

CITY OF WHITE OAK, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

PRINCIPAL OFFICIALS

September 30, 2007

CITY COUNCIL

TIM VAUGHN, MAYOR

GREGORY HULETT, MAYOR PRO TEM

KYLE KUTCH

JOSEPH CARRINGTON

BARBARA RAY

LANCE NOLL

CITY COORDINATOR

RALPH WEAVER

CITY SECRETARY

LISA BLOUNT

FINANCIAL MANAGER

LISA BLOUNT

CITY OF WHITE OAK, TEXAS
SEPTEMBER 30, 2007
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2008 on our consideration of the City of White Oak's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the City of White Oak, Texas' basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This budgetary comparison schedule has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

January 30, 2008

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007**

The discussion and analysis of the City of White Oak's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2007. It should be read in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City of White Oak exceeded its liabilities at the close of the fiscal year ending September 30, 2007 by \$17,519,719 (net assets). Of this amount, \$3,012,003 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.

The City's total net assets increased by \$ 761,553 for the year ended September 30, 2007.

As of September 30, 2007, the City's governmental funds reported an ending fund balance of \$2,909,174. This resulted in a decrease of \$363,663 in comparison with the prior year 2006 fund balance of \$3,272,837.

The City's total long term debt decreased by \$265,549 at the end of fiscal year of 2007.

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 supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but not used sick and vacation time). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

Governmental activities – Most of the City's basic services are reported here, including the police, fire, streets, parks, and recreation, and general administration.

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system is reported here.

Component units –The City includes one component unit in its report. The White Oak Economic Development Corporation is reported as a "discretely presented" component unit in the financial statements. Although legally separate, this component unit is important because the City is financially accountable for it. Also known as WOEDCO.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City can establish other funds to help it control and manage money for particular purposes or to show that it meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental funds

The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's program. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of White Oak maintains one governmental fund.

Proprietary funds – The City charges customers for the services it provides. These services are reported in the proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund is identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of White Oak maintains one enterprise fund. The City uses the enterprise fund to account for its water and sewer services and solid waste services.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007**

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 the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

THE CITY AS WHOLE – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's combined net assets were \$17,519,796 as of September 30, 2007. Analyzing the net assets and net expenses of governmental and business-type activities separately, the Governmental net assets are \$10,031,025 and the business-type activities net assets are \$7,488,771. This analysis focuses on the net assets (table 1) and changes in general revenues (table 2) and significant expenses of the City's governmental and business-type activities.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, building, equipment, and infrastructure) less any 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007

Table 1
Summary of Net Assets

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Total <u>2007</u>	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	Total <u>2006</u>
Current and other assets	\$ 3,188,616	\$ 433,592	\$ 3,622,208	\$ 3,405,529	\$ 969,089	\$ 4,374,618
Capital Assets	<u>\$ 7,120,915</u>	<u>\$ 9,517,840</u>	<u>\$ 16,638,755</u>	<u>\$ 6,292,260</u>	<u>\$ 9,149,384</u>	<u>\$ 15,441,644</u>
TOTAL ASSETS	\$10,309,531	\$ 9,953,432	\$20,262,963	\$9,697,789	\$10,118,473	\$19,816,262
Current Liabilities	\$ 278,506	\$ 134,661	\$ 413,167	\$ 123,728	\$ 181,012	\$ 304,740
Non-Current Liabilities	<u>\$ 0</u>	<u>\$ 2,330,000</u>	<u>\$ 2,330,000</u>	<u>\$ 7,243</u>	<u>\$2,585,000</u>	<u>\$ 2,592,243</u>
TOTAL LIABILITIES	\$ 278,506	\$ 2,464,661	\$ 2,743,167	\$130,971	\$2,766,012	\$2,896,983
Net Assets:						
Invested in capital assets, net of related debt	\$ 7,120,915	\$ 7,187,840	\$ 14,308,755	\$ 6,285,017	\$ 6,564,384	\$12,849,401
Restricted	\$ 0	\$ 199,038	\$ 199,038	\$0	\$ 184,673	\$ 184,673
Unrestricted	<u>\$ 2,910,110</u>	<u>\$ 101,893</u>	<u>\$ 3,012,003</u>	\$ 3,281,801	\$ 603,404	\$ 3,885,205
TOTAL NET ASSETS	\$10,031,025	\$ 7,488,771	\$ 17,519,796	\$ 9,566,818	\$ 7,352,461	\$16,919,279

GOVERNMENTAL ACTIVITIES

General Fund revenues increased by 19.4%, or \$468,651, when compared to the prior year. Ad valorem tax revenue increased \$182,161 (13.5%) compared to the prior year. Sales tax revenue increased by \$106,736 (20.8%) due mainly to the City's constant increase in the oil and gas business. Fines & forfeitures were up \$46,330 (81.2%) from the previous year due to contracting with a new collection agency with a local law firm. Also, the new City presiding judge has made great effort to collect money for fines in a timely manner versus the deferral program which is not used as much as it has in the past. Investment income was up \$42,156 (31.6%) due to holding on to our reserve accounts until the last quarter of the year. We earned a lot of investment income due to the reserve amounts and the good interest rates we had in 2007.

Table 2
General Revenues

	<u>2007</u>	<u>2006</u>	<u>Incr. / (Decr.)</u>
Taxes	\$ 2,148,280	\$ 1,859,383	\$ 288,897
Franchise Fees	\$ 290,487	\$ 288,815	\$ 1,672
Investment Income	\$ 175,585	\$ 133,429	\$ 42,156
Other	<u>\$ 273,583</u>	<u>\$ 137,657</u>	<u>\$ 135,926</u>
TOTAL	\$ 2,887,935	\$ 2,419,284	\$ 468,651

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

September 30, 2007

Government and Business-type activities increased the City's net assets by \$761,553 from FY 2006. The key elements in this increase are as follows:

