | 426 | 1,041 | 517 |
| Highways and streets | | | | | | | | | | |
| Street resurfacing (miles) | 5.02 | 3.75 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 3.75 |
| Potholes repaired | 625 | 525 | 661 | 568 | 580 | 617 | 948 | 1,977 | 1,809 | 525 |
| Sanitation | | | | | | | | | | |
| Refuse collected (cu yd/day) | 511 | 510 | 417 | 511 | 407 | 564 | 707 | 705 | 714 | 510 |
| Recyclables collected (tons/day) | 12 | 12 | 12 | 12 | 12 | 11 | 11 | 10 | 9 | 12 |
| Cultural and recreation | | | | | | | | | | |
| Community center rentals | 242 | 242 | 242 | 283 | 252 | 253 | 491 | 233 | 466 | 242 |
| Water | | | | | | | | | | |
| New connections | 118 | 59 | 125 | 27 | 110 | 136 | 107 | 102 | 95 | 59 |
| Water mains breaks | 599 | 475 | 460 | 414 | 465 | 456 | 598 | 647 | 635 | 475 |
| Average daily consumption (thousands of gallons) | 11,460 | 11,910 | 10,571 | 7,354 | 6,192 | 7,649 | 8,540 | 7,459 | 7,825 | 11,910 |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 5,474 | 5,667 | 4,964 | 5,175 | 5,463 | 5,226 | 4,959 | 5,251 | 5,999 | 5,667 |

Source: Various city departments

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

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

| FUNCTION | FISCAL YEAR | | | | | | | | | |
|--|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Public Safety: | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 |
| Patrol units | 22 | 22 | 22 | 22 | 19 | 20 | 19 | 19 | 19 | 19 |
| Fire: | | | | | | | | | | |
| Fire stations | 4 | 4 | 4 | 5 | 5 | 5 | 4 | 5 | 5 | 5 |
| Sanitation: | | | | | | | | | | |
| Collection trucks | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Highways and Streets: | | | | | | | | | | |
| Streets (miles) | 211.4 | 211.4 | 211.4 | 211.4 | 208.8 | 208.8 | 208.9 | 282.6 | 282.4 | 281.6 |
| Streetlights | 3,649 | 3,649 | 3,649 | 3,649 | 3,649 | 3,649 | 3,641 | 3,626 | 3,604 | 3,642 |
| Traffic signals | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 2 |
| Cultural and Recreation: | | | | | | | | | | |
| Parks acreage | 650.0 | 650.0 | 650.0 | 653.0 | 653.0 | 653.0 | 655.0 | 659.9 | 653.0 | 653.0 |
| Parks | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 16 |
| Swimming pools | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tennis courts | 11 | 11 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| Community centers | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 |
| Water: | | | | | | | | | | |
| Water mains (miles) | 697 | 694 | 685 | 685 | 685 | 685 | 685 | 679 | 679 | 679 |
| Fire hydrants | 1,931 | 1,770 | 1,770 | 1,770 | 1,759 | 1,758 | 1,694 | 1,648 | 1,640 | 1,536 |
| 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) | 276.0 | 273.5 | 272.7 | 272.7 | 272.5 | 270.8 | 270.8 | 269.9 | 269.5 | 268.7 |
| Storm sewers (miles) | 17.0 | 17.0 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.7 | 16.5 | 16.5 |
| Maximum daily treatment capacity in thousands of gallons | 11,300 | 11,300 | 11,300 | 11,300 | 11,300 | 17,100 | 17,100 | 17,100 | 11,300 | 11,300 |

Sources: Various city departments.

CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Approved Rates

The monthly billing rates for water, sewer, and sanitation services as approved by the City Council effective October 1, 2016 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 | 5.8 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 |

CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 (1 ½) 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.

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 Stops at 20,000 |
| 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.

