

CITY OF WHITE OAK, TEXAS

FINANCIAL STATEMENTS

September 30, 2012

PRINCIPAL OFFICIALS

September 30, 2012

ELECTED OFFICIALS

Rick May
Mayor

Dr. Barbara Ray
Councilmember Place 1, Mayor Pro-Tem

Lance Noll
Councilmember Place 2

Kyle Kutch
Councilmember Place 3

Charlie Owens
Councilmember Place 4

Kelly Mitchell
Councilmember Place 5

APPOINTED OFFICIALS

Charlie Smith
City Coordinator

Sherry Roberts
City Secretary

Deborah Waddell
City Judge

Darrell Atkinson
City Attorney

CITY OF WHITE OAK, TEXAS
SEPTEMBER 30, 2012
TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report on Financial Statements	1
Management's Discussion and Analysis (Required Supplementary Information)	3
<u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22
Notes to the Financial Statements	23
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule: General Fund	35
Schedule of Funding Progress - Texas Municipal Retirement System	36
OTHER SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule: Proprietary Fund	39
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Schedule of Prior Audit Findings	45
Schedule of Findings and Questioned Costs	46
Corrective Action Plan	47
Schedule of Grant Revenues and Expenditures - Community Development Block Grant/Project No. DRS010202	48

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013, on our consideration of the City of Gilmer's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of White Oak's financial statements as a whole. The budgetary comparison schedule on page 39 is presented for purposes of additional analysis and is not a required part of the financial statements. The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the

financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
February 21, 2013

CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

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, 2012. 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 asset amount for the fiscal year ended September 30, 2012 is \$17,020,913.
- The combined change in net assets is a decrease of \$22,373.
- The total fund balance in the general fund is \$2,752,303. This reflects a decrease of \$113,070 from the previous fiscal year.
- The total net assets for the City's Enterprise (Water & Sewer) Fund are \$8,344,993, which was a \$301,170 increase over fiscal year 2011.
- As of September 30, 2012, the General Fund has \$2,718,363 in unrestricted funds and the Enterprise Fund has \$881,563.
- The City's long-term debt decreased \$341,978, leaving a balance due of \$3,727,414. The decrease reflects the principal payments on the two Certificate of Obligations and one Revenue Bond which are all in the Enterprise Fund. The General Fund has no long-term debt except for accrued compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer services are reported here and is also known 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. Some funds are required to be established by state law and by bond covenants. However, the City can establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental funds

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

The City of White Oak maintains one governmental fund.

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

The City of White Oak maintains one enterprise fund. The City uses the enterprise fund to account for its water, sewer, 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.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

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 assets were \$17,020,913 as of September 30, 2012. Analyzing the net assets and net expenses of governmental and business-type activities separately, the Governmental net assets are \$8,675,920 and the business-type activities net assets are \$8,344,993. This analysis focuses on the net assets (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 assets reflects its investment in capital assets (e.g. land, building, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Figure 1 is the "Summary of Net Assets." This is a summary of the "Statement of Net Assets." The Statement of Net Assets 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 assets represent 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's restricted net assets (2.4%) are for debt service, grant projects, court security, court technology, and Cable Channels for Public, Education and Government (PEG) Fees.

Unrestricted net assets (21%) are resources not included in the other components. These resources can be considered usable for any purpose.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

FIGURE 1 - Summary of Net Assets
September 30, 2012

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Component Unit - WOEDCO</i>	
	2012	2011	2012	2011	2012	2011	2012	2011
Current & other assets	2,890,264	3,018,978	5,166,940	5,170,662	8,057,204	8,189,640	600,810	637,494
Capital Assets	5,940,362	6,136,059	7,060,585	7,063,049	13,000,947	13,199,108	585	1,086
TOTAL ASSETS	8,830,626	9,155,037	12,227,525	12,233,711	21,058,151	21,388,748	601,395	638,580
Current Liabilities	154,706	155,576	207,532	169,888	362,238	325,464	302	494
Non-Current Liabilities	-	-	3,675,000	4,020,000	3,675,000	4,020,000	-	-
TOTAL LIABILITIES	154,706	155,576	3,882,532	4,189,888	4,037,238	4,345,464	302	494
Net Assets:								
Invested in capital assets, net of related debt	5,940,362	6,136,059	7,079,674	7,083,970	13,020,036	13,220,029	585	1,086
Restricted for debt service	-	-	381,601	352,816	381,601	352,816	-	-
Restricted for grant projects	-	-	5,155	10,000	5,155	10,000	-	-
Restricted for other purposes	28,632	15,343	-	-	28,632	15,343	600,508	637,000
Unrestricted	2,706,926	2,848,059	878,563	597,037	3,585,489	3,445,096	-	-
TOTAL NET ASSETS	8,675,920	8,999,461	8,344,993	8,043,823	17,020,913	17,043,284	601,093	638,086

Changes in Net Assets

Figure 2 is the "Change in Net Assets." As shown in Figure 1, the net assets of the City's governmental fund decreased \$323,541 and the enterprise fund net assets increased \$301,170. A detailed examination of all the elements affecting net assets can be found in Figure 2. The ending amount in Figure 2 should match the total net assets in Figure 1.

