

CITY OF WHITE OAK, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**PRINCIPAL OFFICIALS**

September 30, 2008

**CITY COUNCIL**

JOSEPH CARRINGTON, MAYOR

GREGORY HULETT, MAYOR PRO TEM

KYLE KUTCH

KELLY MITCHELL

BARBARA RAY

LANCE NOLL

**CITY COORDINATOR**

CHARLIE SMITH

**CITY SECRETARY**

SHERRY ROBERTS

**OFFICE MANAGER**

SHERRY ROBERTS

CITY OF WHITE OAK, TEXAS  
 SEPTEMBER 30, 2008  
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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, 2008, 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, 2008, 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 April 23, 2009 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.

April 23, 2009

**CITY OF WHITE OAK, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2008**

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, 2008. 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, 2008 by \$17,188,326 (net assets). Of this amount, \$2,739,154 (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 decreased by \$ 331,470 for the year ended September 30, 2008.

As of September 30, 2008, the City's governmental funds reported an ending fund balance of \$2,702,798. This resulted in a decrease of \$206,376 in comparison with the prior year 2007 fund balance of \$2,909,174.

The City's total long term debt increased by \$2,629,877 at the end of fiscal year of 2008.

**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, 2008**

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 is 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 programs. 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, 2008**

**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 budgetary comparative information for the general fund and other supplementary information concerning budgetary comparative information for the water fund.

**THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The City's combined net assets were \$17,188,326 as of September 30, 2008. Analyzing the net assets and net expenses of governmental and business-type activities separately, the Governmental net assets are \$9,780,488 and the business-type activities net assets are \$7,407,838. 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, 2008**

**Table 1**  
**Summary of Net Assets**

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	Total <u>2008</u>	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Total <u>2007</u>
Current and other assets	\$ 2,910,784	\$ 3,301,673	\$ 6,212,457	\$ 3,188,616	\$ 435,592	\$ 3,624,208
Capital Assets	<u>\$ 7,078,706</u>	<u>\$ 9,295,313</u>	<u>\$ 16,374,019</u>	<u>\$ 7,120,915</u>	<u>\$ 9,517,840</u>	<u>\$ 16,638,755</u>
<b>TOTAL ASSETS</b>	<b>\$9,989,490</b>	<b>\$ 12,596,986</b>	<b>\$22,586,476</b>	<b>\$10,309,531</b>	<b>\$ 9,953,432</b>	<b>\$20,262,963</b>
Current Liabilities	\$ 209,002	\$ 224,148	\$ 433,150	\$ 278,506	\$ 134,661	\$ 413,167
Non-Current Liabilities	<u>\$ 0</u>	<u>\$ 4,965,000</u>	<u>\$ 4,965,000</u>	<u>\$ 0</u>	<u>\$ 2,330,000</u>	<u>\$ 2,330,000</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 209,002</b>	<b>\$ 5,189,148</b>	<b>\$ 5,398,150</b>	<b>\$ 278,506</b>	<b>\$2,464,661</b>	<b>\$2,743,167</b>
<b><u>Net Assets:</u></b>						
Invested in capital assets, net of related debt	\$ 7,078,706	\$ 6,991,910	\$ 14,070,616	\$ 7,120,915	\$ 7,187,840	\$14,308,755
Restricted	\$ 0	\$ 378,556	\$ 378,556	\$0	\$ 199,038	\$ 199,038
Unrestricted	<u>\$ 2,701,782</u>	<u>\$ 37,372</u>	<u>\$ 2,739,154</u>	<u>\$ 2,910,110</u>	<u>\$ 101,893</u>	<u>\$ 3,012,003</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 9,780,488</b>	<b>\$ 7,407,838</b>	<b>\$ 17,188,326</b>	<b>\$ 10,031,025</b>	<b>\$ 7,488,771</b>	<b>\$17,519,796</b>

**GOVERNMENTAL ACTIVITIES**

General Fund revenues decreased by 2.8%, or \$80,876, when compared to the prior year. Ad valorem tax revenue decreased \$14,946 (.98%) compared to the prior year. Sales tax revenue increased by \$25,766 (4.2%) due mainly to the City's increase in oil and gas business activity. Fines & forfeitures were up \$20,985 (20.3%) from the previous year due to the new City presiding judge having made great effort to collect money for fines in a timely manner versus the deferral program which is not used as much as it was in the past. Investment income was down \$81,894 (46.6%) due to falling interest rates as a result of the economic downturn which started in late 2007.

**Table 2**  
**General Revenues**

	<u>2008</u>	<u>2007</u>	<u>Incr. / (Decr.)</u>
Taxes	\$ 2,159,100	\$ 2,148,280	\$ 10,820
Franchise Fees	\$ 283,733	\$ 290,487	\$ (6,754)
Investment Income	\$ 93,691	\$ 175,585	\$ (81,894)
Other	<u>\$ 270,535</u>	<u>\$ 273,583</u>	<u>\$ (3,048)</u>
<b>TOTAL</b>	<b>\$ 2,807,059</b>	<b>\$ 2,887,935</b>	<b>\$ (80,876)</b>

**CITY OF WHITE OAK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)  
**September 30, 2008**

Government and Business-type activities decreased the City's net assets by \$331,470 from FY 2007. The key elements in this decrease are as follows:

**Table 3**  
**Changes in Net Assets**

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	<u>Total 2008</u>	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>Total 2007</u>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for service and grants	\$ 216,439	\$ 1,983,011	\$ 2,199,450	\$ 233,351	\$ 1,825,081	\$ 2,058,432
<b>General Revenues:</b>						
Taxes	\$ 2,152,026	\$ 0	\$ 2,152,026	\$ 2,136,945	\$ 0	\$ 2,136,945
Franchise Fees	\$ 283,733	\$ 0	\$ 283,733	\$ 290,487	\$ 0	\$ 290,487
Other	\$ 141,136	\$ 42,169	\$ 183,305	\$ 200,382	\$ 447,535	\$ 647,917
<b>TOTAL REVENUES</b>	<b>\$ 2,793,334</b>	<b>\$ 2,025,180</b>	<b>\$4,818,514</b>	<b>\$ 2,861,165</b>	<b>\$ 2,272,616</b>	<b>\$ 5,133,781</b>
<b>Expenses:</b>						
General Government	\$ 680,586	\$ 0	\$ 680,586	\$ 569,731	\$ 0	\$ 569,731
Public Safety	\$ 1,480,524	\$ 0	\$ 1,480,524	\$ 1,258,991	\$ 0	\$ 1,258,991
Public works	\$ 649,275	\$ 0	\$ 649,275	\$ 369,846	\$ 0	\$ 369,846
Development services	\$ 32,801	\$ 0	\$ 32,801	\$ 29,496	\$ 0	\$ 29,496
Culture and recreation	\$ 200,685	\$ 0	\$ 200,685	\$ 144,336	\$ 0	\$ 144,336
Debt Service	\$ 0	\$ 0	\$ 0	\$ 535	\$ 0	\$ 535
Water Utilities	\$ 0	\$ 2,106,113	\$ 2,106,113	\$ 0	\$ 1,999,293	\$ 1,999,293
<b>TOTAL EXPENSES</b>	<b>\$ 3,043,871</b>	<b>\$ 2,106,113</b>	<b>\$ 5,149,984</b>	<b>\$ 2,372,935</b>	<b>\$ 1,999,293</b>	<b>\$ 4,372,228</b>
Transfers In (Out)	\$ 0	\$ 0	\$ 0	\$ 95,000	\$ (95,000)	\$ 0
Change in Net Assets	\$ (250,537)	\$ (80,933)	\$ (331,470)	\$ 583,230	\$ 178,323	\$ 761,553
Net Assets, beginning	\$ 10,031,025	\$ 7,488,771	\$17,519,796	\$ 9,447,795	\$ 7,310,448	\$ 16,758,243
Net Assets, ending	\$ 9,780,488	\$ 7,407,838	\$17,188,326	\$ 10,031,025	\$ 7,488,771	\$ 17,519,796

**CITY OF WHITE OAK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)  
**September 30, 2008**

**GOVERNMENTAL ACTIVITIES**

The most significant governmental expense for the City was in providing for public safety, which incurred expenditures of \$1,480,524. These expenses were offset by revenues collected from a variety of sources, with the largest being fines and forfeitures, which totaled \$124,371 for the period ending September 30, 2008. Public safety includes the City Police and Fire departments. In 2008, the City spent \$95,039 on City Park Improvements with \$45,039 from the fund balance and \$50,000 from a TP&W Grant. Annual payroll and benefits for both funds came in at \$2,168,785 for the year. Three long time employees retired which resulted in lump sum payments for accumulated vacation. General Fund revenue came in higher than budgeted due to sales tax and court revenue coming in higher than anticipated and unexpected grant income. Municipal Court revenue experienced an increase of 20.3%. The City also received unexpected grants from Texas Parks & Wildlife and ETCOG totaling nearly \$61,700.

**BUSINESS TYPE ACTIVITIES**

Revenues of the City's business-type activities were \$1,983,011 in 2008 and total operating expenses came in at \$1,945,607 resulting in a net gain of \$37,404 in operating income. However, a net non-operating revenue/expense, primarily represented by debt service interest, resulted in a \$80,933 decrease in net assets. The most significant expenses for the Water fund came from employee costs, depreciation expense, chemical expense for water and sewer maintenance, maintenance of water and sewer lines, and capital projects. The transfer between the General Fund and Water Fund was eliminated in 2008. This subject may need to be reconsidered due to the balance the Water Fund owes the General Fund at the end of September 2008. One long time employee retired this fiscal year resulting in a lump sum payment for accumulated vacation.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of September 30, 2008 the City had \$16,347,600 (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 decrease (including additions and deletions) of \$291,155 over the prior year. A Fixed Asset Module was added to the accounting software system and updates made that included disposition of assets that are no longer owned by the City.

**Table 4**  
**CAPITAL ASSETS**

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	<u>TOTAL 2008</u>	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>TOTAL 2007</u>
Land	\$ 201,297	\$ 96,824	\$ 298,121	\$ 201,297	\$ 55,325	\$ 256,622
Construction in Progress	\$ 0	\$ 248,107	\$ 248,107	\$ 7,000	\$ 0	\$ 7,000
Building and Improvements	\$ 729,722	\$ 106,802	\$ 836,524	\$ 747,968	\$ 112,600	\$ 860,568
Infrastructure	\$ 5,277,804	\$ 0	\$ 5,277,804	\$ 5,258,397	\$ 0	\$ 5,258,397
Assets under Capital Lease	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Furniture/Equip/Machinery	\$ 869,883	\$ 117,825	\$ 987,708	\$ 906,253	\$ 159,836	\$ 1,066,089
Water & Sewer System	\$ 0	\$ 8,699,336	\$ 8,699,336	\$ 0	\$ 9,190,079	\$ 9,190,079
<b>TOTAL</b>	<b>\$ 7,078,706</b>	<b>\$ 9,268,894</b>	<b>\$ 16,347,600</b>	<b>\$ 7,120,915</b>	<b>\$ 9,517,840</b>	<b>\$ 16,638,755</b>

**THE CITY OF WHITE OAK,  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)  
September 30, 2008**

**Debt Administration**

At the end of the current fiscal year, the City had \$4,965,000 in certificates of obligation and revenue bonds outstanding. This represents an increase of \$2,635,000 compared to the prior year. The increase is due to the \$2,900,000 new Certificate of Obligation obtained for water and sewer projects. The following table shows the debt outstanding at September 30, 2008.