**CITY OF LUFKIN, TEXAS
WATER, SEWER AND SANITATION RATES - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Commercial and Industrial Users Rates:

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

$$\text{User charge} = C_c + V (C_v + (C_b \times \text{BOD}) + (C_s \times \text{TSS}))$$

Where: C_c = Customer charge, \$ 11.99

V = Metered water use or measured wastewater discharge, 1,000 gallons

C_v = User charge for volume per 1,000 gallons

C_b = User charge for BOD per mg/1 X 1,000 gallons

BOD = Biochemical oxygen demand, mg/1

C_s = User charge for TSS per mg/1 X 1,000 gallons

TSS = Total suspended solids, mg/1

$$\text{Formula: } 11.99 + V (2.36 + (.004 \times \text{BOD}) + (.00226 \times \text{TSS}))$$

Sanitation Rates:

| | | |
|----------------------|----------|------------------------------|
| Residential: | \$ 15.48 | 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, 2017:</u> | <u>Water</u> | <u>Sewer</u> |
|-------------------------------|---------------|--------------|
| Number of metered customers | 15,515 | 12,549 |
| Gallons of water pumped | 2,598,999,000 | - |
| Gallons of water sold | 2,116,199,620 | - |

**CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| 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 | 10-1-16 to | 3,000,000 |
| | Deductible | 9-30-17 | 2,500 |
| | Auto Liability | 10-1-16 to | 1,000,000 |
| | Deductible | 9-30-17 | 500 |
| | Law Enforcement Liability | 10-1-16 to | 1,000,000 |
| | Deductible | 9-30-17 | 10,000 |
| | Errors and Omissions Liability | 10-1-16 to | 1,000,000 |
| | Deductible | 9-30-17 | 10,000 |
| | General Liability | 10-1-16 to | 1,000,000 |
| | Deductible | 9-30-17 | 10,000 |
| | Real and Personal | 10-1-16 to | |
| | Deductible | 9-30-17 | 2,500 |
| | City Hall/Police | | 7,470,171 |
| | City Hall/Police contents | | 1,529,004 |
| | Civic Center | | 10,317,014 |
| | Civic Center contents | | 1,400,000 |
| | City Hall Annex | | 425,672 |
| | City Hall Annex contents | | 25,000 |
| | Fine Arts | | 503,450 |
| | Sewer Treatment Plant | | 820,146 |
| | Recycling Building | | 660,149 |
| | Recycling Building contents | | 500,000 |
| | Wastewater Administration Building | | 383,842 |
| | Administration Building contents-WW | | 50,000 |
| | Waterworks Plants/Buildings | | 996,349 |
| | Sewer Treatment Buildings | | 518,778 |
| | Solid Waste Building | | 548,049 |
| | Solid Waste Building contents | | 680,000 |
| | Fleet Office/Maint Shop/Extras | | 1,376,038 |
| | Animal Control | | 999,151 |
| | Animal Control contents | | 155,000 |
| | Kurth Memorial Library | | 6,873,442 |
| | Kurth Memorial Library contents | | 3,000,000 |
| | Police Radio Antenna | | 103,797 |
| | Animal Control Barn | | 34,149 |
| | Animal Control contents | | 45,000 |
| | Computer Equipment | | 2,500,000 |
| | Community Center Building - Keltys | | 244,961 |
| | Community Center Building - Keltys - contents | | 6,000 |
| | Community Center Building - Pershing | | 262,918 |
| | Community Center Building - Pershing contents | | 6,000 |
| | Downtown Center | | 1,280,025 |
| | Downtown Center contents | | 33,000 |
| | Fire Station 1 | | 685,268 |
| | Fire Station 1 contents | | 115,000 |