The net assets in the governmental activities decreased by \$323,541 and the fund balance decreased \$113,070. The reconciliation between the decrease in fund balance and the net decrease to net assets 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. Government funds do not recognize capital assets and depreciation at the fund level, but must at the government-wide level. "Capital assets" and "construction in progress" increased \$194,130 in FY 12, as did accumulated depreciation by \$389,827 which presents a net difference of \$195,697. The combination of "Current & other assets" and "Current Liabilities" created a decrease of \$127,844 with the most important factor being the deletion of "Due from other funds" because of the completion of a loan repayment by the Water & Sewer Fund.

The general fund balance decreased \$113,070 from fiscal year ending 2011. The original budget had \$191,655 more expenditures than revenue, but was decreased to \$185,053 with budget amendments. Actual revenues received were more than expected and expenditures were spent under budget which left a decrease of \$113,070 versus the \$191,655 originally adopted.

The net assets in the water & sewer fund increased \$301,170. While the year's assets decreased more than \$150,000, the net increase is greatly because of the decrease in liabilities. The \$145,959 loan balance due to the general fund was paid in full this year, annual debt payments of \$370,000, and a mixture of other items are the reasons for the \$307,356 liabilities decrease. The water & sewer fund had an ending unrestricted net asset amount of \$878,563.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

FIGURE 2 - Change in Net Assets
September 30, 2012

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Component Unit - WOEDCO</i>	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenues:								
<i>Program Revenues:</i>								
Charges for service & grants	272,332	204,946	2,218,480	2,423,213	2,490,812	2,628,159	-	-
<i>General Revenues:</i>								
Taxes	2,313,415	2,243,221	-	-	2,313,415	2,243,221	271,334	261,858
Franchise Fees	372,432	365,363	-	-	372,432	365,363	-	-
Other	41,745	48,434	4,182	(243,752)	45,927	(195,318)	3,340	4,284
Total Revenues	2,999,924	2,861,964	2,222,662	2,179,461	5,222,586	5,041,425	274,674	266,142
Expenses:								
General Government	740,351	726,154	-	-	740,351	726,154		
Public Safety	1,621,369	1,574,735	-	-	1,621,369	1,574,735		
Public Works	578,874	488,213	-	-	578,874	488,213		
Development Services	35,839	36,996	-	-	35,839	36,996		
Culture & Recreation	347,032	285,343	-	-	347,032	285,343		
Water Utilities	-	-	1,921,494	2,036,645	1,921,494	2,036,645		
Total Expenses	3,323,465	3,111,441	1,921,494	2,036,645	5,244,959	5,148,086	311,667	254,235
Transfers In (Out)	-	-	-	-	-	-	-	-
<i>Change in Net Assets</i>	<i>(323,541)</i>	<i>(249,477)</i>	<i>301,168</i>	<i>142,816</i>	<i>(22,373)</i>	<i>(106,661)</i>	<i>(36,993)</i>	<i>11,907</i>
Net Assets, Beginning	8,999,461	9,248,938	8,043,825	7,901,007	17,043,286	17,149,945	638,086	626,179
Net Assets, Ending	8,675,920	8,999,461	8,344,993	8,043,823	17,020,913	17,043,284	601,093	638,086

Governmental Activities

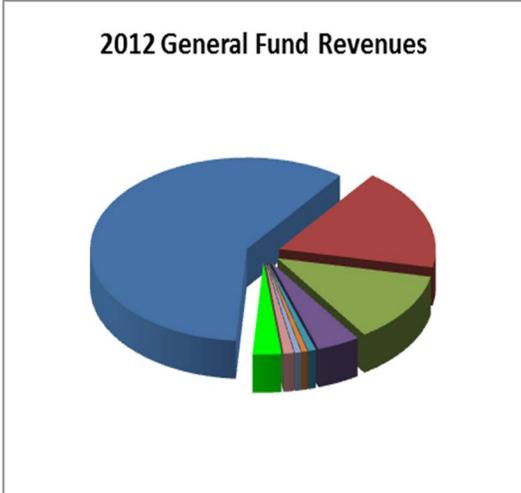
Public Safety is the City's largest expenditure in the governmental fund. It counts for nearly 48.7% of all expenditures. Public Safety includes the police, fire, fire marshal, code enforcement, and building inspection departments. The General Government category accounts for 22.2% of the general fund budget. The general fund includes most of city hall staff and court employees. This fund also includes expenditures for the City's streetlights, tax collections, and the contract expenditure for the Humane Society. Public works (streets department) makes up for 17.4% of the general fund expenditures. The remaining 11.7% consists of the Parks Department and a portion of the economic development director's salary because this position also serves as the community & development coordinator. The Parks Department includes the maintenance of all City parks, including the splash pad. The park supervisor is also the City's animal control officer.

In regards to the government-wide financial statements, the total general fund expenditures for this fiscal year were \$3,323,465 and are \$212,024 more than FY 2011. Total revenue for FY 2012 was \$2,999,924, which was \$137,960 more than the previous fiscal year. The revenue that funded these expenditures came from a variety of different sources. Property taxes accounted for 59% of the general fund revenue. Sales taxes follow with 18% of the 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 taxes bring in 12.4% of the revenue. The City collects franchise tax from electric, gas, cable, phone, and sanitation providers. Municipal court fines accounted for 4.4% of total revenue. The remaining 6.2% consists of investment and rent income, zoning fees, grant proceeds, and other small miscellaneous revenue. **Figure 3** provides a graphic representation of the City's revenues by source.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