**Table 3
Changes in Net Assets**

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>Total 2007</u>	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	<u>Total 2006</u>
Revenues:						
Program Revenues:						
Charges for service and grants	\$ 233,351	\$ 1,825,081	\$ 2,058,432	\$ 113,934	\$ 2,003,849	\$ 2,117,783
General Revenues:						
Taxes	\$ 2,136,945	\$ 0	\$ 2,136,945	\$ 1,859,206	\$ 0	\$ 1,859,206
Franchise Fees	\$ 290,487	\$ 0	\$ 290,487	\$ 288,815	\$ 0	\$ 288,815
Other	\$ 200,382	\$ 447,535	\$ 647,917	\$ 111,661	\$ (162,571)	\$ 128,513
TOTAL REVENUES	\$2,861,165	\$2,272,616	\$5,133,781	\$ 2,373,616	\$ 1,639,858	\$ 4,394,317
Expenses:						
General Government	\$ 569,731	\$ 0	\$ 569,731	\$ 518,815	\$ 0	\$ 518,815
Public Safety	\$ 1,258,991	\$ 0	\$ 1,258,991	\$ 1,207,462	\$ 0	\$ 1,207,462
Public works	\$ 369,846	\$ 0	\$ 369,846	\$ 672,980	\$ 0	\$ 672,980
Development services	\$ 29,496	\$ 0	\$ 29,496	\$ 29,828	\$ 0	\$ 29,828
Culture and recreation	\$ 144,336	\$ 0	\$ 144,336	\$ 122,832	\$ 0	\$ 122,832
Debt Service	\$ 535	\$ 0	\$ 535	\$ 1,325	\$ 0	\$ 1,325
Water Utilities	\$ 0	\$ 1,999,293	\$ 1,999,293	\$ 0	\$ 1,568,740	\$ 1,890,140
TOTAL EXPENSES	\$ 2,372,935	\$ 1,999,293	\$ 4,372,228	\$ 2,553,242	\$ 1,568,740	\$ 4,443,382
Transfers In (Out)	\$ 95,000	\$ (95,000)	\$ 0	\$ 190,000	\$ (190,000)	\$ 0
Change in Net Assets	\$ 583,230	\$ 178,323	\$ 761,553	\$ 10,374	\$ (59,439)	\$ (49,065)
Net Assets, beginning	\$ 9,447,795	\$ 7,310,448	\$16,758,243	\$ 9,556,444	\$ 7,411,900	\$ 16,968,344
Net Assets, ending	\$ 10,031,025	\$ 7,488,771	\$17,519,796	\$ 9,556,444	\$ 7,352,461	\$ 16,919,279

Beginning net assets for FY07 have been reduced by \$161,036 as a result of a change in the capital asset policy.

CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007

GENERAL FUND

The most significant governmental expense for the City was in providing for public safety, which incurred expenditures of \$1,418,661. These expenses were offset by revenues collected from a variety of sources, with the largest being fines and forfeitures, which totaled \$103,386 for the period ending September 30, 2007. Public safety includes the City Police and Fire departments. In 2007, the City spent \$910,062 on City Park Improvements with money from the fund balance. Annual payroll for both funds came in at \$1,342,327 for the year. Employee turnover continued to be high for the entire year due to the economy and competition with oil field related services. General Fund Revenue came in higher than budgeted due to sales tax revenue coming in higher than anticipated. Municipal Court experienced a banner year with revenues almost double what was budgeted. The City also made \$175,585 in 2007 from the General Fund investment accounts mainly due to not spending any reserves until the last quarter of the year on the City park and maintaining a good interest rate on the accounts.

BUSINESS TYPE ACTIVITIES (WATER FUND)

Revenues of the City's business-type activities were \$1,825,081 in 2007 and total operating expenses came in at \$1,891,080 resulting in a net loss of \$(65,999) in operating income. The most significant expenses for the Water fund came from Employee costs, depreciation expense, chemical expense for water and sewer maintenance and all associated costs for the purchase of new rotors installed at the Water Plant in 2007. It was an unusually wet summer in 2007 and this was a contributing factor to the budget miss in the Water Fund revenue. The transfer between the General Fund and Water Fund was cut by 50% in 2007 making it a \$95,000 transfer instead of the \$190,000 from previous years. This subject may need to be reconsidered due to the balance the Water Fund owes the General Fund at the end of September 2007.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2007 the City had \$16,638,755 (net of accumulated depreciation) invested in a broad range of capital assets. The capital assets are comprised of police and fire equipment, building, park facilities, road, bridges, water and sewer lines, drainage improvements, and water treatment plant. This amount represents a net increase (including additions and deletions) of \$1,358,147 over the prior year.

Table 4
CAPITAL ASSETS

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>TOTAL 2007</u>	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	<u>TOTAL 2006</u>
Land	\$ 201,297	\$ 55,325	\$ 256,622	\$ 201,297	\$ 55,325	\$ 256,622
Construction in Progress	\$ 7,000	\$ 0	\$ 7,000	\$ 0	\$ 57,932	\$ 57,932
Building and Improvements	\$ 747,968	\$ 112,600	\$ 860,568	\$ 766,214	\$ 118,398	\$ 884,612
Infrastructure	\$ 5,258,397	\$ 0	\$ 5,258,397	\$ 4,470,973	\$ 0	\$ 4,470,973
Assets under Capital Lease	\$ 0	\$ 0	\$ 0	\$ 19,728	\$ 0	\$ 19,728
Furniture/Equip/Machinery	\$ 906,253	\$ 159,836	\$ 1,066,089	\$ 715,025	\$ 127,955	\$ 842,980
Water & Sewer System	\$ 0	\$ 9,190,079	\$ 9,190,079	\$ 0	\$ 8,747,761	\$ 8,747,761
TOTAL	\$ 7,120,915	\$ 9,517,840	\$ 16,638,755	\$ 6,173,237	\$ 9,107,371	\$ 15,280,608

**THE CITY OF WHITE OAK,
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007**

Debt Administration

At the end of the current fiscal year, the City had \$2,330,000 in certificates of obligation and revenue bonds outstanding. This represents a decrease of \$255,000 compared to the prior year. The following table shows the debt outstanding at September 30, 2007.

**Table 5
Outstanding Debt**

	Governmental	Business-type	<u>Total-2007</u>	Governmental	Business-type	<u>Total-2006</u>
	Activities	Activities		Activities	Activities	
	<u>2007</u>	<u>2007</u>		<u>2006</u>	<u>2006</u>	
Cert of Obligation	\$ 0	\$ 1,160,000	\$ 1,160,000	\$ 0	\$ 1,295,000	\$ 1,295,000
Revenue Bonds	\$ 0	\$ 1,170,000	\$ 1,170,000	\$ 0	\$ 1,290,000	\$ 1,290,000
TOTALS	\$ 0	\$ 2,330,000	\$ 2,330,000	\$ 0	\$ 2,585,000	\$ 2,585,000

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

At the end of the current fiscal year, the City's governmental fund reported a fund balance of \$2,909,174. The General Fund's ending balance decreased \$(363,663) over the prior year of \$3,272,837. The primary reason for the decrease is the cash outlay to improve and renovate the City Park.