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| INSURER | RISK COVERED | PERIOD COVERED | AMOUNT OF INSURANCE |
|---------|---|----------------|---------------------|
| | Fire Station 2 | | 5,413,225 |
| | Fire Station 2 contents | | 29,600 |
| | Fire Station 3 | | 1,723,758 |
| | Fire Station 3 contents | | 125,000 |
| | Fire Station 4 | | 1,028,837 |
| | Fire Station 4 contents | | 124,000 |
| | Fire Station 5 | | 1,270,169 |
| | Fire Station 5 contents | | 100,000 |
| | Fire Station-1112 Atkinson (bldg & content) | | 348,309 |
| | Fire Communication Tower -Trailwood Blvd | | 48,369 |
| | Fire Station 5-Poles & Sign | | 15,172 |
| | Ellis Ave Bldg Police | | 304,333 |
| | Ellis Ave Building contents | | 80,000 |
| | Southbase Police Office- contents | | 80,000 |
| | Small Animal Building - Zoo | | 313,467 |
| | Small Animal Building - Zoo (Content) | | 50,000 |
| | Entrance Gift/Food Concession Zoo | | 106,496 |
| | Entrance Gift/Food Concession Content | | 75,000 |
| | Hippo Pool Zoo | | 103,797 |
| | Large Cat Exhibit Zoo | | 111,997 |
| | Large Cat Exhibit Zoo Content | | 3,500 |
| | Office/Residence Zoo | | 124,556 |
| | Office/Residence Zoo Content | | 8,000 |
| | Clinic/Isolation Zoo | | 112,205 |
| | Clinic/Isolation Zoo Content | | 110,000 |
| | Necropsy/Freezer Zoo | | 59,787 |
| | Necropsy/Freezer Zoo Content | | 35,000 |
| | Giraffe/Rhino Exhibit Zoo | | 165,868 |
| | Giraffe/Rhino Exhibit Zoo Content | | 15,000 |
| | Admissions/Restroom | | 137,739 |
| | Admissions/Restroom Content | | 8,000 |
| | Entrance Cover/Zoo Circle | | 3,633 |
| | Hippoquarium Building | | 100,476 |
| | Hippoquarium Building Content | | 20,000 |
| | Zoo-Front Entrance | | 14,352 |
| | Old City Hall 210 E. Lufkin Ave. | | 686,306 |
| | Offices/3Bay Garage | | 433,249 |
| | Offices/3bay Garage Content | | 300,000 |
| | Spray Play/Canopy/Sail | | 33,215 |
| | Spray Play - Chambers | | 105,873 |
| | Spray Play - Kiwanis | | 105,873 |
| | Spray Play - Jones Park | | 105,873 |
| | Basketball Court and Light Fixture | | 561,335 |
| | Concession/Restroom/MTC/Pavilion | | 341,908 |
| | Concession/Restroom - contents | | 50,000 |
| | (8 Fields) of Light Poles | | 830,377 |
| | Concession- Windsor | | 71,205 |
| | (5 Fields) of Lights | | 518,985 |
| | Parking Lot Lights | | 103,797 |
| | Storage Building | | 104,731 |
| | Storage Building-Contents | | 30,000 |
| | Residence-3110 Southwood | | 134,210 |
| | Restrooms-Zoo | | 94,767 |
| | Restrooms-Zoo (Contents) | | 3,000 |
| | Animal Exhibit/Holding | | 33,942 |