FIGURE 3 - General Fund
Revenues September 30, 2012

	2012	2011	Increase / Decrease
Property Taxes	1,770,746	1,719,507	51,239
Sales Taxes	542,669	523,715	18,954
Franchise Fees	372,432	365,363	7,069
Fines & Forfeitures	132,361	153,840	(21,479)
Other	23,724	27,419	(3,695)
Interest Income	18,021	21,014	(2,993)
Licenses & Permits	19,326	20,183	(857)
Park User Fees	32,030	20,084	11,946
Grants	88,615	10,839	77,776
TOTAL REVENUE	2,999,924	2,861,964	137,960



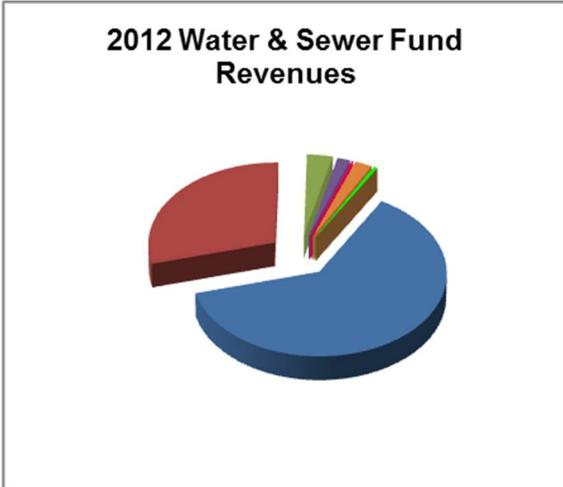
Business-Type Activities

Business-type activities consist of water, sewer, and sanitation revenues and expenses. Total revenue for the Water & Sewer Fund was \$2,222,662. Water sales alone made up 62.5% of this revenue. Sewer revenue was 29.5% of the total. The remaining 8% comes from sanitation fees, penalties, installation and reconnect fees, interest income, and various miscellaneous fees. The following chart (Figure 4) provides a graphic representation of the City's business-type revenues by source.

Total operating expenses for FY 2012 for the Water & Sewer Fund were \$1,921,494. Depreciation accounted for 26.5% of this total. The cost to obtain, treat, and deliver treated water was 38.7% of the total expenditures, while the cost of collecting and treating sewage was 21.1%, debt service payments accounted for 8.3%, and the remaining 5.4% was for miscellaneous expenses and customer accounting.

FIGURE 4 - Water & Sewer Fund
Revenues September 30, 2012

	2012	2011	Increase / Decrease
Water Revenue	1,389,502	1,460,059	(70,557)
Sewer Revenue	656,417	678,233	(21,816)
Sanitation Revenue	74,638	62,997	11,641
Penalties	37,592	37,511	81
Interest Income	4,182	5,291	(1,109)
Installment Fees	50,234	38,522	11,712
Miscellaneous Revenue	10,097	1,859	8,238
Grant Proceeds	-	144,032	(144,032)
TOTAL REVENUE	2,222,662	2,428,504	(205,842)



**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

FINANCIAL ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

Governmental fund (General Fund)

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.

In response to the issuance of *Governmental Accounting Standards Board (GASB) #54-Fund Balance Reporting and Governmental Fund Type Definitions*, 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, 2012 was \$2,718,363 and is 99% of the total fund balance. The *non-spendable* fund balance at year-end was \$5,308 and consisted of prepaid expenditures and a deposit on a land purchase. The *restricted* fund balance at year-end was \$28,632 which is the total of municipal court security, court technology fees, and cable PEG fees. This amount can only be used for restricted purposes according to the State of Texas and/or federal law.

In the general fund this year, revenues were \$41,739 more than expected, primarily due to tax collections. General fund expenditures were \$30,244 under budget due to all department heads working together by keeping expenditures at a minimum. Total expenditures for FY 2012 were \$3,129,882 and the unassigned fund balance represents 10.4 months of expenditures, which is 4.4 months more than the minimum unassigned fund balance required by the *Fund Balance Policy*.

The total general fund balance at the end of the current fiscal year was \$2,752,303; a decrease of \$113,070 in comparison with the prior year. In fiscal year 10/11, there were only two small capital expenditures because of the economy. This fiscal year several projects were budgeted and completed. The police department purchased a new patrol unit, street projects were done, phase 1 of an electronic records management system was implemented, a new concession stand at the City splash pad was constructed, a new soft splash surface was added to the splash pad, and Penick Park Phase 2 was near completion at year-end.

CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012

The original general fund revenue budget was \$2,877,720. There were two amendments approved for unexpected revenue and expenditures with a net effect of \$6,602. Unexpected revenue amendments were for donations, grants from FEMA, Texas Parks & Wildlife Penick Park, WOEDCO, Texas Department of Public Safety, and a decrease for annual grant revenue not expected by state comptroller for police training. There was only one unexpected expenditure amendment for the Penick Park Phase 2 grant.

Proprietary Fund (Water & Sewer Fund)

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 of \$12,227,525 exceeded liabilities of \$3,882,532, reporting net assets of \$8,344,993. This reflects a net increase of \$301,170 from the previous year. Within the net asset total, \$7,079,674 consisted of capital assets, net of related debt. The amount *restricted* for debt service was \$381,601 and the amount *restricted* for grant projects was \$5,155. The *unrestricted* fund balance at year-end was \$878,563 and represents 6 months of operating expenses.

