



City of White Oak, Texas

Annual Financial Statements

*For the Fiscal Year
Ended September 30, 2015*

CITY OF WHITE OAK, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Introductory Section

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City of White Oak, Texas
Annual Financial Report
For The Year Ended September 30, 2015

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CITY OF WHITE OAK, TEXAS

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2015

Elected Officials

<u>Name</u>	<u>Office</u>
Rick May	Mayor
Dr. Barbara Ray	Mayor Pro-Tem
Lance Noll	Councilmember
Kyle Kutch	Councilmember
Greg Hulett	Councilmember
Kevin Hood	Councilmember

Appointed Officials

<u>Name</u>	<u>Position</u>
Charlie Smith	City Coordinator
Sherry Roberts	City Secretary
Deborah Waddell	City Judge
Daryl Atkinson	City Attorney

Financial Section

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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Karen A. Jacks, CPA, CGMA
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Chanie A. Johnson, CPA

Independent Auditors' Report

To the Honorable Mayor and City Council
City of White Oak, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas ("the City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of White Oak, Texas as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United

States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, City of White Oak, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in the City's net pension liability and schedule of City pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2016 on our consideration of City of White Oak, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of White Oak, Texas' internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.
Longview, Texas
April 6, 2016

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

As management of the City of White Oak, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. The Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, to provide an overview of the City's financial activity, to identify changes in the City's financial position and to identify any material deviations from the financial plan. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The total government-wide net position amount for the fiscal year ended September 30, 2015 is \$16,909,779.
- The total fund balance in the general fund is \$2,940,779. This reflects an increase of \$58,213 from the previous fiscal year.
- The total net position for the City's Enterprise (Water & Sewer) Fund is \$8,150,269, which was a decrease of \$24,764 from fiscal year 2014.
- As of September 30, 2015, the General Fund has \$2,881,822 in unrestricted funds and the Enterprise Fund has \$1,295,755.
- The City's long-term debt decreased by \$225,000, leaving a balance due of \$7,955,000. This decrease reflects the principal payments on two Certificate of Obligations, but does not include the Premium on Issuance of Debt for the 2013 Certificate of Obligation, which are all in the Enterprise Fund.

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 position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the two reported as *net position*. The statement of net position 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 position 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 position 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.

In the statement of net position and the statement of activities, the City is divided into three types of activities:

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

Business-type activities – The City charges a fee to customers in order to help cover all or most of the cost of certain services it provides. The City’s water and sewer services are reported here and are referred to as the “Water & Sewer Fund.”

Component units –The City includes one component unit in its report. The White Oak Economic Development Corporation (“WOEDCO”) 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.

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. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by state law and by bond covenants. However, the City can establish other funds to help 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 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 position 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, which are reported in the proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the statement of net position 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, only in more detail. The City of White Oak maintains one enterprise fund, which is used to account for its water and sewer services and solid waste services.

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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City’s combined net position was \$16,909,779 as of September 30, 2015. Analyzing the net position and net expenses of governmental and business-type activities separately, the Governmental net position is \$8,759,510 and the business-type activities net position is \$8,150,269. This analysis focuses on the net position (figure 1) and changes in general revenues (figure 3) and significant expenses of the City’s governmental and business-type activities.

The largest portion of the City’s net position 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.

Figure 1 is the “Summary of Net Position.” This is a summary of the “Statement of Net Position” on a government-wide basis. The Statement of Net Position presents the same information as a balance sheet and is an indication of a government’s financial position. Financial position can be tracked over time to assess whether a government’s financial health is improving or deteriorating.

Restricted net position represents resources that are constrained to a particular purpose. These restrictions may derive from a higher level of government, donors, or the City itself. The City has a restricted net position of \$393,987 (or 2%) and is for debt service, court security and technology, cable PEG fees, and drug seizure funds.

Unrestricted net position (\$3,587,575 or 21%) may be used to meet the City’s ongoing obligations or citizens and creditors. These resources can be considered usable for any purpose.

FIGURE 1 - Summary of Net Position September 30, 2015	Governmental Activities		Business-type Activities		Total		Component Unit - WOEDCO	
	2015	2014	2015	2014	2015	2014	2015	2014
Current & other assets	3,139,639	3,031,431	6,512,688	10,081,928	9,652,327	13,113,359	1,200,814	1,134,995
Capital Assets	6,409,953	6,526,222	10,301,529	6,842,276	16,711,482	13,368,498	93,300	-
TOTAL ASSETS	9,549,592	9,557,653	16,814,217	16,924,204	26,363,809	26,481,857	1,294,114	1,134,995
Deferred Outflows Related to Pensions	236,305	-	64,222	-	300,527	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	236,305	-	64,222	-	300,527	-	-	-
Current Liabilities	224,343	167,278	403,131	629,558	627,474	796,836	1,235	141,050
Non-Current Liabilities	681,495	-	8,292,277	8,119,612	8,973,772	8,119,612	792,617	793,363
TOTAL LIABILITIES	905,838	167,278	8,695,408	8,749,170	9,601,246	8,916,448	793,852	934,413
Deferred Inflows Related to Pensions	120,549	-	32,762	-	153,311	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	120,549	-	32,762	-	153,311	-	-	-
Net Position:								
Invested in capital assets	6,409,953	6,526,222	6,518,264	6,842,276	12,928,217	13,368,498	93,300	-
Restricted for debt service	-	-	336,250	195,771	336,250	195,771	-	-
Restricted for grant projects	-	-	-	-	-	-	-	-
Restricted for other purposes	57,737	60,999	-	-	57,737	60,999	406,961	200,582
Unrestricted	2,291,820	2,803,154	1,295,755	1,136,987	3,587,575	3,940,141	-	-
TOTAL NET POSITION	8,759,510	9,390,375	8,150,269	8,175,034	16,909,779	17,565,409	500,261	200,582

Changes in Net Position. **Figure 2** is the “Change in Net Position.” This is a summary of the “Statement of Activities.” As shown in Figure 1, the net position of the City’s governmental activities decreased \$47,809 and the business-type activities net position increased \$133,697. A detailed examination of all the elements affecting net position can be found in Figure 2. The ending net position amount in Figure 2 should match the total net position in Figure 1.

The net position in the governmental activities decreased by \$47,809 but at the fund level, it increased \$58,213. The reconciliation between the increase in fund balance and the increase to net position illustrates the difference in reporting between the modified accrual basis used in the general fund and the full-accrual basis used at the government-wide level. Included in this decrease is a prior period adjustment for \$583,055 to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 established new financial reporting requirements for local governments that provide their employees with pension benefits¹.

The net position in the Water & Sewer Fund increased \$133,697; however, there was a prior period adjustment of \$158,461 attributed to the GASB 68 implementation. When this adjustment is factored in, the net position is a decrease of \$24,764. There is a detailed account of these prior period adjustments beginning on page 45.

¹ *Accounting & Financial Reporting for Pensions*. (2016, 04 05). Retrieved from Governmental Accounting Standards Board. <http://www.gasb.org>.