Proprietary funds

At the end of September 30, 2007, the City's Proprietary (Water and Waste Water) Fund had a fund balance of \$7,488,771. This is an increase of \$178,328 compared to the prior year. The majority of the increase can be attributed mainly to a grant for capital outlay.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rate and fees that will be charged for business-type activities. One of these factors is the economy. The Texas economy continues to be strong at this point in time and that is still carrying over to the local economy. Sales tax increased for fiscal year 2007 and it is expected to continue to rise due to an increase in the oil and gas industry.

The General Funds largest single revenue source is ad valorem property taxes. The property tax rate for fiscal year 2007 was \$0.5100 per \$100 valuation. The General Fund's portion of property tax revenue for the fiscal year 2007 came in at \$1,529,343.

The largest revenue source for the Water Fund is the sale of water. In 2007, water revenue came in at \$980,418. The next largest revenue source for this fund is sewer revenue. In 2007 it came in at \$540,683. This is an increase of around \$46,000 from last year's number of \$496,076. Due to the wet summer months, we did not meet our sale of water budget of \$1,200,000.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2007**

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of White Oak at 906 S. White Oak Rd., White Oak, Texas 75693, or call (903) 759-3936 Ext. 17.

BASIC FINANCIAL STATEMENTS

CITY OF WHITE OAK, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	WOEDCO
ASSETS				
Cash	\$ 171,213	\$ 1,000	\$ 172,213	\$ 78,513
Temporary investments	2,261,031	506,258	2,767,289	286,715
Receivables (net of allowance for uncollectibles):				
Taxes	142,748	-	142,748	52,229
Accounts	-	255,253	255,253	-
Other	6,875	-	6,875	1,127
Internal balances	602,997	(602,997)	-	-
Prepaid expenses	3,752	-	3,752	-
Restricted assets:				
Temporary investments	-	276,078	276,078	-
Notes receivable	-	-	-	307,757
Capital assets (net of accumulated depreciation):				
Land	201,297	55,325	256,622	-
Buildings and improvements	747,968	112,600	860,568	-
Water and sewer system	-	9,190,079	9,190,079	-
Machinery and equipment	906,253	159,836	1,066,089	9,247
Infrastructure	5,258,397	-	5,258,397	-
Construction in progress	7,000	-	7,000	-
Total assets	<u>10,309,531</u>	<u>9,953,432</u>	<u>20,262,963</u>	<u>735,588</u>
LIABILITIES				
Accounts payable	198,683	36,694	235,377	30,028
Accrued wages payable	42,469	13,793	56,262	-
Payable from restricted assets				
Accrued interest	-	8,473	8,473	-
Meter deposits	-	70,385	70,385	-
Accrual for compensated absences	37,354	5,316	42,670	-
Noncurrent liabilities:				
Due within one year	-	265,000	265,000	-
Due in more than one year	-	2,065,000	2,065,000	-
Total liabilities	<u>278,506</u>	<u>2,464,661</u>	<u>2,743,167</u>	<u>30,028</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,120,915	7,187,840	14,308,755	9,247
Restricted for debt service	-	199,038	199,038	-
Unrestricted	2,910,110	101,893	3,012,003	696,313
Total net assets	<u>\$ 10,031,025</u>	<u>\$ 7,488,771</u>	<u>\$ 17,519,796</u>	<u>\$ 705,560</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	WOEDCO
				Governmental Activities	Business-type Activities		
Primary government:							
Governmental activities:							
General government	\$ 569,731	\$ 34,167	\$ 9,532	\$ (526,032)	\$ -	\$ (526,032)	\$ -
Public safety	1,258,991	103,386	61,266	(1,094,339)	-	(1,094,339)	-
Public works	369,846	-	-	(369,846)	-	(369,846)	-
Developmental services	29,496	-	-	(29,496)	-	(29,496)	-
Recreation	144,336	-	25,000	(119,336)	-	(119,336)	-
Debt service	535	-	-	(535)	-	(535)	-
Total governmental activities	<u>2,372,935</u>	<u>137,553</u>	<u>95,798</u>	<u>(2,139,584)</u>	<u>-</u>	<u>(2,139,584)</u>	<u>-</u>
Business-type activities:							
Water utilities	1,999,293	1,825,081	-	-	(174,212)	(174,212)	-
Total primary government	<u>\$ 4,372,228</u>	<u>\$ 1,962,634</u>	<u>\$ 95,798</u>	<u>\$ (2,139,584)</u>	<u>\$ (174,212)</u>	<u>\$ (2,313,796)</u>	<u>\$ -</u>
Component unit:							
WOEDCO	<u>\$ 306,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(306,497)</u>
General revenues							
Property taxes				1,518,008	-	1,518,008	-
Sales taxes				618,937	-	618,937	309,468
Franchise taxes				290,487	-	290,487	-
Unrestricted investment earnings				175,585	38,129	213,714	10,770
Miscellaneous				40,232	-	40,232	-
Grants				-	423,934	423,934	-
Gain/loss on sale of assets				(15,435)	(14,528)	(29,963)	-
Transfers				95,000	(95,000)	-	-
Total general revenues and transfers				<u>2,722,814</u>	<u>352,535</u>	<u>3,075,349</u>	<u>320,238</u>
Change in net assets				583,230	178,323	761,553	13,741
Net assets - beginning, restated				<u>9,447,795</u>	<u>7,310,448</u>	<u>16,758,243</u>	<u>691,819</u>
Net assets - ending				<u>\$ 10,031,025</u>	<u>\$ 7,488,771</u>	<u>\$ 17,519,796</u>	<u>\$ 705,560</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	<u>General Fund</u>
ASSETS AND OTHER DEBITS:	
Cash	\$ 171,213
Temporary investments	2,261,031
Due from other funds	602,997
Receivables:	
Taxes	142,748
Miscellaneous	6,875
Prepaid expenditures	<u>3,751</u>
TOTAL ASSETS	<u>\$ 3,188,615</u>
LIABILITIES AND FUND BALANCE:	
LIABILITIES:	
Accounts payable	\$ 198,683
Deferred revenues	38,289
Accrued wages	<u>42,469</u>
TOTAL LIABILITIES	<u>279,441</u>
FUND BALANCE	
Fund balance - unreserved	2,889,587
Fund balance - reserved	<u>19,587</u>
TOTAL FUND BALANCE	<u>2,909,174</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,188,615</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