When comparing the FY 2012 budget with actual figures, a net income of \$262,336 is shown on the budget basis financial statements. Actual revenues exceeded budgeted amounts by \$264,280. Actual operating expenses came in under budget by \$192,920. Part of this was because of some capital outlay projects that were not performed. As the year progressed and year-end revenue and expense estimates were forecasted, budgeted amounts that were planned to be transferred from the remaining 2008 Certificate of Obligations were not transferred, resulting in a year-end balance of \$317,808 remaining in the 2008 Certificate of Obligation account.

There was only one budget amendment approved during this fiscal year for \$43,144 to purchase a track hoe for the water and sewer departments.

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, 2012 totals \$16,370,547 (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 5** below is a summary of each fund's total capital assets for FY 2011 and FY 2012. For a more in depth review of capital assets, please see Note 4 – Capital Assets in the "Notes to Financial Statements" on Page 26. At the fiscal-year end, construction in progress included the second phase of Penick Park Improvements and lacks only landscaping and an ADA compliance inspection, a hydropneumatic pressure tank installation at the standpipe, beginning stages of a major wastewater plant improvement, and the generator grant project for multiple lift stations. Capital assets added this fiscal year were water & sewer line improvements, water treatment plant project phase 2, chemical pumps, an online chlorine analyzer, a track hoe, and a bore machine.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

FIGURE 5 - Capital Assets
September 30, 2012

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Land	201,297	201,297	96,824	96,824	298,121	298,121
Construction in Progress	139,188	14,925	78,423	1,886,855	217,611	1,901,780
Buildings & Improvements	620,821	651,765	85,208	89,942	706,029	741,707
Infrastructure	4,454,564	4,675,998	-	-	4,454,564	4,675,998
Furniture, Equip, & Machinery	524,492	592,074	113,984	104,256	638,476	696,330
Water & Sewer System	-	-	10,055,746	8,558,476	10,055,746	8,558,476
TOTAL	5,940,362	6,136,059	10,430,185	10,736,353	16,370,547	16,872,412

Debt Administration

Long-term debt: At the end of the current fiscal year, the City had a total bonded debt outstanding of \$3,675,000 consisting of two Certificate of Obligations and one Revenue Bond, all of which are in the Water & Sewer Fund. All debt payments were paid when due and decreased the debt total from FY 2011 by \$345,000. (See Note 5 – Long-Term Debt) A breakdown in balances per debt type is below in **Figure 6**.

FIGURE 6 - Outstanding Debt
September 30, 2012

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Certificate of Obligations	-	-	3,195,000	3,390,000	3,195,000	3,390,000
Revenue Bonds	-	-	480,000	630,000	480,000	630,000
TOTAL	-	-	3,675,000	4,020,000	3,675,000	4,020,000

The City's bond rating was assigned by Moody's Investor's Service, Inc. in 2008 and is classified as an "A1" rating and insured by Assured Guaranty Municipal (AGM). An "A1" rating is an upper medium grade rating of the "A" bond rating- Issuers or issues rated A present above-average creditworthiness relative to other U.S. municipal or tax-exempt issuers or issues according to Moody's Ratings.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Governmental funds

At the end of FY 2012, unemployment in the Longview/Tyler area was an average 6.4%, which almost equaled the state's 6.8% unemployment rate. The overall economy is improving but without an accelerated speed. The presidential election is in November and political uncertainty and the potential of the Federal government's Affordable Care Act is the cause of businesses not expanding and slow or postponement of hiring. Interest rates remain low and access to credit is beginning to expand.

Taxable assessed properties increased unexpectedly approximately \$40,198,835. The increase between 2011 and 2012 in net assessed valuation was more than 11.78% and was mainly due to the Real Minerals, Oil & Gas property use category. This fiscal year's tax rate remained the same at \$.52/100. The property value increase allowed \$202,763 more in ad-valorem tax which will allow for the purchase of capital assets, including an estimated \$150,000 for a 37-acre land purchase on Old Highway 80. In order to fund the needed capital assets, this budget produced an estimated \$191,655 to be utilized from the fund balance, but at year-end, only utilized \$113,070 from fund balance.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2012**

Sales tax revenue, the second largest revenue source for the City's General Fund increased \$18,954 or 3.6% compared to FY 2011. After two consecutive fiscal years of sales tax revenue increase, signs of the economy rebounding are evident.

For the upcoming General Fund budget, while keeping the same level of service for citizens, the tax rate is expected to remain unchanged at \$.52/100 and capital expenditures will be budgeted. These include the land purchase on Old Hwy 80, the second phase for electronic records management, a wide format scanner/printer, three new patrol units, a bobcat and Scag mower for the park, new walking trails, BBQ & picnic stations at the parks, and new lighting at the T-ball field.

During the current fiscal year, the City of White Oak gained over 20 new businesses that will help future tax valuation amounts and bring more jobs to the City. By investing in our parks, the City hopes to create a more attractive quality of life that will attract businesses which will bring in employees with families, increase property values and municipal revenue, and with the help of our East Texas climate, attract retirees.

Proprietary funds

For the upcoming FY 2013 Water & Sewer Fund budget, there are not any immediate plans to increase utility rates while sustaining the same great level of quality water and customer service. In fiscal year 2013, the only price increase will be from our sanitation provider, Allied Waste. The City's water and sewer rates continue to be lower than the local and state averages.