Exhibit A-6 on page 27 provides a detailed reconciliation between the statement of activities and the statement of revenues, expenditures, and changes in fund balances of governmental funds.

FIGURE 2 - Change in Net Position September 30, 2015

	Governmental Activities		Business-type Activities		Total		Component Unit - WOEDCO	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues:								
<i>Program Revenues:</i>								
Charges for service	206,759	182,585	2,240,124	2,114,083	2,446,883	2,296,668		
Operating Grants & Contributions	3,132	40,484	-	-	3,132	40,484		
Capital Grants & Contributions	90,000	1,021,910	-	-	90,000	1,021,910		
<i>General Revenues:</i>								
Taxes	2,697,933	2,569,675	-	-	2,697,933	2,569,675	353,163	301,408
Franchise Fees	373,366	375,701	-	-	373,366	375,701		
Other	54,859	6,688	24,728	3,972	79,587	10,660	5,667	554,896
Total Revenues	3,426,049	4,197,043	2,264,852	2,118,055	5,690,901	6,315,098	358,830	856,304
Expenses:								
General Government	838,572	812,502	-	-	838,572	812,502		
Public Safety	1,618,941	1,639,784	-	-	1,618,941	1,639,784		
Public Works	563,773	526,659	-	-	563,773	526,659		
Development Services	-	48,197	-	-	-	48,197		
Culture & Recreation	452,572	390,411	-	-	452,572	390,411		
Water Utilities	-	-	2,131,155	2,206,003	2,131,155	2,206,003		
Total Expenses	3,473,858	3,417,553	2,131,155	2,206,003	5,605,013	5,623,556	59,150	1,172,994
Transfers In (Out)	-	-	-	-	-	-		
<i>Change in Net Position</i>	<i>(47,809)</i>	<i>779,490</i>	<i>133,697</i>	<i>(87,948)</i>	<i>85,888</i>	<i>691,542</i>	<i>299,680</i>	<i>(316,690)</i>
<i>Prior Period Adjustment</i>	<i>(583,055)</i>	<i>-</i>	<i>(158,461)</i>	<i>-</i>	<i>(741,516)</i>	<i>-</i>		
Net Position, Beginning	9,390,375	8,610,885	8,175,034	8,262,982	17,565,410	16,873,868	200,582	517,272
Net Position, Ending	8,759,510	9,390,375	8,150,269	8,175,034	16,909,779	17,565,410	500,262	200,582

Governmental Activities. Figure 3 provides a graphic representation of the City's revenues by source at the fund level. Total revenue for FY 2015 was \$3,437,408, which is \$759,635 less than the previous fiscal year. The decrease was due to the previous year's grant proceeds from WOEDCO for the high school baseball park renovation. At the fund level, total general fund expenditures for this fiscal year were \$3,379,195 and are

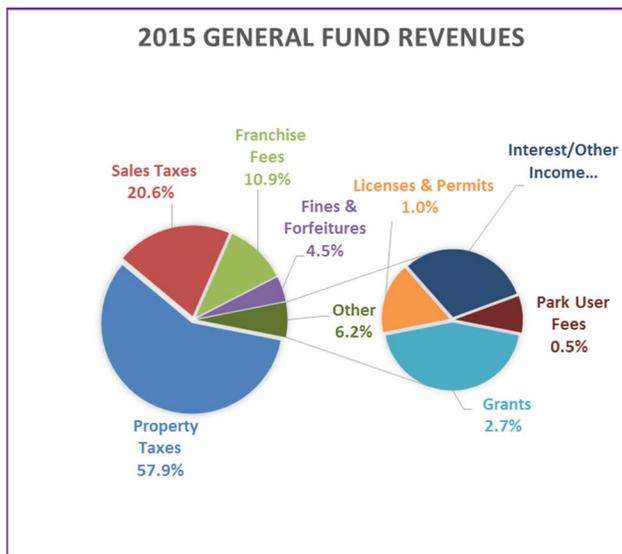


FIGURE 3 - General Fund Revenues September 30, 2015

	2015	2014	Increase / (Decrease)
Property Taxes	1,991,811	1,961,816	29,995
Sales Taxes	706,630	607,859	98,771
Franchise Fees	373,366	375,701	(2,335)
Fines & Forfeitures	152,989	131,602	21,387
Grants	93,132	1,037,394	(944,262)
Licenses & Permits	35,267	32,683	2,584
Interest/Other Income	65,710	31,688	34,022
Park User Fees	18,503	18,300	203
TOTAL REVENUE	3,437,408	4,197,043	(759,635)

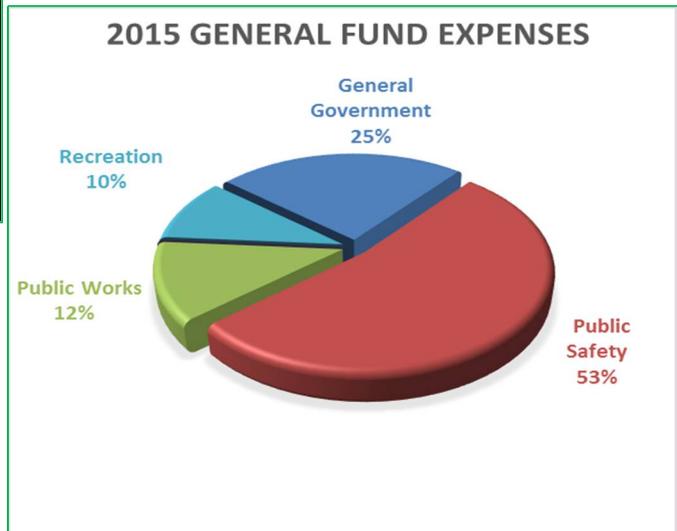
\$710,481 less than FY 2014. General fund revenue comes from a variety of different sources. Property taxes accounted for 58% of the general fund revenue, followed with sales and use tax revenue accounting for 21% of the total general fund revenue. The City of White Oak has a sales tax rate of 8.25%. From the 8.25%, the State of Texas receives 6.25%, Gregg County receives .5%, and the City receives 1.5%. Out of the City's 1.5%, .5% is issued to the White Oak Economic

Development Corporation (“WOEDCO”). Franchise fee revenue was 11% of the total. The City collects franchise fees from electric, gas, cable, phone, and sanitation providers. Municipal court fines accounted for 4% of total revenue. The remaining 6% consists of investment income, permit and park fees and other small miscellaneous revenue.