**Table 5  
Outstanding Debt**

	Governmental Activities <u>2008</u>	Business-type Activities <u>2008</u>	<u>Total-2008</u>	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	<u>Total-2007</u>
Cert of Obligation	\$ 0	\$ 3,920,000	\$ 3,920,000	\$ 0	\$ 1,160,000	\$ 1,160,000
Revenue Bonds	\$ 0	\$ 1,045,000	\$ 1,045,000	\$ 0	\$ 1,170,000	\$ 1,170,000
<b>TOTALS</b>	<b>\$ 0</b>	<b>\$ 4,965,000</b>	<b>\$ 4,965,000</b>	<b>\$ 0</b>	<b>\$ 2,330,000</b>	<b>\$ 2,330,000</b>

**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 \$2,702,798. The General Fund's ending balance decreased \$206,376 over the prior year of \$2,909,174. The primary reason for the decrease is the cash outlay for an emergency culvert repair on Steamboat Road, Penick Park improvements and the remodeling project for the Jim Nall Training Center.

**Proprietary funds**

At the end of September 30, 2008, the City's Proprietary (Water and Waste Water) Fund had a fund balance of \$7,407,838. This is a decrease of \$80,933 compared to the prior year. The majority of the decrease can be attributed mainly to the SCADA system update and water line improvements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rate and fees that will be charged for business-type activities. The City of White Oak continues to be the fastest growing city in Gregg County. Real property values for fiscal year 2009 increased 10% over the previous year. Mineral and gas values also increased 5% from the prior year. As a result, the city was able to maintain the tax rate of \$0.48 from the previous year without compromising the level of services provided to its citizens. In fiscal year 2009, the budget includes an increase of water and sewer fees to service the debt issued in 2008 for major improvements to our water and sewer plant infrastructure. Customers using less than 10,000 gallons of water per month will see an annual increase of approximately \$25 per year or approximately 8%. The budgeted increase for sewer rates is 7% or approximately \$ 16 per customer per year. These improvements will upgrade equipment and provide additional capacity to serve the citizens of White Oak for many years to come. Our water and sewer rates continue to be competitive with surrounding cities.

The General Fund's largest single revenue source is ad valorem property taxes. The property tax rate for fiscal year 2008 was \$0.4800 per \$100 valuation. The General Fund's portion of property tax revenue for the fiscal year 2008 came in at \$1,514,397.

**CITY OF WHITE OAK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)  
September 30, 2008

The largest revenue source for the Water Fund is the sale of water. In 2008, water revenue came in at \$1,117,973. The next largest revenue source for this fund is sewer revenue. In 2008, it came in at \$537,855. This is an increase of around \$2,828 from last year's number of \$540,683. Due to the above normal amount of rainfall during the summer months, we did not meet our budget for sale of water of \$1,308,000.

**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, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	WOEDCO
<b>ASSETS</b>				
Cash	\$ 263,492	\$ 97,837	\$ 361,329	\$ 116,346
Temporary investments	2,215,733	-	2,215,733	246,343
Receivables (net of allowance for uncollectibles):				
Taxes	151,007	-	151,007	59,896
Accounts	-	265,069	265,069	-
Other	58,772	-	58,772	1,247
Internal balances	215,675	(215,675)	-	-
Prepaid expenses	6,105	-	6,105	-
Restricted assets:				
Temporary investments	-	3,154,442	3,154,442	-
Notes receivable	-	-	-	424,910
Debt issuance costs	-	26,419	26,419	-
Capital assets (net of accumulated depreciation):				
Land	201,297	96,824	298,121	-
Buildings and improvements	729,722	106,802	836,524	-
Water and sewer system	-	8,699,336	8,699,336	-
Machinery and equipment	869,883	117,825	987,708	3,705
Infrastructure	5,277,804	-	5,277,804	-
Construction in progress	-	248,107	248,107	-
Total assets	9,989,490	12,596,986	22,586,476	852,447
<b>LIABILITIES</b>				
Accounts payable	148,320	126,258	274,578	28,185
Accrued wages payable	28,451	2,882	31,333	-
Payable from restricted assets				
Accrued interest	-	17,046	17,046	-
Meter deposits	-	73,095	73,095	-
Accrual for compensated absences	32,231	4,867	37,098	-
Noncurrent liabilities:				
Due within one year	-	300,000	300,000	-
Due in more than one year	-	4,665,000	4,665,000	-
Total liabilities	209,002	5,189,148	5,398,150	28,185
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,078,706	6,991,910	14,070,616	3,705
Restricted for debt service	-	378,556	378,556	-
Unrestricted	2,701,782	37,372	2,739,154	820,557
Total net assets	\$ 9,780,488	\$ 7,407,838	\$ 17,188,326	\$ 824,262