Total fund balances - governmental funds balance sheet	\$ 2,909,174
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds	7,120,915
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	38,289
Payables for compensated absences which are not due in the current period are not reported in the funds.	(37,354)
Rounding difference	<u>1</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 10,031,025</u></u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General Fund
REVENUES:	
Property taxes	\$ 1,529,343
Franchise taxes	290,487
Sales taxes	618,937
Licenses, permits and fees	34,167
Fines, forfeitures and penalties	103,386
Investment income	175,585
Grant revenues	95,798
Miscellaneous	40,232
	2,887,935
TOTAL REVENUES	2,887,935
EXPENDITURES:	
General government	586,359
Public safety	1,418,661
Public works	285,801
Developmental services	30,396
Recreation	1,017,603
Debt service -principal	7,243
-interest	535
	3,346,598
TOTAL EXPENDITURES	3,346,598
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(458,663)
OTHER FINANCING SOURCES (USES):	
Transfers in	95,000
	95,000
TOTAL OTHER FINANCING SOURCES (USES)	95,000
NET CHANGE IN FUND BALANCE	(363,663)
FUND BALANCE, OCTOBER 1, 2006	3,272,837
	3,272,837
FUND BALANCE, SEPTEMBER 30, 2007	\$ 2,909,174

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, 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, 2007

Net change in fund balances - total governmental funds	\$(363,663)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,200,739
The depreciation of capital assets used in governmental activities is not reported in the funds.	(237,625)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(11,334)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	7,243
All proceeds from the sale of capital assets are reported in the funds but not the SOA.	(5,210)
The gain or loss on the sale of capital assets is not reported in the funds.	(10,226)
(Increase) decrease in accrual for compensated absences.	<u>3,306</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 583,230</u>

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2007

		Water Utilities
ASSETS:		
Current assets:		
Cash	\$	1,000
Temporary investments		506,258
Accounts receivable		255,253
Restricted assets:		
Temporary investments		276,078
Noncurrent assets:		
Land		55,325
Capital assets, net		9,462,515
TOTAL ASSETS		10,556,429
LIABILITIES:		
Current liabilities:		
Accounts payable		36,694
Accrued wages		13,793
Accrual for compensated absences		5,316
Due to other funds		602,997
Payable from restricted assets:		
Accrued interest payable		8,473
Customer deposits		70,385
Noncurrent liabilities:		
Due within one year		265,000
Due in more than one year		2,065,000
TOTAL LIABILITIES		3,067,658
NET ASSETS		
Invested in capital assets, net of related debt		7,187,840
Restricted for debt repayment		199,038
Unrestricted		101,893
TOTAL NET ASSETS	\$	7,488,771

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Water Utilities
OPERATING REVENUES:	
Water revenue	\$ 980,418
Sewer revenue	540,683
Sanitation revenue	245,647
Penalties	23,953
Installment fees	33,120
Miscellaneous revenue	1,260
TOTAL OPERATING REVENUES	1,825,081
OPERATING EXPENSES:	
Administration	63,700
Water supply	91,875
Water distribution	139,660
Water purification	457,950
Sanitary sewer maintenance	116,448
Sanitary sewer treatment	202,816
Sanitation services	212,900
Depreciation	487,199
Miscellaneous	118,532
TOTAL OPERATING EXPENSES	1,891,080
OPERATING INCOME	(65,999)
NONOPERATING REVENUES (EXPENSES)	
Investment proceeds	38,129
Grant proceeds	423,934
Loss on disposition of assets	(14,528)
Debt service - interest	(106,213)
Debt service - fees	(2,000)
TOTAL NONOPERATING REVENUES (EXPENSES)	339,322
TRANSFERS OUT	(95,000)
CHANGE IN NET ASSETS	178,323
TOTAL NET ASSETS - BEGINNING, RESTATED	7,310,448
TOTAL NET ASSETS - ENDING	\$ 7,488,771

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Water Utilities
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers for water sales and sewer service	\$ 1,839,805
Cash payments to employees	(363,982)
Cash payments for goods and services	(1,085,341)
NET CASH PROVIDED BY OPERATING ACTIVITIES	390,482
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash borrowed from other funds	446,629
Transfers to other funds	(95,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	351,629
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Grant proceeds	135,301
Purchase of capital assets	(617,640)
Proceeds from sale of assets	5,100
Principal paid on debt	(255,000)
Interest paid on debt	(107,121)
Fees paid on debt	(2,000)
NET CASH USED BY FINANCING ACTIVITIES	(841,360)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment proceeds	38,129
NET CASH PROVIDED BY INVESTING ACTIVITIES	38,129
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(61,120)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2006	844,456
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2007	\$ 783,336
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ (65,999)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	487,199
(Increase) decrease in accounts receivable	14,725
Increase (decrease) in customer deposits	3,230
Increase (decrease) in accounts payable	(48,964)
Increase (decrease) in accrued wages	2,610
Increase (decrease) in accrual for compensated absences	(2,319)
Total adjustments	456,481
Net cash provided by operating activities	\$ 390,482

(The accompanying notes are an integral part of these financial statements.)

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the City of White Oak, Texas, conform to generally accepted accounting principles as applied to governmental entities.

A. FINANCIAL REPORTING ENTITY

For financial reporting purposes, the City of White Oak includes all funds that are controlled by or dependent on the City's executive and legislative branches (the Mayor or the Council, respectively). Control by or dependence on the City is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of significant subsidies from the City.

COMPONENT UNIT

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

DISCRETELY PRESENTED COMPONENT UNIT

White Oak Economic Development Corporation (WOEDCO). WOEDCO is a Texas nonprofit corporation organized for the purpose of benefitting and accomplishing public purposes of the City of White Oak, Texas, by promoting, assisting, and enhancing economic development activities for the City. The board members are appointed by the City of White Oak City Council. WOEDCO is funded by a one-quarter percent sales tax levied on taxable sales within the City of White Oak. This tax was enacted by popular vote in 1995 and may be repealed by popular vote. WOEDCO is reported in a separate column to emphasize that it is legally separate from the City. Separate financial statements for WOEDCO may be obtained by contacting their office in the White Oak municipal building.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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 government 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 60 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, are recorded only when payment is due.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental fund:

The general fund is the City'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 City reports the following major proprietary fund:

The water utilities fund operates the water distribution system, the sewage treatment plant, sewage pumping stations, and collection systems.

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

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 Utilities Fund are charges to customers for sales and services. All revenues not meeting this definition are reported as nonoperating revenues and expenses.

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

D. BUDGETS AND BUDGETARY ACCOUNTING

The budget for the general fund is adopted on a basis consistent with the modified accrual basis of accounting. The proprietary fund budget is adopted on a basis consistent with the accrual basis of accounting except for depreciation, which is not budgeted and capital outlay, which is budgeted. The budget comparison for the proprietary fund has been adjusted to reflect these differences. Unexpended budget appropriations lapse at year end and do not carry forward to future periods.