Public Safety is the City’s largest expense in the governmental fund. It accounts for nearly 53% of all expenses. Public Safety includes police, fire, fire marshal, code enforcement, and building inspection departments. The General

Government category accounts for 25% of the general fund budget. The general fund includes most of city hall staff and court employees. This fund also includes expenses for the City’s street lights, tax collections,

	2015	2014	Increase / (Decrease)
General Government	841,382	788,105	53,277
Public Safety	1,785,034	1,547,860	237,174
Public Works	417,562	383,399	34,163
Economic Development	-	48,197	(48,197)
Recreation	335,217	1,322,115	(986,898)
TOTAL REVENUE	3,379,195	4,089,676	(710,481)

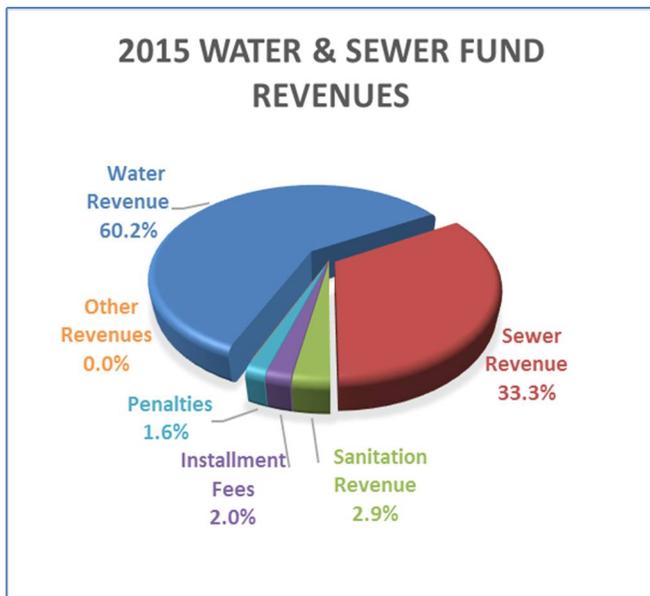


and the contract expense for the Humane Society. Public works (streets department) makes up 12% of the general fund expenses. The remaining 10% consists of the Parks Department, which includes the maintenance of all city grounds, playgrounds, ball fields, and splash pad. The park supervisor is simultaneously the City’s animal control officer. In 2014, development services included one-half of the WOEDCO director’s salary and benefits because this position also handled all community development responsibilities; however, this position was removed from the FY 14/15 budget.

Business-Type Activities. Business-type activities consist of water, sewer, and sanitation revenues and expenses.

Total revenue for the Water & Sewer Fund was \$2,240,124., which was \$126,041 more than the previous fiscal year. Water sales alone made up 60% of this revenue. Sewer revenue was 33% of the total.

	2015	2014	Increase / (Decrease)
Water Revenue	1,348,078	1,294,408	53,670
Sewer Revenue	745,646	666,208	79,438
Sanitation Revenue	65,376	62,379	2,997
Installment Fees	44,225	54,480	(10,255)
Penalties	36,245	36,376	(131)
Other Revenues	554	232	322
TOTAL REVENUE	2,240,124	2,114,083	126,041



The remaining 7% comes from sanitation fees, penalties, installation and reconnect fees, interest income, and various miscellaneous fees. The following chart (Figure 5) provides a graphic representation of the City’s business-type revenues by source at the fund level.

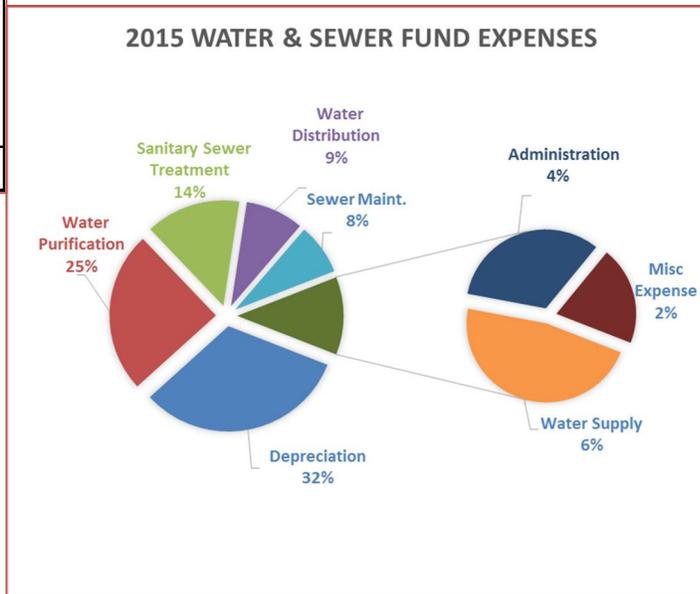
Total operating expenses for FY 2015 for the Water & Sewer Fund were \$1,881,630, which was \$60,015 less than the previous fiscal year. Depreciation accounted for 32% of this total. The cost to obtain, treat, and deliver treated water

was 34% of the total expenditures, while the cost of collecting and treating sewage was 22%. The remaining 12% was

for miscellaneous expenses and customer accounting. The following chart (**Figure 6**) provides a graphic representation of the City's business-type expenses by source at the fund level.

FIGURE 6 - Water & Sewer Fund Expenses September 30, 2015	2015	2014	Increase / (Decrease)
Depreciation	606,974	565,972	41,002
Water Purification	465,217	522,684	(57,467)
Sanitary Sewer Treatment	271,533	267,261	4,272
Water Distribution	166,279	168,970	(2,691)
Sanitary Sewer Maintenance	146,865	128,487	18,378
Water Supply	105,645	170,848	(65,203)
Administration	73,906	71,824	2,082
Miscellaneous Expense	45,211	45,599	(388)
TOTAL EXPENSES	1,881,630	1,941,645	(60,015)

The purchase of capital assets in the enterprise fund has no effect on the financial statements because one asset is exchanged for another (cash) under the economic resources measurement focus; however, the depreciation is later recognized as an expense. Depreciation expense does not have an effect on the current financial resources (cash and/or current assets), but does have an effect on the economic resources (overall total of assets).



FINANCIAL ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

Governmental Funds - Governmental funds are used to account for most, if not all, of a government's tax-supported activities. Under the "current financial resources measurement focus," the objective of the operating statement is to report "near-term" inflows and outflows of "financial" or spendable resources.

A new Fund Balance Policy was approved by the White Oak City Council on September 13, 2011. The purpose of the policy is to establish a key element of the financial stability of the City by setting guidelines for fund balance. Under GASB 54, fund balances are required to be reported, according to the following classifications:

- 1) Non-spendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact, e.g. inventory or permanent funds.
- 2) Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation, e.g. grants and child safety fees.
- 3) Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) Assigned fund balance – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the

amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- 5) Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

The *unassigned* fund balance in the general fund on September 30, 2015 was \$2,881,822 and is 98% of the total fund balance. The *non-spendable* fund balance at year-end was \$1,220 and consisted of prepaid expenditures. The *restricted* fund balance at year-end was \$57,737, which is the total of municipal court security, court technology fees, cable PEG fees, and drug seizure funds. This amount can only be used for restricted purposes according to the State of Texas and/or federal law. The unassigned fund balance represents twelve (12) months of operating expenditures, which is six (6) months more than the six-month minimum unassigned fund balance required by the *Fund Balance Policy*.