(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, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit WOEDCO
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 680,586	\$ 27,308	\$ -	\$ (653,278)	\$ -	\$ (653,278)	\$ -
Public safety	1,480,524	124,371	14,760	(1,341,393)	-	(1,341,393)	-
Public works	649,275	-	-	(649,275)	-	(649,275)	-
Developmental services	32,801	-	-	(32,801)	-	(32,801)	-
Recreation	200,685	-	50,000	(150,685)	-	(150,685)	-
Total governmental activities	<u>3,043,871</u>	<u>151,679</u>	<u>64,760</u>	<u>(2,827,432)</u>	<u>-</u>	<u>(2,827,432)</u>	<u>-</u>
Business-type activities:							
Water utilities	2,106,113	1,983,011	-	-	(123,102)	(123,102)	-
<b>Total primary government</b>	<b>\$ 5,149,984</b>	<b>\$ 2,134,690</b>	<b>\$ 64,760</b>	<b>\$ (2,827,432)</b>	<b>\$ (123,102)</b>	<b>\$ (2,950,534)</b>	<b>\$ -</b>
<b>Component unit:</b>							
WOEDCO	\$ 214,865	-	-	-	-	-	(214,865)
General revenues							
Property taxes				1,507,323	-	1,507,323	-
Sales taxes				644,703	-	644,703	322,352
Franchise taxes				283,733	-	283,733	-
Unrestricted investment earnings				93,691	42,316	136,007	11,215
Miscellaneous				49,415	-	49,415	-
Gain/loss on sale of assets				(1,970)	(147)	(2,117)	-
Transfers				-	-	-	-
Total general revenues and transfers				<u>2,576,895</u>	<u>42,169</u>	<u>2,619,064</u>	<u>333,567</u>
Change in net assets				(250,537)	(80,933)	(331,470)	118,702
Net assets - beginning				<u>10,031,025</u>	<u>7,488,771</u>	<u>17,519,796</u>	<u>705,560</u>
Net assets - ending				<u>\$ 9,780,488</u>	<u>\$ 7,407,838</u>	<u>\$ 17,188,326</u>	<u>\$ 824,262</u>

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

CITY OF WHITE OAK, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008

	<u>General Fund</u>
<b>ASSETS AND OTHER DEBITS:</b>	
Cash	\$ 263,492
Temporary investments	2,215,733
Due from other funds	215,675
Receivables:	
Taxes	151,007
Miscellaneous	58,772
Prepaid expenditures	<u>6,105</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,910,784</u></b>
<b>LIABILITIES AND FUND BALANCE:</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 148,320
Unearned revenue	31,215
Accrued wages	<u>28,451</u>
<b>TOTAL LIABILITIES</b>	<b><u>207,986</u></b>
<b>FUND BALANCE</b>	
Fund balance - unreserved	2,679,600
Fund balance - reserved	<u>23,198</u>
<b>TOTAL FUND BALANCE</b>	<b><u>2,702,798</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 2,910,784</u></b>

(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, 2008

Total fund balances - governmental funds balance sheet	\$ 2,702,798
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	7,078,706
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	31,215
Payables for compensated absences which are not due in the current period are not reported in the funds.	<u>(32,231)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 9,780,488</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, 2008

	General Fund
<b>REVENUES:</b>	
Property taxes	\$ 1,514,397
Franchise taxes	283,733
Sales taxes	644,703
Licenses, permits and fees	27,308
Fines, forfeitures and penalties	124,371
Investment income	93,691
Grant revenues	64,760
Miscellaneous	54,096
	2,807,059
<b>TOTAL REVENUES</b>	
<b>EXPENDITURES:</b>	
General government	660,497
Public safety	1,464,400
Public works	603,306
Developmental services	32,981
Recreation	252,251
	3,013,435
<b>TOTAL EXPENDITURES</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES</b>	(206,376)
<b>OTHER FINANCING SOURCES (USES):</b>	
Transfers	-
	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	
<b>NET CHANGE IN FUND BALANCE</b>	(206,376)
<b>FUND BALANCE, OCTOBER 1, 2007</b>	2,909,174
	2,909,174
<b>FUND BALANCE, SEPTEMBER 30, 2008</b>	\$ 2,702,798
	2,702,798

(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, 2008

Net change in fund balances - total governmental funds	\$(206,376)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	279,554
The depreciation of capital assets used in governmental activities is not reported in the funds.	(315,113)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(7,074)
All proceeds from the sale of capital assets are reported in the funds but not the SOA.	(4,680)
The gain or loss on the sale of capital assets is not reported in the funds.	(1,970)
(Increase) decrease in accrual for compensated absences.	5,123
Rounding.	<u>(1)</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$(250,537)</u></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, 2008

	Water Utilities
<b>ASSETS:</b>	
Current assets:	
Cash	\$ 97,837
Accounts receivable	265,069
Restricted assets:	
Temporary investments	3,154,442
Noncurrent assets:	
Debt issuance costs	26,419
Land	96,824
Capital assets, net	9,172,070
TOTAL ASSETS	12,812,661
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable	126,258
Accrued wages	2,882
Accrual for compensated absences	4,867
Due to other funds	215,675
Payable from restricted assets:	
Accrued interest payable	17,046
Customer deposits	73,095
Noncurrent liabilities:	
Due within one year	300,000
Due in more than one year	4,665,000
TOTAL LIABILITIES	5,404,823
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,991,910
Restricted for debt repayment	378,556
Unrestricted	37,372
TOTAL NET ASSETS	\$ 7,407,838

(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, 2008

	Water Utilities
<b>OPERATING REVENUES:</b>	
Water revenue	\$ 1,117,973
Sewer revenue	537,855
Sanitation revenue	255,041
Penalties	25,649
Installment fees	37,756
Miscellaneous revenue	8,737
<b>TOTAL OPERATING REVENUES</b>	<b>1,983,011</b>
<b>OPERATING EXPENSES:</b>	
Administration	83,900
Water supply	84,596
Water distribution	178,536
Water purification	425,331
Sanitary sewer maintenance	158,963
Sanitary sewer treatment	219,598
Sanitation services	223,400
Depreciation	511,337
Miscellaneous	59,946
<b>TOTAL OPERATING EXPENSES</b>	<b>1,945,607</b>
<b>OPERATING INCOME</b>	<b>37,404</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment proceeds	42,316
Loss on disposition of assets	(147)
Debt service - interest	(154,070)
Debt service - fees	(6,436)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(118,337)</b>
<b>TRANSFERS</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(80,933)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>7,488,771</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 7,407,838</b>