There will be several capital expenditures budgeted which will be funded by user and service fees and grants. These include a water line upgrade from a 2"- 6" line on White Oak Rd, north of George Richey, a new forklift, replacement of booster pumps at the Big Sandy facility, add a generator to the Lake Harris Lift Station with remaining grant funds, and phase 2 of the electronic records management system which will automate utility work orders.

Engineer work has begun on an upgrade to the wastewater treatment plant. Levels in the oxidation ditches are close to reaching maximums according to TCEQ regulations. Plans are currently in place to obtain a new 2013 Certificate of Obligation for approximately \$5.7 million to increase the capacity of the tanks and to replace all manually read water meters with radio-read meters. With the prepared documentation for the Certificate of Obligation are suggested water rate increases. These annual increases will help to provide future operations and debt service requirements.

REQUEST FOR INFORMATION

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	WOEDCO
ASSETS				
Cash	\$ 1,570,691	\$ 493,508	\$ 2,064,199	\$ 209,968
Temporary investments	1,150,000	-	1,150,000	-
Receivables (net of allowance for uncollectibles):				
Taxes	135,685	-	135,685	50,008
Accounts	-	468,851	468,851	-
Other	28,580	-	28,580	-
Prepaid expenses	308	-	308	-
Deposits	5,000	-	5,000	-
Restricted assets:				
Cash	-	815,892	815,892	-
Notes receivable	-	-	-	340,834
Debt issuance costs	-	19,089	19,089	-
Capital assets (net of accumulated depreciation):				
Land	201,297	96,824	298,121	-
Buildings and improvements	620,821	85,208	706,029	-
Water and sewer system	-	10,055,746	10,055,746	-
Machinery and equipment	524,492	113,984	638,476	585
Infrastructure	4,454,564	-	4,454,564	-
Construction in progress	139,188	78,423	217,611	-
Total assets	<u>8,830,626</u>	<u>12,227,525</u>	<u>21,058,151</u>	<u>601,395</u>
LIABILITIES				
Accounts payable	70,964	69,682	140,646	302
Accrued wages payable	31,328	6,101	37,429	-
Payable from restricted assets				
Accrued interest	-	12,408	12,408	-
Meter deposits	-	104,075	104,075	-
Accrual for compensated absences	52,414	15,266	67,680	-
Noncurrent liabilities:				
Due within one year	-	370,000	370,000	-
Due in more than one year	-	3,305,000	3,305,000	-
Total liabilities	<u>154,706</u>	<u>3,882,532</u>	<u>4,037,238</u>	<u>302</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,940,362	7,079,674	13,020,036	585
Restricted for debt service	-	381,601	381,601	-
Restricted for grant projects	-	5,155	5,155	-
Restricted for other purposes	28,632	-	28,632	600,508
Unrestricted	2,706,926	878,563	3,585,489	-
Total net assets	<u>\$ 8,675,920</u>	<u>\$ 8,344,993</u>	<u>\$ 17,020,913</u>	<u>\$ 601,093</u>

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit WOEDCO
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental activities:								
General government	\$ 740,351	\$ 19,326	\$ -	\$ -	\$ (721,025)	\$ -	\$ (721,025)	\$ -
Public safety	1,621,369	132,361	31,761	-	(1,457,247)	-	(1,457,247)	-
Public works	578,874	-	-	-	(578,874)	-	(578,874)	-
Developmental services	35,839	-	-	-	(35,839)	-	(35,839)	-
Recreation	347,032	32,030	-	56,854	(258,148)	-	(258,148)	-
Total governmental activities	<u>3,323,465</u>	<u>183,717</u>	<u>31,761</u>	<u>56,854</u>	<u>(3,051,133)</u>	<u>-</u>	<u>(3,051,133)</u>	<u>-</u>
Business-type activities:								
Water utilities	1,921,494	2,218,482	-	-	-	296,988	296,988	-
Total primary government	<u>\$ 5,244,959</u>	<u>\$ 2,402,199</u>	<u>\$ 31,761</u>	<u>\$ 56,854</u>	<u>\$ (3,051,133)</u>	<u>\$ 296,988</u>	<u>\$ (2,754,145)</u>	<u>\$ -</u>
Component unit:								
WOEDCO	\$ 311,667	-	-	-	-	-	-	(311,667)
General revenues								
Property taxes					1,770,746	-	1,770,746	-
Sales taxes					542,669	-	542,669	271,334
Franchise taxes					372,432	-	372,432	-
Unrestricted investment earnings					18,021	4,182	22,203	3,340
Miscellaneous					27,467	-	27,467	-
Gain/loss on disposition of assets					(3,743)	-	(3,743)	-
Total general revenues and transfers					<u>2,727,592</u>	<u>4,182</u>	<u>2,731,774</u>	<u>274,674</u>
Change in net assets					(323,541)	301,170	(22,371)	(36,993)
Net assets - beginning					<u>8,999,461</u>	<u>8,043,823</u>	<u>17,043,284</u>	<u>638,086</u>
Net assets - ending					<u>\$ 8,675,920</u>	<u>\$ 8,344,993</u>	<u>\$ 17,020,913</u>	<u>\$ 601,093</u>