To compare the fiscal year's actual ending amounts to the adopted budget, the *Budgetary Comparison Schedule* on page 49 is utilized. In the general fund this year, revenues were \$16,403 less than expected. City staff made the decision not to transfer the \$150,000 transfer from the Water & Sewer Fund because of the unexpected revenue from a variety of sources. Budget amendments were made to recognize unanticipated revenue from property tax collections, interest income, sales tax, court fines, building permits, and scrap metal. General fund expenditures were \$135,739 under budget, which is the result from all the department heads working together to keep expenditures at a minimum. Total expenditures for FY 2015 were \$3,379,195, creating a \$58,213 excess of revenues over expenditures, when the original adopted budget was balanced.

The total general fund balance at the end of the current fiscal year was \$2,940,779; an increase of \$58,213 in comparison with the prior year's increase of \$141,864. The original approved budget was balanced with revenues and expenses both amounting to \$3,201,717. There were several budget amendments approved for FY 14/15 to account for the unanticipated revenue and purchase of capital outlay.

Proprietary funds - Proprietary funds are used to account for a government's business-type activities. These fund types use the "economic resources measurement focus" and "accrual" basis of accounting, like private-sector business enterprises. Generally Accepted Accounting Principles (GAAP) mandate the use of an enterprise fund, as in the Water & Sewer Fund when legal requirements or management policy require that the full cost of providing services, including capital, be recovered through fees and charges.

The Water & Sewer Fund assets and deferred outflows of resources of \$16,879,294 exceeded liabilities and deferred inflows of resources of \$8,729,025, reporting a net position of \$8,150,269. This reflects a net decrease of \$24,765 from the previous year. Within the net position total, \$6,518,264 consisted of capital assets. The amount *restricted* for debt service was \$336,250. The *unrestricted* fund balance at year-end was \$1,295,755.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of White Oak's investment in capital assets for its governmental and business-type activities as of September 30, 2015 totals \$16,711,482 (net of accumulated depreciation). These investments include land, buildings, improvements, machinery & equipment, park facilities, and infrastructure. The change in capital assets represents purchases, disposals, construction in progress for infrastructure, and any adjustments. **Figure 7** below is a summary of each fund's total capital assets for FY 2014 and FY 2015. For a more in depth review of capital assets, please see Note D – Capital Assets in the "Notes to Financial Statements" on Pages 38.

In fiscal year 14/15, approximately \$387,303 was spent on general fund capital outlay. This fiscal year's projects include:

- A/C unit for emergency services building
- A/C unit for police department building
- Truck for street department
- Truck for inspection department
- SCAG mower for parks department
- 3 new patrol units

- New fire truck (technically donated by the volunteer fire department and financial assistance by Gregg County).
- New water canon for splash pad
- Began the 2015 Drainage Improvement Project

The high school baseball field renovation was not 100% complete by the end of fiscal year 13/14; therefore, it was added to construction in progress for that fiscal year and was added to the fixed asset schedule in fiscal year 14/15. The unexpected increase of sales and use tax during the fiscal year allowed the City to purchase vehicles and equipment that was not originally budgeted. This lifted a financial burden for the upcoming 15/16 budget.

There was almost \$704,828 in capital outlay added to the enterprise fund's fixed asset schedule. These projects include:

- Booster pump meter
- Polyner system
- Manhole rehabilitation
- Highway 80 Lift Station Improvements
- Chlorinator Upgrade
- Water Meter Replacement Program

The water meter replacement program was completed during FY 14/15, but the wastewater treatment plant expansion was not, and additional expenses were added to construction in progress. These projects were funded with the 2013 Certificate of Obligation. The wastewater treatment plant expansion is a requirement by the Texas Commission on Environmental Quality (TCEQ). The existing aerators are at near capacity due to population growth, and the expansion will allow for future growth. This project will continue through fiscal year 15/16. The new generator for the water treatment plant is an ongoing project during fiscal year 14/15 and expenses were transferred to Construction in Progress until completion.

FIGURE 7 - Capital Assets
September 30, 2015

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2015	2014	2015	2014	2015	2014
Land	373,746	373,746	96,824	96,824	470,570	470,570
Construction in Progress	6,200	1,055,301	456,064	676,863	462,264	1,732,164
Buildings & Improvements	514,077	542,872	71,007	75,740	585,084	618,612
Infrastructure	4,856,574	4,094,451	-	-	4,856,574	4,094,451
Furniture, Equip, & Machinery	659,356	459,851	173,145	167,886	832,501	627,737
Water & Sewer System	-	-	9,504,489	9,406,702	9,504,489	9,406,702
TOTAL	6,409,953	6,526,221	10,301,529	10,424,015	16,711,482	16,950,236

Long-term debt. At the end of the current fiscal year, the City had an outstanding total bonded debt of \$7,955,000 consisting of two Certificate of Obligations, all of which are in the Water & Sewer Fund. Also included in the Water & Sewer Fund is the Unamortized Premium on Issuance of Debt for the 2013 Certificate of Obligation in the amount of \$152,062. All debt payments were paid when due and decreased the debt total from FY 2014 by \$225,000. (See Note E – Long-Term Obligations) A breakdown in balances per debt type is below in **Figure 8**. The General Fund has no debt.

FIGURE 8 - Outstanding Debt
September 30, 2015

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2015	2014	2015	2014	2015	2014
Certificate of Obligations	-	-	7,955,000	8,180,000	7,955,000	8,180,000
Premium on Issuance of Debt - 2013 Certificate of Obligation	-	-	152,062	164,612	152,062	164,612
Accrual for Compensated Absences	52,348	46,448	-	-	52,348	46,448
TOTAL	52,348	46,448	8,107,062	8,344,612	8,159,410	8,391,060

The City's bond rating with Standard & Poor's for its 2013 Certificate of Obligation is classified as an "AA" rating. An "AA" rating by S&P means the entity has a very strong capability to meet financial commitments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Governmental funds. In the 2016 Budget, general fund revenues and transfers are budgeted to decrease 3% from the 2015 budget year. The reduced budget was due to the conservative outlook of staff. Fuel prices are dropping, which has a large effect on the local oil service related businesses that remit sales and use tax. Certified assessed taxable valuations slightly decreased for the second year in a row by approximately 2.3 percent. The tax rate for fiscal year 15/16 was increased \$.015080/100 from \$.53179/100 to \$.54687/100, which was one cent lower than the effective rate. Oil and gas minerals represented the largest loss of taxable assessed property, while the industrial tangible personal property category experienced the greatest increase, followed by single-family residential property. The state and city's sales tax revenue has started to decline because of the decrease in the oil service industry. Sales tax revenue is the most unpredictable city revenue and is a reflection of the local and state economy.

The capital outlay projects scheduled for FY 15/16 are the sealcoating of S. White Oak Rd., Littlejohn, and Nottingham and drainage improvements on Robin Lane and Jamaica Drive. Gregg County will help fund street repairs with an annual \$10,000 donation and in-kind labor.