Budget controls are imposed at the fund level and require Council approval for amendment.

E. INTERFUND RECEIVABLES AND PAYABLES

Any short-term advances between funds that may exist are accounted for in the appropriate interfund receivable and payable accounts.

F. ESTIMATES

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

G. CASH EQUIVALENTS

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have an initial maturity of three months or less.

H. RISK MANAGEMENT

The city is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2007, the City purchased insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding liability insurance coverage for each of the past three fiscal years.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	10-50
Building improvements	15-30
Land improvements	10-60
Streets & roads	10-60
Water & sewer lines	10-75
Infrastructure	10-50
Machinery & equipment	3-25
Vehicles	3-5
Office equipment	3-5
Computer equipment	3-5
Intangibles	2-40

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

Expenditures exceeded appropriations in the water fund.

Action Taken

The City's Financial Manager and department heads will work closely together to prepare budget amendments for approval by council so that they can be recorded in a timely manner.

Deficit Fund Balances or Fund Net Assets of Individual Funds

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None	Not applicable	Not applicable

NOTE 3 - PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value. The assessed value for the roll as of January 1, 2006 upon which the 2007 fiscal-year levy was based, was \$304,756,688 and the tax levy was set at .51 per \$100 of assessed valuation.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2007, for the fiscal 2007 tax levy were 99.6 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2007, were \$68,939.

The allowance for uncollectible tax receivables is based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible taxes at September 30, 2007 is \$30,680.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2007 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 201,297	\$ -	\$ -	\$ 201,297
Construction in Progress	-	7,000	-	7,000
Total capital assets not being depreciated	<u>201,297</u>	<u>7,000</u>	<u>-</u>	<u>208,297</u>
Capital assets being depreciated:				
Buildings & improvements	960,547	-	-	960,547
Infrastructure	5,929,794	896,155	-	6,825,949
Furniture and equipment	1,407,471	329,147	52,824	1,683,794
Assets under capital lease	31,563	-	31,563	-
Total capital assets being depreciated	<u>8,329,375</u>	<u>1,225,302</u>	<u>84,387</u>	<u>9,470,290</u>
Less accumulated depreciation for:				
Buildings & improvements	(194,333)	(18,246)	-	(212,579)
Infrastructure	(1,458,821)	(108,731)	-	(1,567,552)
Furniture and equipment	(692,446)	(122,484)	(37,389)	(777,541)
Assets under capital lease	(11,835)	-	(11,835)	-
Total accumulated depreciation	<u>(2,357,435)</u>	<u>(249,461)</u>	<u>(49,224)</u>	<u>(2,557,672)</u>
Total capital assets being depreciated, net	<u>5,971,940</u>	<u>975,841</u>	<u>35,163</u>	<u>6,912,618</u>
Governmental activities capital assets, net	<u>\$ 6,173,237</u>	<u>\$ 982,841</u>	<u>\$ 35,163</u>	<u>\$ 7,120,915</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 55,325	\$ -	\$ -	\$ 55,325
Construction in progress	57,932	-	57,932	-
Total capital assets, not being depreciated	<u>113,257</u>	<u>-</u>	<u>57,932</u>	<u>55,325</u>
Capital assets being depreciated:				
Water and sewer system	14,357,040	913,624	37,586	15,233,078
Buildings	255,590	-	-	255,590
Machinery and equipment	315,504	61,604	-	377,108
Total capital assets being depreciated	<u>14,928,134</u>	<u>975,228</u>	<u>37,586</u>	<u>15,865,776</u>
Less accumulated depreciation for:				
Water and sewer system	(5,609,279)	(451,678)	(17,958)	(6,042,999)
Buildings	(137,192)	(5,798)	-	(142,990)
Machinery and equipment	(187,549)	(29,723)	-	(217,272)
Total accumulated depreciation	<u>(5,934,020)</u>	<u>(487,199)</u>	<u>(17,958)</u>	<u>(6,403,261)</u>
Total capital assets being depreciated, net	<u>8,994,114</u>	<u>488,029</u>	<u>19,628</u>	<u>9,462,515</u>
Business-type activities capital assets, net	<u>\$ 9,107,371</u>	<u>\$ 488,029</u>	<u>\$ 77,560</u>	<u>\$ 9,517,840</u>

As described in Note 12, beginning capital assets have been decreased by \$161,036 to reflect a change in the City's capitalization policy for capital assets.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to departments of the primary government as follows:

Governmental activities:	
General government	\$ 24,904
Public safety	84,673
Public works	88,646
Recreation	39,403
Total depreciation expense - governmental activities	<u>237,626</u>
Business-type activities:	
Water utilities	487,199
Total depreciation expense - business-type activities	<u>487,199</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2007, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
<u>Capital Lease</u>					
Lease dated 1/15/2002, interest at 7.39%, maturing 01/15/2007	\$ 7,243	\$ -	\$ 7,243	\$ -	\$ -
Totals	7,243	-	7,243	-	-
Accrual for Compensated Absences	40,660	-	3,306	37,354	-
Total Governmental Activities	<u>\$ 47,903</u>	<u>\$ -</u>	<u>\$ 10,549</u>	<u>\$ 37,354</u>	<u>\$ -</u>
Business-type Activities:					
<u>Certificates of Obligation</u>					
Series 1999, interest at 5.05%, maturing 3/01/2014	\$ 1,295,000	\$ -	\$ 135,000	\$ 1,160,000	\$ 140,000
<u>Revenue Bonds</u>					
Series 2001, interest at 3.20-3.95%, maturing 3/01/2015	1,290,000	-	120,000	1,170,000	125,000
Total Business-Type Activities	<u>\$ 2,585,000</u>	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 2,330,000</u>	<u>\$ 265,000</u>
Total Long-term Debt	<u>\$ 2,632,903</u>	<u>\$ -</u>	<u>\$ 265,549</u>	<u>\$ 2,367,354</u>	<u>\$ 265,000</u>

Aggregate maturities of long-term debt subsequent to September 30, 2007 are as follows:

Business-type activities:			
Year Ending September 30	Principal	Interest	Total
2008	265,000	95,981	360,981
2009	280,000	84,228	364,228
2010	295,000	71,766	366,766
2011	310,000	58,591	368,591
2012	325,000	44,621	369,621
2013-2015	855,000	47,504	902,504
	<u>\$ 2,330,000</u>	<u>\$ 402,691</u>	<u>\$ 2,732,691</u>

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 6 - EMPLOYEE BENEFITS

A. PLAN DESCRIPTION

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City are as follows:

Deposit Rate:	7%
Matching Rates (City to Employee):	2-1
A member is vested after:	5 yrs

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

B. CONTRIBUTIONS

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. the December 31, 2006 valuation is effective for rates beginning January, 2008).