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

CITY OF WHITE OAK, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	<u>General Fund</u>
ASSETS AND OTHER DEBITS:	
Cash	\$ 1,570,691
Temporary investments	1,150,000
Receivables:	
Taxes	135,685
Miscellaneous	28,580
Prepaid expenditures	308
Deposits	<u>5,000</u>
TOTAL ASSETS	<u><u>\$ 2,890,264</u></u>
LIABILITIES AND FUND BALANCE:	
LIABILITIES:	
Accounts payable	\$ 70,964
Unearned revenue	35,669
Accrued wages	<u>31,328</u>
TOTAL LIABILITIES	<u>137,961</u>
FUND BALANCE	
Fund balance - nonspendable	5,308
Fund balance - restricted	28,632
Fund balance - unassigned	<u>2,718,363</u>
TOTAL FUND BALANCE	<u>2,752,303</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,890,264</u></u>

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

CITY OF WHITE OAK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total fund balances - governmental funds balance sheet	\$ 2,752,303
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds	5,940,362
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	35,669
Payables for compensated absences which are not due in the current period are not reported in the funds.	<u>(52,414)</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 8,675,920</u></u>

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund
REVENUES:	
Property taxes	\$ 1,782,498
Franchise taxes	372,432
Sales taxes	542,669
Licenses, permits and fees	19,326
Fines, forfeitures and penalties	132,361
Park user fees	32,030
Investment income	18,021
Grant revenues	88,615
Miscellaneous	28,860
TOTAL REVENUES	3,016,812
EXPENDITURES:	
General government	749,762
Public safety	1,534,083
Public works	398,929
Developmental services	36,621
Recreation	410,487
TOTAL EXPENDITURES	3,129,882
EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(113,070)
NET CHANGE IN FUND BALANCE	(113,070)
FUND BALANCE, OCTOBER 1, 2011	2,865,373
FUND BALANCE, SEPTEMBER 30, 2012	\$ 2,752,303

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

CITY OF WHITE OAK, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds	\$(113,070)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	252,544
The depreciation of capital assets used in governmental activities is not reported in the funds.	(443,106)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(11,752)
All proceeds from the sale of capital assets are reported in the funds but not the SOA.	(1,392)
The loss on disposition of capital assets is not reported in the	(3,743)
(Increase) decrease in accrual for compensated absences.	<u>(3,022)</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$(323,541)</u></u>

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2012

	<u>Water Utilities</u>
ASSETS:	
Current assets:	
Cash	\$ 493,508
Accounts receivable	468,851
Restricted assets:	
Cash	815,892
Noncurrent assets:	
Debt issuance costs	19,089
Land	96,824
Construction in progress	78,423
Capital assets, net	<u>10,254,938</u>
TOTAL ASSETS	<u>12,227,525</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	69,682
Accrued wages	6,101
Accrual for compensated absences	15,266
Payable from restricted assets:	
Accrued interest payable	12,408
Customer deposits	104,075
Noncurrent liabilities:	
Due within one year	370,000
Due in more than one year	<u>3,305,000</u>
TOTAL LIABILITIES	<u>3,882,532</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,079,674
Restricted for debt service	381,601
Restricted for grant projects	5,155
Unrestricted	<u>878,563</u>
TOTAL NET ASSETS	<u><u>\$ 8,344,993</u></u>

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water Utilities
OPERATING REVENUES:	
Water revenue	\$ 1,389,502
Sewer revenue	656,417
Sanitation revenue	74,638
Penalties	37,592
Installment fees	50,234
Miscellaneous revenue	10,099
TOTAL OPERATING REVENUES	2,218,482
OPERATING EXPENSES:	
Administration	67,387
Water supply	108,162
Water distribution	142,823
Water purification	493,934
Sanitary sewer maintenance	162,228
Sanitary sewer treatment	244,881
Depreciation and amortization	510,778
Miscellaneous	31,538
TOTAL OPERATING EXPENSES	1,761,731
OPERATING INCOME	456,751
NONOPERATING REVENUES (EXPENSES)	
Investment proceeds	4,182
Debt service - interest	(155,181)
Debt service - fees	(4,582)
TOTAL NONOPERATING REVENUES (EXPENSES)	(155,581)
CHANGE IN NET ASSETS	301,170
TOTAL NET ASSETS - BEGINNING	8,043,823
TOTAL NET ASSETS - ENDING	\$ 8,344,993

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

CITY OF WHITE OAK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water Utilities
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers for water sales and sewer service	\$ 2,229,437
Cash payments to employees	(391,280)
Cash payments for goods and services	(842,360)
NET CASH PROVIDED BY OPERATING ACTIVITIES	995,797
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Loans repaid to other funds	(145,959)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(145,959)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(204,610)
Grant proceeds	10,424
Principal paid on debt	(345,000)
Interest paid on debt	(156,438)
Fees paid on debt	(2,750)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(698,374)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment proceeds	4,182
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,182
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	155,646
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2011	1,153,756
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2012	\$ 1,309,402
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 456,751
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	510,778
(Increase) decrease in accounts receivable	(10,635)
Increase (decrease) in customer deposits	21,590
Increase (decrease) in accounts payable	14,355
Increase (decrease) in accrued wages	225
Increase (decrease) in accrual for compensated absences	2,733
Total adjustments	539,046
Net cash provided by operating activities	\$ 995,797

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

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

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

COMPONENT UNIT

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

DISCRETELY PRESENTED COMPONENT UNIT

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Utilities Fund are charges to customers for sales and services. All revenues not meeting this definition are reported as nonoperating revenues and expenses.