The Humane Society of Northeast Texas is set to close its doors in FY 15/16. The City of Longview is building a new \$5.7 million facility. The new budget includes a \$40,000 increase for animal shelter needs in anticipation of the new contract with the City of Longview.

At the end of FY 2015, unemployment in the Longview area was 4.9%², which was higher than the state's 4.5% unemployment rate. An oversupplied oil market has caused oil to plummet to around \$45 a barrel compared to \$90 one year ago. This decline will no doubt have a detrimental effect on local businesses, citizens, and sales tax revenue.

Proprietary funds. The upcoming fiscal year 15/16 Water & Sewer Fund balanced budget includes operating expenditures of \$2,310,050. This is \$143,741 less than the previous fiscal year's amended budget. The capital budget is \$3,857,291 and includes the following projects:

- Truck for water distribution
- Truck for water treatment plant supervisor
- Continued work on the water treatment plant generator replacement
- Continued work on the wastewater treatment plant expansion project
- Manhole rehabilitation
- SCAG mower for the wastewater treatment plant
- Drilling of a new water well

The City's primary source of water comes from the Big Sandy Creek, west of Gladewater. The City Council approved the funding to drill a water well for the City to have a backup water source when the creek runs low. This project was postponed and budgeted for the fiscal year 15/16. The wastewater treatment plant expansion will continue throughout the 2015/2016 fiscal year and may even run into FY 16/17. All capital expenditures and projects are funded with the 2008 and 2013 Certificate of Obligation funds.

Budget expenses for fiscal year 15/16 are up approximately 5% from last fiscal year. The 2008 Certificate of Obligation debt payment increased \$175,000 from the previous year. The city has approximately 2,500 water meter customers and almost 2,000 wastewater customers.

REQUEST FOR INFORMATION

² *Bureau of Labor Statistics.* (2016, 04 05). Retrieved from U.S. Department of Labor: <http://data.bls.gov>

The financial report is designed to provide an overview of the municipality's financials for those with an interest in this area. 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. 7024.

Basic Financial Statements

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CITY OF WHITE OAK, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash	\$ 853,310	\$ 677,799	\$ 1,531,109	\$ 592,146
Temporary Investments	2,153,747	665,000	2,818,747	--
Receivables (Net of Allowances for Uncollectibles):				
Taxes	125,715	--	125,715	49,425
Accounts	--	455,738	455,738	--
Other	4,792	--	4,792	340,000
Prepaid Expenses	1,220	--	1,220	--
Due from Other Funds	855	(855)	--	--
Restricted Assets:				
Cash	--	2,713,759	2,713,759	--
Temporary Investments	--	2,001,247	2,001,247	--
Notes Receivable	--	--	--	219,242
Capital Assets (Net of Accumulated Depreciation)	6,409,953	10,301,529	16,711,482	93,300
Total Assets	<u>9,549,592</u>	<u>16,814,217</u>	<u>26,363,809</u>	<u>1,294,113</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Outflow Related to Pensions	236,305	64,222	300,527	--
Total Deferred Outflows of Resources	<u>236,305</u>	<u>64,222</u>	<u>300,527</u>	<u>--</u>
LIABILITIES:				
Accounts Payable	127,986	199,899	327,885	277
Accrued Wages Payable	44,009	13,945	57,954	--
Accrued Interest Payable	--	21,485	21,485	958
Customer Deposits	--	148,475	148,475	--
Accrual for Compensated Absences	52,348	19,327	71,675	--
Noncurrent Liabilities-				
Due within one year	--	405,000	405,000	132,034
Due in more than one year	--	7,702,062	7,702,062	660,583
Net Pension Liability	681,495	185,215	866,710	--
Total Liabilities	<u>905,838</u>	<u>8,695,408</u>	<u>9,601,246</u>	<u>793,852</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred Inflows Related to Pensions	120,549	32,762	153,311	--
Total Deferred Inflows of Resources	<u>120,549</u>	<u>32,762</u>	<u>153,311</u>	<u>--</u>
NET POSITION:				
Net Investment in Capital Assets	6,409,953	6,518,264	12,928,217	93,300
Restricted For:				
Debt Service	--	336,250	336,250	--
Other Purposes	57,737	--	57,737	406,961
Unrestricted	2,291,820	1,295,755	3,587,575	--
Total Net Position	<u>\$ 8,759,510</u>	<u>\$ 8,150,269</u>	<u>\$ 16,909,779</u>	<u>\$ 500,261</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 838,572	\$ 35,267	\$ --	\$ --
Public Safety	1,618,941	152,989	1,606	90,000
Public Works	563,773	--	--	--
Recreation	452,572	18,503	1,526	--
Total Governmental Activities	<u>3,473,858</u>	<u>206,759</u>	<u>3,132</u>	<u>90,000</u>
Business-type Activities:				
Water and Sewer	2,131,155	2,240,124	--	--
Total Business-type Activities	<u>2,131,155</u>	<u>2,240,124</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 5,605,013</u>	<u>\$ 2,446,883</u>	<u>\$ 3,132</u>	<u>\$ 90,000</u>
COMPONENT UNIT:				
WOEDCO	<u>\$ 59,150</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

General Revenues:
 Property Taxes
 Franchise Tax
 Sales Tax
 Investment income
 Miscellaneous
 Gain/Loss on Disposition of Assets
 Total General Revenues
 Change in Net Position
 Net Position - Beginning
 Prior Period Adjustment
 Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (803,305)		\$ (803,305)	
(1,374,346)		(1,374,346)	
(563,773)		(563,773)	
(432,543)		(434,069)	
<u>(3,173,967)</u>		<u>(3,175,493)</u>	
	\$ 108,969	108,969	
	108,969	108,969	
<u>(3,173,967)</u>	<u>108,969</u>	<u>(3,066,524)</u>	
			\$ (59,150)
1,991,303	--	1,991,303	--
373,366	--	373,366	--
706,630	--	706,630	353,163
23,654	24,728	48,382	5,667
17,962	--	17,962	--
13,243	--	13,243	--
<u>3,126,158</u>	<u>24,728</u>	<u>3,150,886</u>	<u>358,830</u>
(47,809)	133,697	85,888	299,680
9,390,374	8,175,033	17,565,407	200,582
(583,055)	(158,461)	(741,516)	--
<u>\$ 8,759,510</u>	<u>\$ 8,150,269</u>	<u>\$ 16,909,779</u>	<u>\$ 500,262</u>