(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, 2008

	Water Utilities
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from customers for water sales and sewer service	\$ 1,975,904
Cash payments to employees	(419,225)
Cash payments for goods and services	(936,841)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>619,838</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Cash borrowed from other funds	-
Loans repaid to other funds	(387,322)
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(387,322)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Debt proceeds	2,900,000
Purchase of capital assets	(262,538)
Principal paid on debt	(265,000)
Interest paid on debt	(145,497)
Debt issuance costs	(27,488)
Fees paid on debt	(5,367)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,194,110</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment proceeds	42,317
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>42,317</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,468,943</b>
<b>CASH AND CASH EQUIVALENTS - OCTOBER 1, 2007</b>	<b>783,336</b>
<b>CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2008</b>	<b>\$ 3,252,279</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 37,404
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	511,337
(Increase) decrease in accounts receivable	(9,816)
Increase (decrease) in customer deposits	2,710
Increase (decrease) in accounts payable	89,563
Increase (decrease) in accrued wages	(10,911)
Increase (decrease) in accrual for compensated absences	(449)
Total adjustments	582,434
<b>Net cash provided by operating activities</b>	<b>\$ 619,838</b>

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

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**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 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 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, 2008

**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 2008, 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, 2008

**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:

<u>Violation</u>	<u>Action Taken</u>
None	Not applicable

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, 2007 upon which the 2008 fiscal-year levy was based, was \$319,727,908 and the tax levy was set at \$.48 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, 2008, for the fiscal 2008 tax levy were 97.7 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2008, were \$54,151.

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, 2008 is \$22,935.

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the period ended September 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 201,297	\$ -	\$ -	\$ 201,297
Construction in Progress	7,000	115,081	122,081	-
Total capital assets not being depreciated	<u>208,297</u>	<u>115,081</u>	<u>122,081</u>	<u>201,297</u>
Capital assets being depreciated:				
Buildings & improvements	960,547	-	-	960,547
Infrastructure	6,825,949	175,014	-	7,000,963
Furniture and equipment	1,683,794	111,540	34,679	1,760,655
Total capital assets being depreciated	<u>9,470,290</u>	<u>286,554</u>	<u>34,679</u>	<u>9,722,165</u>
Less accumulated depreciation for:				
Buildings & Improvements	(212,579)	(18,246)	-	(230,825)
Infrastructure	(1,567,552)	(155,807)	-	(1,723,159)
Furniture and equipment	(777,541)	(141,260)	(28,029)	(890,772)
Total accumulated depreciation	<u>(2,557,672)</u>	<u>(315,113)</u>	<u>(28,029)</u>	<u>(2,844,756)</u>
Total capital assets being depreciated, net	<u>6,912,618</u>	<u>(28,559)</u>	<u>6,650</u>	<u>6,877,409</u>
Governmental activities capital assets, net	<u>\$ 7,120,915</u>	<u>\$ 86,522</u>	<u>\$ 128,731</u>	<u>\$ 7,078,706</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 55,325	\$ 41,499	\$ -	\$ 96,824
Construction in progress	-	248,107	-	248,107
Total capital assets, not being depreciated	<u>55,325</u>	<u>289,606</u>	<u>-</u>	<u>344,931</u>
Capital assets being depreciated:				
Water and sewer system	15,233,078	14,431	208,159	15,039,350
Buildings	255,590	-	-	255,590
Machinery and equipment	377,108	33,455	38,801	371,762
Total capital assets being depreciated	<u>15,865,776</u>	<u>47,886</u>	<u>246,960</u>	<u>15,666,702</u>
Less accumulated depreciation for:				
Water and sewer system	(6,042,999)	(468,874)	(171,859)	(6,340,014)
Buildings	(142,990)	(5,798)	-	(148,788)
Machinery and equipment	(217,272)	(36,665)	-	(253,937)
Total accumulated depreciation	<u>(6,403,261)</u>	<u>(511,337)</u>	<u>(171,859)</u>	<u>(6,742,739)</u>
Total capital assets being depreciated, net	<u>9,462,515</u>	<u>(463,451)</u>	<u>75,101</u>	<u>8,923,963</u>
Business-type activities capital assets, net	<u>\$ 9,517,840</u>	<u>\$ (173,845)</u>	<u>\$ 75,101</u>	<u>\$ 9,268,894</u>

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:	
General government	\$ 32,165
Public safety	97,763
Public works	99,449
Recreation	85,736
Total depreciation expense - governmental activities	<u>315,113</u>
Business-type activities:	
Water utilities	<u>511,337</u>
Total depreciation expense - business-type activities	<u>511,337</u>

**NOTE 5 - LONG-TERM DEBT**

Long-term debt transactions for the year ended September 30, 2008, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Accrual for Compensated Absences	\$ 37,354	\$ -	\$ 5,123	\$ 32,231	\$ -
<b>Total Governmental Activities</b>	<u>\$ 37,354</u>	<u>\$ -</u>	<u>\$ 5,123</u>	<u>\$ 32,231</u>	<u>\$ -</u>
<b>Business-type Activities:</b>					
<u>Certificates of Obligation</u>					
Series 1999, interest at 5.05%, maturing 3/01/2014	\$ 1,160,000	\$ -	\$ 140,000	\$ 1,020,000	\$ 150,000
Series 2008, interest at 3.50-4.25%, maturing 3/01/2023	-	2,900,000	-	2,900,000	20,000
<u>Revenue Bonds</u>					
Series 2001, interest at 3.20-3.95%, maturing 3/01/2015	1,170,000	-	125,000	1,045,000	130,000
<b>Total Business-Type Activities</b>	<u>\$ 2,330,000</u>	<u>\$ 2,900,000</u>	<u>\$ 265,000</u>	<u>\$ 4,965,000</u>	<u>\$ 300,000</u>
<b>Total Long-term Debt</b>	<u>\$ 2,367,354</u>	<u>\$ 2,900,000</u>	<u>\$ 270,123</u>	<u>\$ 4,997,231</u>	<u>\$ 300,000</u>