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| INSURER | RISK COVERED | PERIOD COVERED | AMOUNT OF INSURANCE |
|---------|--|-------------------|------------------------|
| | Animal Exhibit/Holding (Contents) | | 4,000 |
| | Lift Station 701 | | 259,493 |
| | Lift Station 702 | | 181,645 |
| | Lift Station 704 | | 25,949 |
| | Lift Station 705 | | 10,380 |
| | Lift Station 706 | | 51,899 |
| | Lift Station 710 | | 50,625 |
| | Lift Station 711 | | 51,899 |
| | Lift Station 713 | | 51,899 |
| | Lift Station 714 | | 25,949 |
| | Lift Station 716 | | 25,949 |
| | Lift Station 722 | | 51,899 |
| | Lift Station 724 | | 51,899 |
| | Lift Station 715S | | 25,949 |
| | Lift Station 719S | | 5,190 |
| | Lift Station 720S | | 5,190 |
| | Lift Station 725 | | 15,570 |
| | Lift Station 727 | | 10,380 |
| | Water Well 3 | | 51,899 |
| | Water Well 5 | | 51,899 |
| | Water Well 6 | | 51,899 |
| | Water Well 7 | | 51,899 |
| | Water Well 9 | | 51,899 |
| | Water Well 10 | | 51,899 |
| | Water Well 11 | | 51,899 |
| | Water Well 12 | | 207,594 |
| | Water Well 13 | | 507,594 |
| | Water Well 14 | | 207,594 |
| | Water Well 15 | | 207,594 |
| | Pump Station Lab/office | | 138,569 |
| | Chlorination Bldg | | 50,134 |
| | Pump Station Office | | 48,785 |
| | Chlorination Bldg | | 28,544 |
| | 200hp Blower #6 | | 62,278 |
| | Sludge Transfer Pumps | | 36,329 |
| | Restrooms-boys Complex MFP | | 114,800 |
| | Equipment Maintenance Building | | 32,281 |
| | Pavilion | | 43,906 |
| | Warehouse | | 327,999 |
| | Office | | 819,166 |
| | Vehicle Storage | | 134,313 |
| | Washbay | | 7,577 |
| | Fuel Station | | 31,658 |
| | Sewer Rehab Building | | 36,225 |
| | Recycling Warehouse | | 165,349 |
| | Educational Building | | 1,193,251 |
| | Fuel Station | | 7,370 |
| | Intake Structure(River)/Pump Station | | 2,075,941 |
| | Intake Structure/Pump Station (Rivercrest Red) | | 2,075,941 |
| | Pumping Station -N. Davisville Rd | | 2,075,941 |
| | 2M gal Elevated Water Tank | | 1,326,734 |
| | 2M gal Elevated Water Tank | | 1,326,734 |
| | Water Well #21 | | 51,899 |
| | Water Well #23 | | 51,899 |
| | Water Well #24 | | 51,899 |
| | Water Well #25 | | 51,899 |

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| INSURER | RISK COVERED | PERIOD COVERED | AMOUNT OF INSURANCE |
|---------|--|----------------|---------------------|
| | Water Well #26 | | 51,899 |
| | Water Well #28 | | 51,899 |
| | Water Well #29 | | 51,899 |
| | Water Well #30 | | 51,899 |
| | Water Well #31 | | 51,899 |
| | Water Well #32 | | 51,899 |
| | Water Well #33 | | 51,899 |
| | Water Well #34 | | 51,899 |
| | Water Plant #2-Generator 600kw | | 102,516 |
| | Kurth Lake Lodge | | 172,511 |
| | Kurth Lake Lodge Contents | | 10,000 |
| | Caretaker House | | 121,027 |
| | 12K gal Unleaded Gas Tank- Davis St. | | 41,519 |
| | 12K gal Unleaded Gas Tank-Davis St. Contents | | 20,000 |
| | 12K gal Diesel Tank - Davis St. | | 41,519 |
| | 12K gal Diesel Tank- Davis St. Contents | | 20,000 |
| | 12k gal Unleaded Gasoline Tank- S. Park | | 41,519 |
| | 12K gal Unleaded Gasoline Tank- S. Park Contents | | 20,000 |
| | 12K gal Diesel Tank -500 S. Park | | 41,519 |
| | 12K gal Diesel Tank-500 S. Park Contents | | 20,000 |
| | Pines Theatre | | 1,556,956 |
| | Pines Theatre-Contents | | 75,000 |
| | Restroom -Girl's Complex MFP | | 127,255 |
| | Restroom-500 Pershing Ave | | 50,549 |
| | Restroom-200 Mott Dr | | 78,367 |
| | Restrooms-Jones Park | | 65,185 |
| | Restrooms-1117 S Timberland Dr | | 55,428 |
| | Restrooms/Concessions-420 Jack St | | 38,820 |
| | Animal Control-1901 Hill St | | 155,073 |
| | Animal Control-Contents | | 12,000 |
| | Komodo Dragon | | 47,747 |
| | Komodo Dragon-Contents | | 1,000 |
| | Asia Building | | 96,531 |
| | Asia Building-Contents | | 3,000 |
| | Rotary Parrot Exhibits | | 30,620 |
| | Vet Shed-Contents | | 9,000 |
| | Entrance Gates | | 37,367 |
| | Lift Station-Sewer | | 25,949 |
| | Digester #1-3510 Southwood | | 3,113,912 |
| | Digester #2-3510 Southwood | | 3,113,912 |
| | Digester #3-3510 Southwood | | 3,113,912 |
| | 500K gal Elevated Water Tank-2020 Wood Ave | | 1,269,334 |
| | 500K gal Elevated Water Tank-1010 Kiln Ave | | 1,463,746 |
| | 1M gal Elevated Water Tank-321 Ellen St | | 2,144,447 |
| | Lift Station-Sewer 1805 Copeland St | | 51,899 |
| | Generator-Water Plant | | 72,658 |
| | 2M gal Ground Water Tank | | 1,326,734 |
| | 1M gal Elevated Water Tank-321 Ellen St | | 781,073 |
| | 500 KW Generator-WWTP | | 155,696 |
| | 30ft Flag Poles | | 29,063 |
| | 3 SB Fields w/ 10 Light Poles | | 134,936 |
| | Hay Storage | | 50,653 |
| | Maintenance Building | | 169,812 |
| | Oil Storage Building | | 9,861 |
| | Blower Building | | 33,423 |