CITY OF WHITE OAK, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2015

	General Fund
ASSETS:	
Cash	\$ 853,310
Temporary Investments	2,153,747
Receivables:	
Taxes	125,715
Miscellaneous	4,792
Prepaid Expenses	1,220
Due from Other Funds	855
TOTAL ASSETS	\$ <u>3,139,639</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE:	
LIABILITIES:	
Accounts Payable	\$ 127,985
Accrued Wages Payable	44,009
TOTAL LIABILITIES	<u>171,994</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred Property Taxes	26,866
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>26,866</u>
FUND BALANCE:	
Fund Balance - Nonspendable	1,220
Fund Balance - Restricted	57,737
Fund Balance - Unassigned	2,881,822
TOTAL FUND BALANCE	<u>2,940,779</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	\$ <u>3,139,639</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total fund balances - governmental funds balance sheet	\$ 2,940,779
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	6,409,953
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	26,866
Payables for compensated absences which are not due in the current period are not reported in the funds.	(52,348)
Recognition of the City's net pension liability is not reported in the funds.	(681,495)
Deferred resource inflows related to the pension plan are not reported in the funds.	(120,549)
Deferred resource outflows related to the pension plan are not reported in the funds.	236,305
Rounding	<u>(1)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 8,759,510</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund
	<u> </u>
REVENUES:	
Property Taxes	\$ 1,991,811
Franchise Tax	373,366
Sales Tax	706,630
Licenses, Permits and Fees	35,267
Fines, Forfeitures, and Penalties	152,989
Park User Fees	18,503
Investment Income	23,654
Contributions and Grants	93,132
Miscellaneous	42,056
TOTAL REVENUES	<u>3,437,408</u>
EXPENDITURES:	
General Government	841,382
Public Safety	1,785,034
Public Works	417,562
Recreation	335,217
TOTAL EXPENDITURES	<u>3,379,195</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>58,213</u>
NET CHANGE IN FUND BALANCE	58,213
FUND BALANCE - BEGINNING	2,882,566
FUND BALANCE - ENDING	<u>\$ 2,940,779</u>

The accompanying notes are an integral part of this statement.

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, 2015

Net change in fund balances - total governmental funds	\$ 58,213
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	415,013
The depreciation of capital assets used in governmental activities is not reported in the funds.	(520,430)
The gain or loss on the sale of capital assets is not reported in the funds.	13,243
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(24,094)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(507)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(6,562)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	162,393
The City's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	15,534
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(160,612)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (47,809)</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS

STATEMENT OF NET POSITION

ENTERPRISE FUNDS

SEPTEMBER 30, 2015

	Enterprise Fund <u>Water and Sewer Fund</u>
ASSETS:	
Current Assets:	
Cash	\$ 677,799
Temporary Investments	665,000
Accounts Receivable	455,738
Restricted Assets:	
Cash	2,713,759
Temporary Investments	2,001,247
Noncurrent Assets:	
Land	96,823
Construction in Progress	456,064
Capital Assets, Net	9,748,642
TOTAL ASSETS	<u>\$ 16,815,072</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflow Related to Pensions	64,222
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 64,222</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 199,899
Accrued Wages	13,945
Accrual of Compensated Absences	19,327
Due to Other Funds	855
Payable from Restricted Assets:	
Accrued Interest Payable	21,485
Customer Deposits	148,475
Noncurrent Liabilities:	
Due Within One Year	405,000
Due in More Than One Year	7,702,062
Net Pension Liability	185,215
TOTAL LIABILITIES	<u>8,696,263</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows Related to Pensions	32,762
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>32,762</u>
NET POSITION:	
Net Investment in Capital Assets	6,518,264
Restricted for Debt Service	336,250
Unrestricted	1,295,755
TOTAL NET POSITION	<u>\$ 8,150,269</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - ENTERPRISE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund <u>Water and Sewer Fund</u>
OPERATING REVENUES:	
Water Revenue	\$ 1,348,078
Sewer Revenue	745,646
Sanitation Revenue	65,376
Penalties	36,245
Installment Fees	44,225
Miscellaneous Revenue	554
TOTAL OPERATING REVENUES	<u>2,240,124</u>
OPERATING EXPENSES:	
Administration	73,906
Water Supply	105,645
Water Distribution	166,279
Water Purification	465,217
Sanitary Sewer Maintenance	146,865
Sanitary Sewer Treatment	271,533
Depreciation	606,974
Miscellaneous Expense	45,211
TOTAL OPERATING EXPENSES	<u>1,881,630</u>
OPERATING INCOME	358,494
NON-OPERATING REVENUES (EXPENSES):	
Investment Proceeds	24,728
Debt Service - Interest	(247,875)
Debt Service - Issuance Costs and Fees	(1,650)
TOTAL NON OPERATING REVENUES (EXPENSES)	<u>(224,797)</u>
CHANGE IN NET POSITION	133,697
TOTAL NET POSITION- BEGINNING	8,175,033
PRIOR PERIOD ADJUSTMENT	(158,461)
TOTAL NET POSITION - ENDING	<u>\$ 8,150,269</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Water and Sewer
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 2,196,473
Cash Payments to Employees for Services	(544,076)
Cash Payments to Other Suppliers for Goods and Services	(728,549)
Net Cash Provided by Operating Activities	<u>923,848</u>
Cash Flows from Capital and Related Financing Activities:	
Principal and Interest Paid	(487,598)
Acquisition or Construction of Capital Assets	(931,077)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,418,675)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(1,935,390)
Interest and Dividends on Investments	23,105
Net Cash Provided (Used) for Investing Activities	<u>(1,912,285)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,407,112)
Cash and Cash Equivalents at Beginning of Year	5,798,670
Cash and Cash Equivalents at End of Year	<u>\$ 3,391,558</u>
Classified as:	
Current assets - unrestricted	\$ 677,799
Current assets - restricted	2,713,759
	<u>\$ 3,391,558</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 358,494
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	606,974
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(55,076)
Increase (Decrease) in Accounts Payable	818
Increase (Decrease) in Accrued Wages Payable	4,054
Increase (Decrease) in Compensated Absences	1,865
Increase (Decrease) in Customer Deposits	11,425
Increase (Decrease) in Pension Liabilities	(4,706)
Total Adjustments	<u>565,354</u>
Net Cash Provided by Operating Activities	<u>\$ 923,848</u>

The accompanying notes are an integral part of this statement.

CITY OF WHITE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Significant Accounting Policies

The combined financial statements of City of White Oak, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's, "Codification of Governmental Accounting and Financial Reporting Standards", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. The GASB Codification requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has one component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Codification.

2. Discretely Presented Component Unit

White Oak Economic Development Corporation (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. Corporate financial statements of WOEDCO can be obtained directly from their office in the White Oak municipal building. WOEDCO is reported in a separate column to emphasize that it is legally separate from the City.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities.

CITY OF WHITE OAK, TEXAS
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Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major enterprise fund:

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

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected more than 60 days after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF WHITE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

4. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are 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, 2015 is \$16,429.

c. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital 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>Estimated in Years</u>
Buildings	10-50
Building Improvements	15-30
Land Improvements	10-60
Streets and Roads	10-60
Water and Sewer Lines	10-75
Infrastructure	10-50
Machinery and Equipment	3-25
Vehicles	3-5
Office Equipment	3-5
Computer Equipment	3-5
Intangibles	2-40

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

CITY OF WHITE OAK, TEXAS
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There are no significant receivables which are not scheduled for collection within one year of year end.

f. Pensions

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

g. 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 time is compensated at the employee's current rate of pay upon termination.

h. Interfund Activity

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through Council resolutions. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose.