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

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

E. INTERFUND RECEIVABLES AND PAYABLES

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

F. ESTIMATES

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

G. CASH EQUIVALENTS

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

H. RISK MANAGEMENT

The city is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the City purchased insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding liability insurance coverage for each of the past three fiscal years.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. CAPITAL ASSETS

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

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

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

J. FUND EQUITY

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- a. Nonspendable fund balance - amounts that are not in a spendable form (such as inventory and prepaid items) or are required to be maintained intact;
- b. Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- c. Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- d. Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- e. Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. In the general fund, the City has a policy to maintain a minimum of six months of operating expenses in unassigned fund balance. The City was in compliance with this policy at September 30, 2012.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

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

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

Deficit Fund Balances or Fund Net Assets of Individual Funds

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

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

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 3 - PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value. The assessed value for the roll as of January 1, 2011 upon which the 2012 fiscal-year levy was based, was \$341,450,863 and the tax levy was set at \$.52 per \$100 of assessed valuation.

Taxes were due in January following the October 1 statement date. Tax collections during the fiscal year ended September 30, 2012, for the fiscal 2012 tax levy were 101.1 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2012, were \$57,199.

The allowance for uncollectible tax receivables is based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible taxes at September 30, 2012 is \$21,530.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 201,297	\$ -	\$ -	\$ 201,297
Construction in Progress	14,925	124,263	-	139,188
Total capital assets not being depreciated	<u>216,222</u>	<u>124,263</u>	<u>-</u>	<u>340,485</u>
Capital assets being depreciated:				
Buildings & improvements	982,545	7,500	-	990,045
Infrastructure	7,235,383	61,897	-	7,297,280
Furniture and equipment	1,907,531	58,884	58,414	1,908,001
Total capital assets being depreciated	<u>10,125,459</u>	<u>128,281</u>	<u>58,414</u>	<u>10,195,326</u>
Less accumulated depreciation for:				
Buildings & improvements	(330,780)	(38,444)	-	(369,224)
Infrastructure	(2,559,385)	(283,331)	-	(2,842,716)
Furniture and equipment	(1,315,457)	(121,331)	(53,279)	(1,383,509)
Total accumulated depreciation	<u>(4,205,622)</u>	<u>(443,106)</u>	<u>(53,279)</u>	<u>(4,595,449)</u>
Total capital assets being depreciated, net	<u>5,919,837</u>	<u>(314,825)</u>	<u>5,135</u>	<u>5,599,877</u>
Governmental activities capital assets, net	<u>\$ 6,136,059</u>	<u>\$ (190,562)</u>	<u>\$ 5,135</u>	<u>\$ 5,940,362</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 96,824	\$ -	\$ -	\$ 96,824
Construction in progress	1,886,855	126,112	1,934,544	78,423
Total capital assets, not being depreciated	<u>1,983,679</u>	<u>126,112</u>	<u>1,934,544</u>	<u>175,247</u>
Capital assets being depreciated:				
Water and sewer system	16,126,875	1,953,472	13,183	18,067,164
Buildings	255,590	-	-	255,590
Machinery and equipment	428,296	59,570	7,525	480,341
Total capital assets being depreciated	<u>16,810,761</u>	<u>2,013,042</u>	<u>20,708</u>	<u>18,803,095</u>

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Less accumulated depreciation for:				
Water and sewer system	(7,568,399)	(456,202)	(13,183)	(8,011,418)
Buildings	(165,648)	(4,734)	-	(170,382)
Machinery and equipment	(324,040)	(49,842)	(7,525)	(366,357)
Total accumulated depreciation	<u>(8,058,087)</u>	<u>(510,778)</u>	<u>(20,708)</u>	<u>(8,548,157)</u>
 Total capital assets being depreciated, net	 <u>8,752,674</u>	 <u>1,502,264</u>	 <u>-</u>	 <u>10,254,938</u>
 Business-type activities capital assets, net	 <u>\$ 10,736,353</u>	 <u>\$ 1,628,376</u>	 <u>\$ 1,934,544</u>	 <u>\$ 10,430,185</u>

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

Governmental activities:	
General government	\$ 27,863
Public safety	111,495
Public works	186,518
Recreation	117,230
Total depreciation expense - governmental activities	<u>443,106</u>
 Business-type activities:	
Water utilities	<u>510,778</u>
Total depreciation expense - business-type activities	<u>510,778</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2012, are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Accrual for Compensated Absences	\$ 49,392	\$ 3,022	\$ -	\$ 52,414	\$ -
Total Governmental Activities	<u>\$ 49,392</u>	<u>\$ 3,022</u>	<u>\$ -</u>	<u>\$ 52,414</u>	<u>\$ -</u>
 Business-type Activities:					
<u>Certificates of Obligation</u>					
Series 1999, interest at 5.05%, maturing 3/01/2014	\$ 550,000	\$ -	\$ 175,000	\$ 375,000	\$ 185,000
Series 2008, interest at 3.50-4.25%, maturing 3/01/2023	2,840,000	-	20,000	2,820,000	30,000
<u>Revenue Bonds</u>					
Series 2001, interest at 3.20-3.95%, maturing 3/01/2015	<u>630,000</u>	<u>-</u>	<u>150,000</u>	<u>480,000</u>	<u>155,000</u>
Total Business-Type Activities	<u>\$ 4,020,000</u>	<u>\$ -</u>	<u>\$ 345,000</u>	<u>\$ 3,675,000</u>	<u>\$ 370,000</u>
Total Long-term Debt	<u>\$ 4,069,392</u>	<u>\$ 3,022</u>	<u>\$ 345,000</u>	<u>\$ 3,727,414</u>	<u>\$ 370,000</u>