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| INSURER | RISK COVERED | PERIOD COVERED | AMOUNT OF INSURANCE |
|---------|-------------------------------------|----------------|---------------------|
| | Restroom-Jones Park | | 59,787 |
| | 1M gal Ground Water Tank#2 | | 781,073 |
| | 1M gal Ground Water Tank#3 | | 781,073 |
| | 1M gal Ground Water Tank#4 | | 781,073 |
| | Communication Towers | | 105,357 |
| | Control Building-Spray Parks | | 23,147 |
| | Concession/Restroom-MFP | | 130,058 |
| | Memorial Shelter-Zoo | | 23,562 |
| | Parks & Rec 903 Old Moffet Restroom | | 122,896 |
| | Parks & Rec Pavilions-various | | 964,298 |
| | Parks & Rec Maintenance/Storage | | 52,625 |
| | Parks Bleacher Covers | | 124,245 |
| | Parks Batting Cage | | 24,289 |
| | Parks Gazebo | | 65,392 |
| | Parks Office | | 27,402 |
| | Zoo Protective Awning | | 10,587 |
| | Zoo Fiber Optic Cable | | 83,038 |
| | Office (Log Cabin) | | 25,949 |
| | Umpire Changing Station/Office | | 24,185 |
| | Public Works Veh/Equip Shelter | | 84,802 |
| | Parks Signs | | 44,634 |
| | Jones Park-Floating Dock | | 40,500 |
| | Ellen Trout Park-Restrooms | | 126,563 |
| | Light Poles (6) @Tennis Courts | | 12,344 |
| | Fire Storage Bldg | | 111,375 |
| | Courthouse | | 1,311,072 |
| | Amphitheatre with Mural | | 114,177 |
| | Rental Building-Armory Dr | | 565,694 |
| | Street-Wash Bay | | 123,019 |
| | Coverage Extensions | | |
| | Deductible | | 2,500 |
| | Valuable Papers & Records | | 10,000 |
| | Accounts Receivable | | 10,000 |
| | Loss of Revenues | | 50,000 |
| | Personal Property - Employees | | 5,000 |
| | Leasehold Interest | | 5,000 |
| | Outdoors Trees & Shrubs | | 10,000 |
| | (\$250.00 each) | | |
| | Supplemental Sewage Backup | | |
| | Deductible | | 500 |
| | each structure | | 25,000 |
| | each occurrence | | 50,000 |
| | Mobile Equipment | 10-1-16 to | |
| | Deductible | 9-30-17 | 2,500 |
| | Mustang Cat Motorgrader | | 151,064 |
| | John Deere Tractor | | 23,415 |
| | Gradall Excavator | | 223,536 |
| | John Deere Skid Steer Loader | | 27,600 |
| | John Deere 2000 LC | | 156,308 |
| | John Deere Backhoe | | 70,651 |
| | Case 586G Forklift -2008 | | 45,374 |
| | John Deere 310SJ Backhoe-2004 | | 57,838 |
| | John Deere 35C Compacted Excavator | | 35,483 |
| | John Deere 200LC Excavator | | 128,950 |
| | John Deere 450 Bulldozer | | 61,050 |