CITY OF WHITE OAK, TEXAS
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Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

In the general fund, the City has a policy to maintain a minimum of six months of operating expenditures in unassigned fund balance. The City is in compliance with this policy.

j. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item which occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, deferred property taxes are reported in the governmental funds balance sheet. The City had deferred inflows of resources to report in its government-wide and proprietary fund financial statements for the current year.

k. Net Position Flow Assumptions

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

l. Fund Balance Flow Assumptions

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

m. Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

CITY OF WHITE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

5. Change in Accounting Policies

In June, 2012 the Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions," which is effective for fiscal years beginning after June 15, 2014. The City has implemented the provisions of this Statement for the year ended September 30, 2015.

The Statement requires numerous new pension disclosures in the notes to the financial statements and new 10-year, pension-related charts as required supplementary information. Also, for the first time the City is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its participation in the Texas Municipal Retirement System.

Additional information related to this change in accounting policies can be found in Notes G and K.

B. Compliance and Accountability

1. 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 reported	Not applicable

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

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

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

C. Deposits and Investments

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

Cash Deposits:

At September 30, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$9,064,862 and the bank balance was \$10,844,185. The City's cash deposits at one financial institution at September 30, 2015 and during the year ended September 30, 2015, were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Citizens National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$631,500.

CITY OF WHITE OAK, TEXAS
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- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$1,662,644 and occurred during the month of September, 2015.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

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 be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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 adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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

The City's investments at September 30, 2015 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	6-12 months	\$ 4,819,994
Total Investments		<u>\$ 4,819,994</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.

- 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.

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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

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.

D. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 373,746	\$ --	\$ --	\$ 373,746
Construction in progress	1,055,301	6,200	1,055,301	6,200
Total capital assets not being depreciated	<u>1,429,047</u>	<u>6,200</u>	<u>1,055,301</u>	<u>379,946</u>
Capital assets being depreciated:				
Buildings and improvements	979,056	15,545	7,500	987,101
Furniture and equipment	1,893,557	326,510	69,083	2,150,984
Infrastructure	7,301,009	1,122,059	9,633	8,413,435
Total capital assets being depreciated	<u>10,173,622</u>	<u>1,464,114</u>	<u>86,216</u>	<u>11,551,520</u>
Less accumulated depreciation for:				
Buildings and improvements	(436,184)	(38,028)	(1,188)	(473,024)
Furniture and equipment	(1,433,706)	(123,378)	(65,456)	(1,491,628)
Infrastructure	(3,206,558)	(359,024)	(8,721)	(3,556,861)
Total accumulated depreciation	<u>(5,076,448)</u>	<u>(520,430)</u>	<u>(75,365)</u>	<u>(5,521,513)</u>
Total capital assets being depreciated, net	<u>5,097,174</u>	<u>943,684</u>	<u>10,851</u>	<u>6,030,007</u>
Governmental activities capital assets, net	<u>\$ 6,526,221</u>	<u>\$ 949,884</u>	<u>\$ 1,066,152</u>	<u>\$ 6,409,953</u>

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	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 96,824	\$ --	\$ --	\$ 96,824
Construction in progress	676,863	385,001	605,800	456,064
Total capital assets not being depreciated	<u>773,687</u>	<u>385,001</u>	<u>605,800</u>	<u>552,888</u>
Capital assets being depreciated:				
Water and sewer system	18,481,467	655,920	48,580	19,088,807
Buildings	255,590	--	--	255,590
Machinery and equipment	538,188	49,368	16,482	571,074
Total capital assets being depreciated	<u>19,275,245</u>	<u>705,288</u>	<u>65,062</u>	<u>19,915,471</u>
Less accumulated depreciation for:				
Water and sewer system	(9,074,765)	(558,133)	(48,580)	(9,584,318)
Buildings	(179,850)	(4,733)	--	(184,583)
Machinery and equipment	(370,302)	(44,107)	(16,480)	(397,929)
Total accumulated depreciation	<u>(9,624,917)</u>	<u>(606,973)</u>	<u>(65,060)</u>	<u>(10,166,830)</u>
Total capital assets being depreciated, net	<u>9,650,328</u>	<u>98,315</u>	<u>2</u>	<u>9,748,641</u>
Business-type activities capital assets, net	<u>\$ 10,424,015</u>	<u>\$ 483,316</u>	<u>\$ 605,802</u>	<u>\$ 10,301,529</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 21,121
Public Safety	118,057
Public Works	187,615
Recreation	193,637
	<u>\$ 520,430</u>

E. Long-Term Obligations

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Compensated absences *	\$ 45,786	\$ 6,562	\$ --	\$ 52,348	\$ --
Total governmental activities	<u>\$ 45,786</u>	<u>\$ 6,562</u>	<u>\$ --</u>	<u>\$ 52,348</u>	<u>\$ --</u>
<u>Business-type activities:</u>					
General obligation bonds	\$ 8,180,000	\$ --	\$ 225,000	\$ 7,955,000	405,000
Unamortized premium	164,612	--	12,550	152,062	--
Total business-type activities	<u>\$ 8,344,612</u>	<u>\$ --</u>	<u>\$ 237,550</u>	<u>\$ 8,107,062</u>	<u>\$ 405,000</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

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2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2015, are as follows:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 405,000	\$ 250,929	\$ 655,929
2017	415,000	236,872	651,872
2018	430,000	222,604	652,604
2019	445,000	207,804	652,804
2020	460,000	192,782	652,782
2021-2025	2,240,000	728,109	2,968,109
2026-2030	2,120,000	396,087	2,516,087
2031-2033	1,440,000	66,281	1,506,281
Totals	<u>\$ 7,955,000</u>	<u>\$ 2,301,468</u>	<u>\$ 10,256,468</u>

3. Outstanding Debt

Debt outstanding at September 30, 2015, consists of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 09/30/15</u>
<u>Business-type activities</u>			
Series 2008 Certificates of Obligation	3.5-4.25%	03/01/2023	2,655,000
Series 2013 Certificates of Obligation	1.5-3.25%	03/01/2033	5,300,000
			<u>\$ 7,955,000</u>

F. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

G. Pension Plan

1. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive

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annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

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

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

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to but not yet receiving benefits	18
Active employees	45
Total covered employees	92

3. Contributions

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

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.86% and 15.67% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$280,911, and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and