Aggregate maturities of long-term debt subsequent to September 30, 2008 are as follows:

Business-type activities:

Year Ending September 30	Principal	Interest	Total
2009	\$ 300,000	\$ 198,144	\$ 498,144
2010	315,000	184,983	499,983
2011	330,000	171,107	501,107
2012	345,000	156,437	501,437
2013	370,000	140,754	510,754
2014-2018	1,535,000	493,922	2,028,922
2019-2023	1,770,000	176,507	1,946,507
	<u>\$ 4,965,000</u>	<u>\$ 1,521,854</u>	<u>\$ 6,486,854</u>

CITY OF WHITE OAK, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

**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 827 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, 2007 valuation is effective for rates beginning January, 2009).

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/07
Actuarial Value of Assets	\$ 3,466,301
Actuarial Accrued Liability	5,083,865
Percentage Funded	68.18%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	1,617,564
Annual Covered Payroll	1,444,234
UAAL as a Percentage of Covered Payroll	112.00%

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)**

Net Pension Obligation (NPO) at the Beginning of Period		-
<b>ANNUAL PENSION COST:</b>		
Annual required contribution (ARC)	207,003	
Interest on NPO	-	
Adjustment to the ARC	-	207,003
		207,003
Contributions made		207,003
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 FY2008 and the two preceding years were as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage Contributed	Net Pension Obligation
09/30/06	159,933	100%	-
09/30/07	156,287	100%	-
09/30/08	207,003	100%	-

The City of White Oak is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12/31/07 valuations are contained in the 2007 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**

Balances due to and from other funds at September 30, 2008, consisted of the following:

Due To Fund	Due From Fund	Amount	Reason
General Fund	Water Utilities Fund	\$ 215,675	Short-term loan

**NOTE 8 - RESERVED FUND BALANCE**

As of September 30, 2008, fund balances reserved for specific purposes were as follows:

General Fund		
Municipal Court Security Fees	\$ 7,735	
Municipal Court Technology Fees	15,463	
	\$ 23,198	

**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, 2008.

CITY OF WHITE OAK, TEXAS  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008

**NOTE 10 - DEPOSITS AND INVESTMENTS**

Cash Deposits

Deposits - At September 30, 2008, the carrying amounts of the City's bank balances were \$361,329. The City's cash deposits at September 30, 2008 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, 2008, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 555,647
Certificate of Deposit	09/30/08	100,000
MBIA Texas CLASS	N/A	623,268
Fed #395 Gov't Obligation	N/A	4,091,260
Total Investments		<u>\$ 5,370,175</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.

At September 30, 2008, 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 &amp; Poor's Rating</u>
Texpool	AAA <sub>m</sub>

<u>Investment</u>	<u>Fitch Rating</u>
MBIA Texas CLASS	AAA <sub>m</sub>

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.

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 10 - DEPOSITS AND INVESTMENTS (CONTINUED)**

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.

**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.

CITY OF WHITE OAK, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Commitments

The City had the following outstanding contractual commitments at September 30, 2008.

Contractor - wastewater treatment plant improvements	\$ 299,014
Contractor - Owens Road lift station improvements	<u>85,876</u>
	<u>\$ 384,890</u>

These amounts are expected to be paid from proceeds of certificates of obligation.

REQUIRED SUPPLEMENTAL INFORMATION

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CITY OF WHITE OAK, TEXAS  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 1,528,836	\$ 1,528,836	\$ 1,514,397	\$ (14,439)
Franchise taxes	303,191	303,191	283,733	(19,458)
Sales taxes	677,000	677,000	644,703	(32,297)
Licenses, permits and fees	16,621	16,621	27,308	10,687
Fines, forfeitures and penalties	100,350	100,350	124,371	24,021
Investment income	95,000	95,000	93,691	(1,309)
Grant revenues	-	14,196	64,760	50,564
Miscellaneous	18,876	18,876	54,096	35,220
<b>TOTAL REVENUES</b>	<u>2,739,874</u>	<u>2,754,070</u>	<u>2,807,059</u>	<u>52,989</u>
<b>EXPENDITURES:</b>				
General government	757,069	785,288	660,497	124,791
Public safety	1,351,415	1,422,688	1,464,400	(41,712)
Public works	407,208	661,345	603,306	58,039
Developmental services	32,211	32,211	32,981	(770)
Recreation	184,141	197,205	252,251	(55,046)
<b>TOTAL EXPENDITURES</b>	<u>2,732,044</u>	<u>3,098,737</u>	<u>3,013,435</u>	<u>85,302</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	7,830	(344,667)	(206,376)	138,291
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	7,830	(344,667)	(206,376)	138,291
<b>FUND BALANCE, OCTOBER 1, 2007</b>	<u>2,909,174</u>	<u>2,909,174</u>	<u>2,909,174</u>	<u>-</u>
<b>FUND BALANCE, SEPTEMBER 30, 2008</b>	<u>\$ 2,917,004</u>	<u>\$ 2,564,507</u>	<u>\$ 2,702,798</u>	<u>\$ 138,291</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, 2008