CITY OF LUFKIN, TEXAS
INSURANCE COVERAGE - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| INSURER | RISK COVERED | PERIOD COVERED | AMOUNT OF INSURANCE |
|-------------------------------------|--|----------------|---------------------|
| | Caterpillar CB434D Compactor | | 101,500 |
| | Emergency Ops Trailer | | 105,000 |
| | John Deere Cab Tractor w/Mower | | 59,044 |
| | John Deere 50 D Excavator | | 53,760 |
| | Polaris 800 HD ATV | | 11,805 |
| | John Deere 332D Loader | | 32,819 |
| | John Deere Backhoe (Water/Sewer) | | 66,088 |
| | Toyota Forklift (Recycling) | | 30,552 |
| | John Deere Excavator (Sewer) | | 35,915 |
| | John Deere Backhoe (Water/Sewer) | | 74,542 |
| | John Deere Backhoe (Street) | | 83,900 |
| | 2012 Wirtgen Milling Machine W120fl | | 418,370 |
| | 2012 Wirtgen Asphalt Paver 5103-2 | | 320,464 |
| | 2013 John Deere 310SK Backhoe-Water/Sewer Dept. | | 81,100 |
| | 2012 John Deere Model 326 Skid Steer-Recycling Dept. | | 33,380 |
| | 2013 John Deere Model 450J Crawler/Dozer- Street Dept. | | 77,975 |
| | 2014 Broce CRT350-Street Dept. | | 55,443 |
| | 2014 Kubota L6400HST Tractor-Water Production | | 24,514 |
| | 2014 Gradall Excavator | | 303,524 |
| | 2014 Bomag Roller-Street | | 69,545 |
| | 2015 Kubota Tractor Loader-Parks | | 19,146 |
| | 2015 John Deere Backhoe/loader-W/S | | 85,500 |
| | 2015 John Deere Excavator W/S | | 61,032 |
| | 2016 John Deere 310SL Backhoe Sewer | | 90,053 |
| | 2016 John Deere 310SL Backhoe Sewer | | 87,030 |
| | 2016 John Deere Skid- 328E Skid-Steer Loader | | 42,695 |
| | 2016 John Deere Backhoe W/S | | 105,000 |
| | 2016 John Deere 324 K Wheel Loader | | 94,654 |
| | 2016 John Deere Boom Mower | | 98,673 |
| | Auto Physical Damage | 10-1-16 to | |
| | Deductible each vehicle | 9-30-17 | 500 |
| | Deductible per occurrence | | 10,000 |
| Deep East Texas Self Insurance Fund | Workers' Compensation | | Statutory |

COMPLIANCE SECTION

Glenda J. Hiers, CPA
Richard A. Rudel, CPA
Yvette Sidnell, CPA
Jennifer L. Webster, CPA
Kimber R. Jones, CPA
Susan L. Murrell, CPA



4000 S. Medford Drive
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Wilbur E. Alexander, CPA
(1940-2009)
Ted A. Lankford, CPA
(Retired)

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

To the Honorable Mayor and Members of
the City Council
City of Lufkin, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lufkin, Texas (City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control Over Financial Reporting

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

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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 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 material weaknesses or significant deficiencies. 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.

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

Compliance and Other Matters

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

Purpose of this Report

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



ALEXANDER, LANKFORD & HIERS, INC.
Certified Public Accountants

Lufkin, Texas
June 12, 2018