CITY OF WHITE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF WHITE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 10,120,530	\$ 9,181,530	\$ 939,000
Changes for the year			
Service cost	349,571	--	349,571
Interest	703,154	--	703,154
Change of benefit terms	--	--	--
Difference between expected and actual experience	(196,567)	--	(196,567)
Changes of assumptions	--	--	--
Contributions - employer	--	271,868	(271,868)
Contributions - employee	--	137,307	(137,307)
Net investment income	--	525,208	(525,208)
Benefit payments, including refunds of employee contributions	(500,512)	(500,512)	--
Administrative expense	--	(5,484)	5,484
Other changes	--	(451)	451
Net changes	<u>355,646</u>	<u>427,936</u>	<u>(72,290)</u>
Balance at 12/31/2014	<u>\$ 10,476,176</u>	<u>\$ 9,609,466</u>	<u>\$ 866,710</u>

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
City's net pension liability (asset)	\$ 2,363,247	\$ 866,710	\$ (351,681)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$258,890.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ --	\$ (153,311)
Changes in actuarial assumptions	--	--
Difference between projected and actual investment earnings	93,999	--
Contributions subsequent to the measurement date	206,528	--
Total	<u>\$ 300,527</u>	<u>\$ (153,311)</u>

CITY OF WHITE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

\$206,528 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:		
2015	\$	(19,756)
2016		(19,756)
2017		(19,756)
2018		(44)

6. Supplemental Death Benefits Fund

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$3,099, \$3,142, and \$3,041, respectively, which equaled the required contributions each year.

H. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the City at September 30, 2015.

CITY OF WHITE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

3. Commitments

As of September 30, 2015, the City has a commitment under an interlocal agreement with the White Oak Economic Development Corporation to fund a portion of the debt service on a loan obtained by WOEDCO to finance City baseball facility improvements. A schedule of future payments follows:

FY2016	\$	60,000
FY2017		60,000
FY2018		60,000
	\$	<u>180,000</u>

I. Restricted Fund Balance

As of September 30, 2015, fund balances restricted for specific purposes were as follows:

General Fund		
Municipal Court Technology Fees	\$	1,488
Drug Seizure Funds		1,585
Cable PEG Fees		54,664
	\$	<u>57,737</u>

J. Subsequent Events

Management has evaluated subsequent events through April 6, 2016, the date on which the financial statements were available to be issued.

K. Prior Period Adjustment

Beginning net position has been reduced by \$741,516 to reflect a change in accounting policy.

The City implemented the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" during the year ended September 30, 2015. As a result, a net pension liability as of October 1, 2014 was recorded.

The amounts of the prior period adjustment by activity type are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
GASB 68 implementation	\$ 583,055	\$ 158,461
	<u>\$ 583,055</u>	<u>\$ 158,461</u>

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF WHITE OAK, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property Taxes	\$ 1,956,917	\$ 1,991,917	\$ 1,991,811	\$ (106)
Franchise Tax	504,800	504,800	373,366	(131,434)
Sales Tax	550,000	700,000	706,630	6,630
Licenses, Permits and Fees	27,800	32,800	35,267	2,467
Fines, Forfeitures, and Penalties	126,100	146,100	152,989	6,889
Park User Fees	16,000	16,000	18,503	2,503
Investment Income	13,000	22,000	23,654	1,654
Contributions and Grants	3,100	3,100	93,132	90,032
Miscellaneous	4,000	37,094	42,056	4,962
TOTAL REVENUES	<u>3,201,717</u>	<u>3,453,811</u>	<u>3,437,408</u>	<u>(16,403)</u>
EXPENDITURES:				
General Government	823,265	855,656	841,382	14,274
Public Safety	1,556,064	1,753,358	1,785,034	(31,676)
Public Works	547,764	560,748	417,562	143,186
Recreation	274,624	345,172	335,217	9,955
TOTAL EXPENDITURES	<u>3,201,717</u>	<u>3,514,934</u>	<u>3,379,195</u>	<u>135,739</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>--</u>	<u>(61,123)</u>	<u>58,213</u>	<u>119,336</u>
NET CHANGE IN FUND BALANCE	<u>--</u>	<u>(61,123)</u>	<u>58,213</u>	<u>119,336</u>
FUND BALANCE - BEGINNING	<u>2,882,566</u>	<u>2,882,566</u>	<u>2,882,566</u>	<u>--</u>
FUND BALANCE - ENDING	<u>\$ 2,882,566</u>	<u>\$ 2,821,443</u>	<u>\$ 2,940,779</u>	<u>\$ 119,336</u>

CITY OF WHITE OAK, TEXAS
 SCHEDULE OF CHANGES IN THE CITY'S
 NET PENSION LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total pension liability:										
Service cost	\$ 349,571	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Interest	703,154	--	--	--	--	--	--	--	--	--
Changes of benefit terms	--	--	--	--	--	--	--	--	--	--
Differences between expected and actual experience	(196,567)	--	--	--	--	--	--	--	--	--
Changes of assumptions	--	--	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(500,512)	--	--	--	--	--	--	--	--	--
Net change in total pension liability	355,646	--								
Total pension liability - beginning	10,120,530	--								
Total pension liability - ending (a)	\$ 10,476,176	\$ --								
Plan fiduciary net position:										
Contributions - employer	\$ 271,868	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions - employee	137,307	--	--	--	--	--	--	--	--	--
Net investment income	525,208	--	--	--	--	--	--	--	--	--
Benefit payments, including refunds of employee contributions	(500,512)	--	--	--	--	--	--	--	--	--
Administrative expense	(5,484)	--	--	--	--	--	--	--	--	--
Other	(451)	--	--	--	--	--	--	--	--	--
Net change in plan fiduciary net position	427,936	--								
Plan fiduciary net position - beginning	9,181,530	--								
Plan fiduciary net position - ending (b)	\$ 9,609,466	\$ --								
City's net pension liability - ending (a) - (b)	\$ 866,710	\$ --								
Plan fiduciary net position as a percentage of the total pension liability	91.73%	--								
Covered-employee payroll	\$ 1,961,531	\$ --								
City's net pension liability as a percentage of covered-employee payroll	44.19%	--								

Notes to Schedule:

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF WHITE OAK, TEXAS
 SCHEDULE OF CITY CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 280,911	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the actuarially determined contribution	(280,911)	--	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Covered-employee payroll	\$ 1,854,662	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	15.15%	--	--	--	--	--	--	--	--	--

Notes to Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry age normal
- Amortization method: Level percentage of payroll, closed
- Remaining amortization period: 29 years
- Asset valuation method: 10-year smoothed market; 15% soft corridor
- Inflation: 3.0%
- Salary increases: 3.5% to 12.00%, including inflation
- Investment rate of return: 7.00%
- Retirement age: Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of period 2005 - 2009
- Mortality: RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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Peggy J. Lantz, CPA

Sherry Davis, CPA
Chanie A. Johnson, CPA

Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Honorable Mayor and City Council
City of White Oak, Texas

Honorable Mayor and City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of White Oak, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of White Oak, Texas' basic financial statements, and have issued our report thereon dated April 6, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.
Longview, Texas
April 6, 2016

CITY OF WHITE OAK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses?

 Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

B. Financial Statement Findings

NONE

CITY OF WHITE OAK, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

CITY OF WHITE OAK, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

None required.

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