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget Positive (Negative)
<b>OPERATING REVENUES:</b>						
Water revenue	\$ 1,308,000	\$ 1,308,000	\$ 1,117,973	\$ -	\$ 1,117,973	\$ (190,027)
Sewer revenue	568,131	568,131	537,855	-	537,855	(30,276)
Sanitation revenue	255,000	255,000	255,041	-	255,041	41
Penalties	26,003	26,003	25,649	-	25,649	(354)
Installment fees	22,725	22,725	37,756	-	37,756	15,031
Miscellaneous revenue	1,146	1,146	8,737	-	8,737	7,591
<b>TOTAL OPERATING REVENUES</b>	<b>2,181,005</b>	<b>2,181,005</b>	<b>1,983,011</b>	<b>-</b>	<b>1,983,011</b>	<b>(197,994)</b>
<b>OPERATING EXPENSES:</b>						
Administration	68,470	79,421	83,900	-	83,900	(4,479)
Water supply	117,150	117,150	84,596	-	84,596	32,554
Water distribution	180,942	191,342	178,536	-	178,536	12,806
Water purification	439,840	439,840	425,331	-	425,331	14,509
Sanitary sewer maintenance	183,295	167,349	158,963	-	158,963	8,386
Sanitary sewer treatment	224,176	224,176	219,598	-	219,598	4,578
Sanitation services	225,400	225,400	223,400	-	223,400	2,000
Depreciation	-	-	511,337	(511,337)	-	-
Miscellaneous	26,843	26,843	59,946	(54,812)	5,134	21,709
Capital outlay	241,085	589,709	-	317,350	317,350	272,359
<b>TOTAL OPERATING EXPENSES</b>	<b>1,707,201</b>	<b>2,061,230</b>	<b>1,945,607</b>	<b>(248,799)</b>	<b>1,696,808</b>	<b>364,422</b>
<b>OPERATING INCOME (LOSS)</b>	<b>473,804</b>	<b>119,775</b>	<b>37,404</b>	<b>248,799</b>	<b>286,203</b>	<b>166,428</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Investment proceeds	31,178	31,178	42,316	-	42,316	11,138
Loss on disposition of assets	-	-	(147)	-	(147)	(147)
Debt service - interest	(185,982)	(185,982)	(154,070)	-	(154,070)	31,912
Debt service - fees	(4,000)	(4,000)	(6,436)	-	(6,436)	(2,436)
Debt service - principal	(265,000)	(265,000)	-	(265,000)	(265,000)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(423,804)</b>	<b>(423,804)</b>	<b>(118,337)</b>	<b>(265,000)</b>	<b>(383,337)</b>	<b>40,467</b>
<b>TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCOME (LOSS)</b>	<b>50,000</b>	<b>(304,029)</b>	<b>(80,933)</b>	<b>(16,201)</b>	<b>(97,134)</b>	<b>206,895</b>
<b>NET ASSETS - BEGINNING</b>	<b>7,488,771</b>	<b>7,488,771</b>	<b>7,488,771</b>	<b>-</b>	<b>7,488,771</b>	<b>-</b>
<b>NET ASSETS - ENDING</b>	<b>\$ 7,538,771</b>	<b>\$ 7,184,742</b>	<b>\$ 7,407,838</b>	<b>\$ (16,201)</b>	<b>\$ 7,391,637</b>	<b>\$ 206,895</b>

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COMPLIANCE SECTION

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# KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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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, 2008, which collectively comprise the City of White Oak, Texas' basic financial statements and have issued our report thereon dated April 23, 2009. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain matters that we reported to management of City of White Oak, Texas, in a separate letter dated April 23, 2009.

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  
April 23, 2009

CITY OF WHITE OAK, TEXAS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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 #2007-1	Expenditures exceeded appropriations in the water fund. This condition did not recur in the year under audit.	

CITY OF WHITE OAK, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>  X  </u>	Yes	<u>      </u>	None Reported
Noncompliance material to financial statements noted?	<u>      </u>	Yes	<u>  X  </u>	No

B. Financial Statement Findings

Finding #2008-1

Condition:

City staff had not adjusted all financial statement accounts to reflect accurate year-end balances prior to the start of the audit. Material adjusting entries were required to correct these balances.

Cause:

The current City Secretary assumed her duties on September 2, 2008, which did not allow for sufficient time for her to become well-trained on year-end closing procedures.

Effect:

This condition, if not corrected, could result in a material misstatement in the City's financial statements that would not be prevented or detected on a timely basis.

Recommendation:

The City should establish year-end closing procedures which allow for a reconciliation and verification of all significant account balances by City staff.

CITY OF WHITE OAK, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

The person responsible for this corrective action plan is Sherry Roberts, City Secretary.

Finding 2008-1

The City of White Oak agrees with this audit finding and recommendations made by the auditors.

Before the audit of fiscal year 2009, there will be a checklist made to insure that every balance sheet account is carefully reviewed for accurate balances. This checklist will be implemented in the year-end closing procedures.

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# KAREN A. JACKS & ASSOCIATES, P.C.

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April 23, 2009

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, 2008, 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 April 23, 2009. This letter does not affect our report dated April 23, 2009, on the financial statements of the City of White Oak, Texas.

## PRIOR YEAR CONSIDERATIONS

### 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 recommended 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 year ended September 30, 2007.

During the year ended September 30, 2008, there was no change in the investment accounts maintained by the City. However, we have been informed that these accounts are being evaluated in the current fiscal year.

### Capital Assets

In previous years, the City did not have a system for tracking capital asset purchases and dispositions. We recommended that City staff develop a system where all departments would report their asset purchases, as well as the dispositions. The City's accounting software has an asset module available, and we suggested that staff may want to consider acquiring this module to be able to account for all capital assets.

During the year ended September 30, 2008, City staff recorded all capital assets of the water fund in the asset module of their accounting software. The general fund's assets have yet to be recorded, and we recommend that this be done in the current fiscal year.