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2006
Actuarial Value of Assets	\$ 3,392,836
Actuarial Accrued Liability	4,122,869
Percentage Funded	82.29%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	730,033
Annual Covered Payroll	1,342,327
UAAL as a Percentage of Covered Payroll	54.39%
Net Pension Obligation (NPO) at the Beginning of Period	-
ANNUAL PENSION COST:	
Annual required contribution (ARC)	156,287
Interest on NPO	-
Adjustment to the ARC	-
	156,287
Contributions made	156,287
Increase in NPO	-
	-
NPO at the end of the period	\$ -

The City's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for FY2007 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
9/30/2005	145,145	100%	-
9/30/2006	159,933	100%	-
9/30/2007	156,287	100%	-

The City of White Oak is one of 821 municipalities having the benefit plan administered by TMRS. Each of the 821 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/06 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

NOTE 7 - INTERFUND BALANCES AND ACTIVITIES

Transfers to and from other funds at September 30, 2007, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water Utilities Fund	General Fund	\$ 95,000	To fund operations

Balances due to and from other funds at September 30, 2007, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Water Utilities Fund	\$ 602,997	Short-term loan

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

NOTE 8 - RESERVED FUND BALANCE

As of September 30, 2007, fund balances reserved for specific purposes were as follows:

General Fund		
Municipal Court Security Fees	\$	14,589
Municipal Court Technology Fees		4,998
	<u>\$</u>	<u>19,587</u>

NOTE 9 - ACCRUAL FOR COMPENSATED ABSENCES

Regular full-time employees are eligible to accrue vacation leave of 80 hours per year during their first five years of employment and 120 hours per year thereafter. Although employees are expected to use vacation leave time in the year in which it is earned, the carryover of unused vacation time may be approved by the City Coordinator. Unused vacation is compensated at the employee's current rate of pay upon termination.

The accompanying financial statements report accrued vacation benefits as of September 30, 2007.

NOTE 10 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2007, the carrying amounts of the City's bank balances were \$ 310,263. The City's cash deposits at September 30, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City did not adhere to the requirements of the Act. Quarterly reports did not include all required elements.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (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.

The City's investments at September 30, 2007, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 649,855
Certificate of Deposit	09/30/08	100,000
MBIA Texas CLASS	N/A	602,285
Fed #395 Gov't Obligation	N/A	1,691,227
Total Investments		<u>\$ 3,043,367</u>

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

NOTE 10 - DEPOSITS AND INVESTMENTS - continued

At September 30, 2007, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated to credit quality as follows:

<u>Investment</u>	<u>Standard & Poor's Rating</u>
Texpool	AAAm
<u>Investment</u>	<u>Fitch Rating</u>
MBIA Texas CLASS	AAAm

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

In accordance with GASB Statement No. 31, 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.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act ("the Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pools and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Contingencies

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Liabilities

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

Commitments

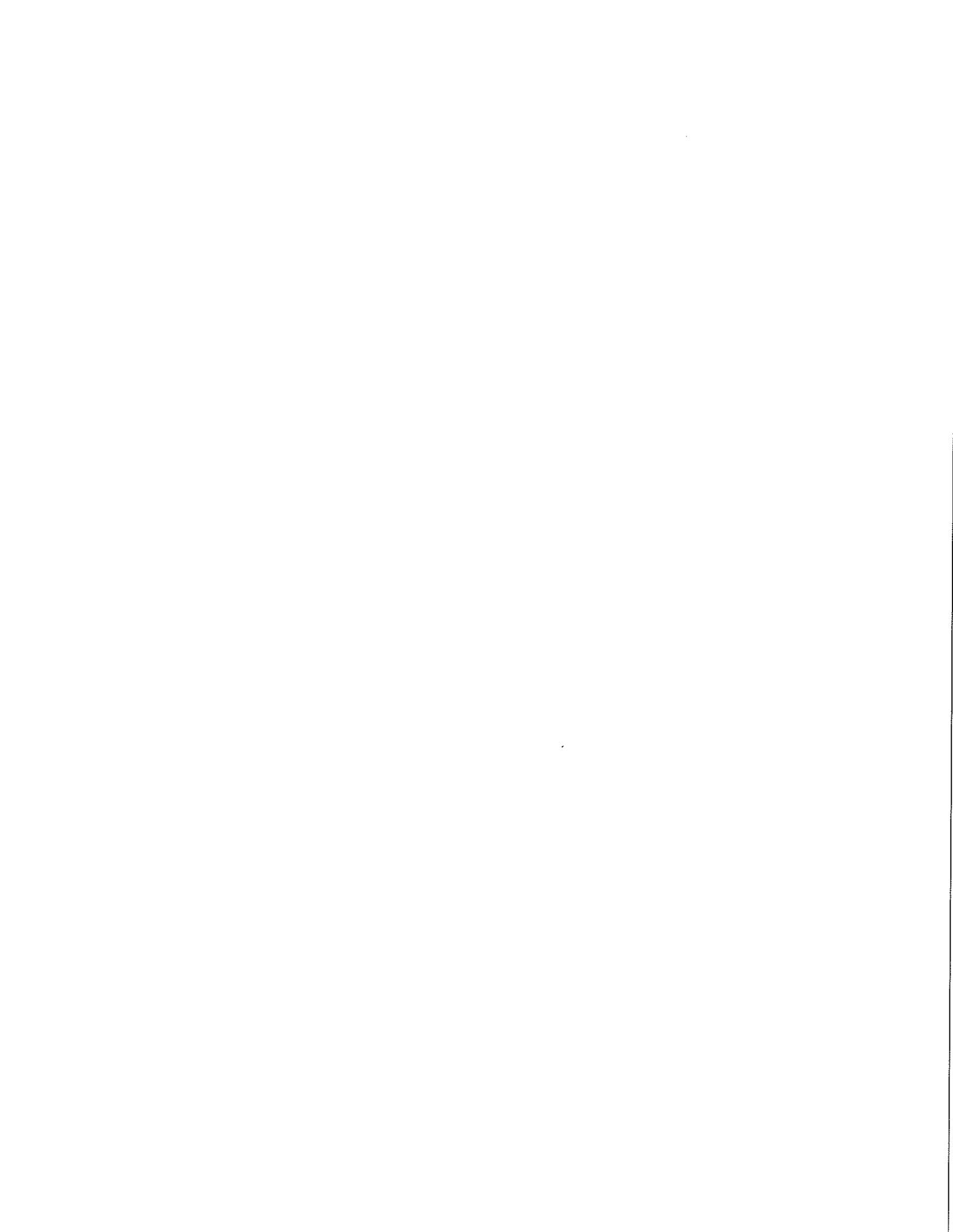
The City had no outstanding contractual commitments at September 30, 2007.