### Interfund Balances

Interfund accounts receivable and payable were not in balance at September 30, 2006 or 2007. Audit adjustments were made to correct this out-of-balance position. We recommended that the interfund accounts be reconciled on monthly basis.

All interfund accounts were in balance at September 30, 2008. Therefore, we consider this matter to be closed.

### Grant Accounting

During the year ended September 30, 2007, 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 recommended 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 recommended 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.

During the year ended September 30, 2008, the City received a \$50,000 grant from Texas Parks & Wildlife for park improvements. No budget amendment was approved for this project. We continue to recommend that all grant revenues and expenditures be provided for in the City's budget.

### Bank Reconciliations

In prior audits, we have reported that bank reconciliations were not prepared on a timely basis. During the prior 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. We recommended 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 understood that City staff had made some changes to the method of posting cash receipts in an effort to improve the cash reconciliation process.

City staff made significant improvement in this area during the year ended September 30, 2008, and we consider this matter to be closed.

#### 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 recommended 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.

This condition did recur at September 30, 2008. Audit adjustments were made to correct the accounts payable balances in the City's accounting records. We continue to recommend that reconciliations of these balances be done on a monthly basis.

#### 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 were reclassified and reported as loans from the General Fund. We recommended 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 amount reported in the water fund at year-end was significant and appeared to be an accumulation over the course of the entire year. We also recommended that each payroll be funded for its actual amount from the respective funds bearing the costs of payroll and related benefits. Finally, we recommended 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.

At September 30, 2008, the City's water fund share of the pooled checking account was not in an overdraft position. However, the water fund owed the payroll account \$215,675, which is reported in the financial statements as a loan from the general fund. We continue to recommend that these balances be monitored on a monthly basis. We also recommend that City staff develop a plan for repaying the balance owed to the general fund.

## CURRENT YEAR CONSIDERATIONS

### Minutes of Council Meetings

During our current year audit, we determined that there is not a central location for all official minutes of City Council meetings. In order to observe signed copies of the minutes, they had to be retrieved from several locations. We recommend that these official records be maintained by the City Secretary in a secure location.

### Capital Asset Transfers

While performing audit procedures related to capital assets, we were informed by City staff that there were vehicles originally purchased by the water fund that were being used by the general fund and vice versa. Audit adjustments were made to correctly record these assets in the correct funds. We recommend that City staff develop a system for tracking these assets so that these transfers are recorded correctly in the accounting records.

### Water Billings

During our current year audit, we determined that the water billing software was not calculating minimum charges correctly on accounts with multiple units. Minimum charges were assessed for each unit, such as an apartment or duplex, instead of for each meter. We understand that this situation has subsequently been corrected by City staff.

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.

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

Karen A. Jacks & Associates, P.C.

Finding #2008-1

Condition:

City staff had not adjusted all financial statement accounts to reflect accurate year-end balances prior to the start of the audit. Material adjusting entries were required to correct these balances.

**Auditee's Corrective Action Plan:**

The City of White Oak agrees with this audit finding and recommendations made by the auditors.

Before the audit of fiscal year 2009, there will be a checklist made to assure every balance sheet account is carefully reviewed for accurate balances. This checklist will be implemented in the year-end closing procedures.

RESPONSE AND/OR CORRECTIVE ACTIONS  
FOR FY 07/08 AUDITOR MANAGEMENT LETTER  
FROM KAREN A. JACKS & ASSOCIATES

**PRIOR YEAR CONSIDERATIONS**

INVESTMENT ACCOUNTS: I have consolidated all investment accounts into either LOGIC, Texpool or MBIA with the majority of City funds being held in LOGIC who tends to have the higher interest rate. I left a bare minimum amount of monies in Texpool and MBIA rather than closing those accounts just in case their interest rates exceed LOGIC in the future.

CAPITAL ASSETS: Incode's Fixed Asset module was purchased in September 2008. Peggy worked very diligently in entering all our General Fund and W&S fixed assets. We have since balanced our fixed assets to each fund's fixed asset general ledger account.

INTERFUND BALANCES: This will be monitored every month to make sure these stay reconciled.

GRANT ACCOUNTING: The Penick Park grant match was budgeted for fy 07/08, but the grant revenue was not. As soon as the City is awarded a grant, that amount will be brought to the council for amendment along with the expense side.

BANK RECONCILIATIONS: I will review each month's bank recons for accuracy.

ACCOUNTS PAYABLE: Staff will prepare reports for reconciliation between the open a/p items and the a/p general ledger account. This will be reconciled every month and I will review.

CASH MANAGEMENT: Considerable effort has been made to bring the water fund into a positive cash balance and this effort will continue. However, it will take time to pay the general fund payroll account back for the \$215,675 that is owed to it from the water & sewer fund. I feel like this needs to be a joint decision between the mayor and myself on how to obtain this goal.

**CURRENT YEAR CONSIDERATIONS**

MINUTES OF COUNCIL MEETINGS: Immediately after being hired, I realized the lack of organization with the city council minutes and back-up to the council packets. I created an annual folder to hold each year's minutes and gathered what I could, be it signed or unsigned, to put in the

appropriate file. It has been over a year since any minutes have been copied into a historical minute book and because of lack of space a new one needs to be purchased. Before purchasing, I would like to look into the technology of a digital recording system.

CAPITAL ASSET TRANSFERS: I will develop a transfer sheet to be given to all department heads for any capital assets that are transferred. This can be filled out and given to Peggy who will then perform the transfer in the fixed asset module.

WATER BILLINGS: City staff personally drove the city to look at each multiple unit and compared it against system reports for any discrepancies. Any discrepancies were corrected in the system to create accurate billing.

Sherry Roberts  
City Secretary/Office Manager