NOTE 12 - CHANGE IN BEGINNING NET ASSETS

Beginning net assets have been restated as follows:

	Governmental Activities	Business-type Activities	Total
Net assets, beginning of year, as previously state:	\$ 9,566,818	\$ 7,352,461	\$ 16,919,279
Decrease resulting from a change in the capital asset policy. Capitalization threshold increased from \$1,000 to \$5,000 per asset unit cost.	(119,023)	(42,013)	(161,036)
Net assets, beginning of year, as restated	\$ 9,447,795	\$ 7,310,448	\$ 16,758,243

REQUIRED SUPPLEMENTAL INFORMATION



CITY OF WHITE OAK, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,572,704	\$ 1,572,704	\$ 1,529,343	\$ (43,361)
Franchise taxes	306,542	306,542	290,487	(16,055)
Sales taxes	500,000	500,000	618,937	118,937
Licenses, permits and fees	23,612	23,612	34,167	10,555
Fines, forfeitures and penalties	53,420	53,420	103,386	49,966
Investment income	54,150	54,150	175,585	121,435
Grant revenues	-	-	95,798	95,798
Miscellaneous	17,226	17,226	40,232	23,006
TOTAL REVENUES	<u>2,527,654</u>	<u>2,527,654</u>	<u>2,887,935</u>	<u>360,281</u>
EXPENDITURES:				
General government	650,821	690,321	586,359	103,962
Public safety	1,296,137	1,364,434	1,418,661	(54,227)
Public works	521,321	530,010	285,801	244,209
Developmental services	31,128	31,128	30,396	732
Recreation	123,247	972,192	1,017,603	(45,411)
Debt service -principal	-	-	7,243	(7,243)
-interest	-	-	535	(535)
TOTAL EXPENDITURES	<u>2,622,654</u>	<u>3,588,085</u>	<u>3,346,598</u>	<u>241,487</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(95,000)</u>	<u>(1,060,431)</u>	<u>(458,663)</u>	<u>601,768</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	95,000	95,000	95,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>(965,431)</u>	<u>(363,663)</u>	<u>601,768</u>
FUND BALANCE, OCTOBER 1, 2006	<u>3,272,837</u>	<u>3,272,837</u>	<u>3,272,837</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2007	<u>\$ 3,272,837</u>	<u>\$ 2,307,406</u>	<u>\$ 2,909,174</u>	<u>\$ 601,768</u>

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OTHER SUPPLEMENTAL INFORMATION

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CITY OF WHITE OAK, TEXAS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-
 BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
OPERATING REVENUES:						
Water revenue	\$ 1,200,000	\$ 1,200,000	\$ 980,418	\$ -	\$ 980,418	\$ (219,582)
Sewer revenue	528,500	528,500	540,683	-	540,683	12,183
Sanitation revenue	255,000	255,000	245,647	-	245,647	(9,353)
Penalties	24,000	24,000	23,953	-	23,953	(47)
Installment fees	21,500	21,500	33,120	-	33,120	11,620
Miscellaneous revenue	2,500	2,500	1,260	-	1,260	(1,240)
TOTAL OPERATING REVENUES	2,031,500	2,031,500	1,825,081	-	1,825,081	(206,419)
OPERATING EXPENSES:						
Administration	66,845	66,845	63,700	-	63,700	3,145
Water supply	97,040	97,040	91,875	-	91,875	5,165
Water distribution	121,926	121,926	139,660	-	139,660	(17,734)
Water purification	416,020	433,364	457,950	-	457,950	(24,586)
Sanitary sewer maintenance	124,256	124,256	116,448	-	116,448	7,808
Sanitary sewer treatment	211,833	234,433	202,816	-	202,816	31,617
Sanitation services	225,000	225,000	212,900	-	212,900	12,100
Depreciation	-	-	487,199	(487,199)	-	-
Miscellaneous	4,100	4,100	118,532	-	118,532	(114,432)
Capital outlay	88,680	542,854	-	975,228	975,228	(432,374)
TOTAL OPERATING EXPENSES	1,355,700	1,849,818	1,891,080	488,029	2,379,109	(529,291)
OPERATING INCOME (LOSS)	675,800	181,682	(65,999)	(488,029)	(554,028)	(735,710)
NONOPERATING REVENUES (EXPENSES)						
Investment proceeds	27,200	27,200	38,129	-	38,129	10,929
Grant proceeds	-	-	423,934	-	423,934	423,934
Loss on disposition of assets	-	-	(14,528)	-	(14,528)	(14,528)
Debt service - interest	(108,000)	(108,000)	(108,213)	-	(108,213)	1,787
Debt service - fees	(3,000)	(3,000)	(2,000)	-	(2,000)	1,000
Debt service - principal	(497,000)	(265,000)	-	(255,000)	(255,000)	10,000
TOTAL NONOPERATING REVENUES (EXPENSES)	(580,800)	(348,800)	339,322	(255,000)	84,322	433,122
TRANSFERS IN (OUT)	(95,000)	(95,000)	(95,000)	-	(95,000)	-
NET INCOME (LOSS)	-	(262,118)	178,323	(743,029)	(564,706)	(302,588)
NET ASSETS - BEGINNING, RESTATED	7,310,448	7,310,448	7,310,448	-	7,310,448	-
NET ASSETS - ENDING	\$ 7,310,448	\$ 7,048,330	\$ 7,488,771	\$ (743,029)	\$ 6,745,742	\$ (302,588)

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COMPLIANCE SECTION

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KAREN A. JACKS & ASSOCIATES, P.C.

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Longview, Texas 75604

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INDEPENDENT AUDITORS' REPORT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City of White Oak, Texas' basic financial statements and have issued our report thereon dated January 30, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of White Oak, Texas' internal control over financial reporting as a basis for designing our auditing procedures 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 of White Oak, Texas', internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of White Oak, Texas' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of White Oak, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of White Oak, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of White Oak, Texas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of White Oak, Texas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of White Oak, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2007-1.

We also noted certain matters that we reported to management of City of White Oak, Texas, in a separate letter dated January 30, 2008.

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

Karen A. Jacks & Associates, P.C.
Karen A. Jacks & Associates, P.C.

Longview, Texas
January 30, 2008

CITY OF WHITE OAK, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

<u>Program</u>	<u>Finding</u>	<u>Questioned Cost</u>
Finding #2006-1	The City's operating and payroll bank accounts were not reconciled timely during the year ended September 30, 2006. All reconciliations were completed timely during the year under audit.	
Finding #2006-2	Expenditures exceeded appropriations in the general fund and the water fund. This condition was repeated during the current year in the water fund. See Finding 2007-1.	

CITY OF WHITE OAK, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

B. Financial Statement Findings

Finding 2007-1

Expenditures exceeded appropriations in the water fund.

CITY OF WHITE OAK, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2007

The person responsible for this corrective action plan is Lisa Blount, Financial Manager.

Finding 2007-1

The City's Financial Manager and department heads will work closely together to prepare budget amendments for approval by the City Council so they can be recorded in a timely manner.

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KAREN A. JACKS & ASSOCIATES, P.C.

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January 30, 2008

Mayor and City Council
City of White Oak
906 S. White Oak Road
White Oak, TX 75693

In planning and performing our audit of the financial statements of the City of White Oak, Texas for the year ended September 30, 2007, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding those matters. We previously reported on the City's internal control based on an audit performed in accordance with *Government Auditing Standards* in a report dated January 30, 2008. This letter does not affect our report dated January 30, 2008, on the financial statements of the City of White Oak, Texas.

PRIOR YEAR CONSIDERATIONS

Depository Contract

We noted during the prior audit that the City did not have a current depository contract with a financial institution. We recommended that City officials consider bidding this contract to insure the best interest rates and lowest fees possible. The City Council approved a depository contract with Capital One at its meeting on August 14, 2007. As a result of that action, we consider this matter to be closed.

Investment Accounts

During the prior audits, we observed that the City has numerous investment accounts at different financial institutions, as well as in investment pools. We recommended that each of these accounts be evaluated to determine if a separate account is necessary or if some of them can be consolidated. Although two of the accounts were closed during the year ended September 30, 2006, we recommend that staff continue to evaluate the necessity of the remaining accounts and to consider them in view of the depository contract that was executed during the current year.

Capital Assets

The City does not have a system for tracking capital asset purchases and dispositions. Also, we were not able to determine that the City Council had formally adopted a capitalization policy. We recommended that the Council approve such a policy. In addition, we recommended that City staff develop a system where all departments would report their asset purchases, as well as the dispositions. We are aware that the City's accounting software has an asset module available, and staff may want to consider acquiring this module to be able to account for all capital assets.

The City Council formally adopted a capitalization policy in FY07. However, the City still does not have a system for tracking capital asset purchases and dispositions and relies upon the auditor to maintain its depreciation schedules.

Interfund Balances

Interfund accounts receivable and payable were not in balance at September 30, 2006. Audit adjustments were made to correct this out-of-balance position. We recommended that the interfund accounts be reconciled on monthly basis.

Again this year, the interfund accounts were out of balance at September 30, 2007. Audit adjustments were prepared to correct this condition. We again recommend that City staff monitor the interfund accounts monthly and reconcile any differences in a timely manner.

CURRENT YEAR CONSIDERATIONS

Grant Accounting

During the year under audit, the City received improvements to its water delivery system in a project funded with grant funds received by Gregg County through the Texas Community Development Program. Although the City did not handle the grant funds directly, the City did benefit from the payments on its behalf by the County and had value added to its water delivery system. Such payments on behalf of the City should be recognized in the City's financial statements.

We recommend that in the future when the City participates in such grant agreements, that City management determine the cost of the subject project(s) and recognize an appropriate amount in the City's financial statements. We also recommend that grant revenues and expenditures be provided for in the City's annual budget; if grants are awarded after adoption of the original budget, amendments should be approved by City Council as necessary.

Bank Reconciliations

In the prior audits, we have reported that bank reconciliations were not prepared on a timely basis. During the current year, we found that reconciliations were prepared timely; however, we observed that a number of reconciling items were carried for several months without investigation and corrective action. For example, deposits posted in the months of May, June and August, 2007, did not clear the bank until November, 2007. Further, the September, 2007, reconciliation required a minor adjustment to the books because the account could not be fully reconciled.

We recommend that the Financial Manager review each month's bank reconciliation for accuracy and completeness. All reconciling items should be considered as to their nature and timing; all unusual items or items not clearing in the normal course of business should be investigated each month. We understand that City staff have recently made some changes to the method of posting cash receipts in an effort to improve the cash reconciliation process.

Accounts Payable

At September 30, 2007, the City's accounting records reflected balances in accounts payable that could not be supported by a detailed listing of the items included in that balance. City staff members were unable to identify the amounts reported on the books, and audit adjustments were required to adjust accounts payable to actual.

We recommend that City staff prepare an open items report from the accounts payable accounting system and reconcile that report to the general ledger balances for accounts payable at each month-end. Any differences should be identified and corrected in a timely manner. We understand that City staff have recently identified an alternative method for processing accounts payable in the City's accounting software, and this method has been implemented in an effort to improve the accuracy and timing of accounts payable entries.

Cash Management

At September 30, 2007, the City's water fund share of the pooled checking account was in overdraft on the books in the amount of \$431,757. In addition, the water fund owed the payroll account \$171,240. For financial statement reporting purposes, those balances have been reclassified and reported as loans from the General Fund. It is unclear how management intends to replenish the general fund cash from the water fund, as the water fund had unrestricted investment balances at September 30, 2007, of only \$506,258. We understand that subsequent to year-end, a transfer of \$250,000 was made from a water fund investment account to the pooled checking account in partial satisfaction of this cash balance condition.

We recommend that City management monitor cash balances in the pooled checking account on a monthly basis to insure that each fund is maintaining an appropriate share of cash in that account and to insure that each fund is credited properly with interest earned on its investments. Although temporary cash overdrafts may occur on the books from time to time when one fund supports the other on a short-term basis, the

Mayor and City Council
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amount reported in the water fund at year-end is significant and appears to be an accumulation over the course of the entire year. We also recommend that each payroll be funded for its actual amount from the respective funds bearing the costs of payroll and related benefits.

Finally, we recommend that the Financial Manager be provided with additional training in cash management, reporting, and software features as necessary to improve her understanding of the same.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Thank you for the opportunity to work for the City of White Oak, Texas and for the many courtesies extended to us during our visit to your offices.

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