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt subsequent to September 30, 2012 are as follows:

Business-type activities:

Year Ending September 30	Principal	Interest	Total
2013	\$ 370,000	\$ 140,754	\$ 510,754
2014	380,000	124,174	504,174
2015	270,000	110,244	380,244
2016	280,000	98,804	378,804
2017	295,000	86,585	381,585
2018-2022	1,695,000	242,923	1,937,923
2023	385,000	7,700	392,700
	\$ 3,675,000	\$ 811,184	\$ 4,486,184

NOTE 6 - EMPLOYEE BENEFITS

A. PLAN DESCRIPTION

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

B. CONTRIBUTIONS

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

The annual pension cost and net pension obligation/(assets) are as follows:

Annual required contribution (ARC)	\$ 255,062
Interest on net pension obligation	-
Adjustment to the ARC	-
Annual pension cost	255,062
Contributions made	255,062
Increase(decrease) in net pension	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

<u>Valuation Date</u>	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 years; closed period	27.2 years; closed period	26.3 years; closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.5%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress -

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	12/31/11
Actuarial Value of Assets	\$ 7,540,457
Actuarial Accrued Liability (AAL)	8,885,946
Funded Ratio	84.9%
Unfunded AAL (UAAL)	1,345,489
Covered Payroll	1,803,500
UAAL as a Percentage of Covered Payroll	74.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

C. 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 2012, 2011 and 2010 were \$3,014, \$3,375 and \$3,261, respectively, which equaled the required contributions each year.

NOTE 7 - RESTRICTED FUND BALANCE

As of September 30, 2012, fund balances restricted for specific purposes were as follows:

General Fund		
Municipal Court Security Fees	\$	7,550
Municipal Court Technology Fees		7,358
Cable PEG Fees		13,724
	<u>\$</u>	<u>28,632</u>

NOTE 8 - ACCRUAL FOR COMPENSATED ABSENCES

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

The accompanying financial statements report accrued vacation benefits as of September 30, 2012.

NOTE 9 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2012, the carrying amounts of the City's bank balances were \$2,880,091. The City's cash deposits at September 30, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 9 - DEPOSITS AND INVESTMENTS (CONTINUED)

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City's investments at September 30, 2012, are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	6-12 months	\$ 1,150,000
Total Investments		<u>\$ 1,150,000</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.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contingencies

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

Liabilities

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

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 21, 2013, the date on which the financial statements were available to be issued.

The City Council approved the purchase of 42 acres of land on March 13, 2012. The transaction was completed in October of 2012 at a total cost of \$165,800.

The City Council has authorized the issuance of \$5,700,000 in Certificates of Obligation in fiscal year 2013 to fund the wastewater treatment plant expansion, as well as water meter replacements.

REQUIRED SUPPLEMENTAL INFORMATION

This page left blank intentionally.

CITY OF WHITE OAK, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,735,860	\$ 1,735,860	\$ 1,782,498	\$ 46,638
Franchise taxes	361,000	361,000	372,432	11,432
Sales taxes	550,000	550,000	542,669	(7,331)
Licenses, permits and fees	10,860	10,860	19,326	8,466
Fines, forfeitures and penalties	133,300	133,300	132,361	(939)
Park user fees	60,000	60,000	32,030	(27,970)
Investment income	15,000	15,000	18,021	3,021
Grant revenues	1,600	97,512	88,615	(8,897)
Miscellaneous	10,100	11,541	28,860	17,319
TOTAL REVENUES	<u>2,877,720</u>	<u>2,975,073</u>	<u>3,016,812</u>	<u>41,739</u>
EXPENDITURES:				
General government	748,617	755,623	749,762	5,861
Public safety	1,522,103	1,529,247	1,534,083	(4,836)
Public works	448,338	431,270	398,929	32,341
Developmental services	36,014	36,014	36,621	(607)
Recreation	314,303	407,972	410,487	(2,515)
TOTAL EXPENDITURES	<u>3,069,375</u>	<u>3,160,126</u>	<u>3,129,882</u>	<u>30,244</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(191,655)	(185,053)	(113,070)	71,983
OTHER FINANCING SOURCES (USES):				
Transfers	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(191,655)	(185,053)	(113,070)	71,983
FUND BALANCE, OCTOBER 1, 2011	<u>2,865,373</u>	<u>2,865,373</u>	<u>2,865,373</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2012	<u>\$ 2,673,718</u>	<u>\$ 2,680,320</u>	<u>\$ 2,752,303</u>	<u>\$ 71,983</u>

CITY OF WHITE OAK, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial	Actuarial	Actuarial		Unfunded		UAAL as a
Valuation	Value of	Accrued	Funded	AAL	Covered	Percentage of
Date	Assets	Liability (AAL)	Ratio	(UAAL)	Payroll	Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2) - (1)		(4) / (5)
12/31/09	2,446,070	4,379,093	55.9%	1,933,023	1,684,965	114.7%
12/31/10	6,993,758	8,334,062	83.9%	1,340,304	1,734,021	77.3%
12/31/11	7,540,457	8,885,946	84.9%	1,345,489	1,803,500	74.6%

OTHER SUPPLEMENTAL INFORMATION

This page left blank intentionally.

CITY OF WHITE OAK, TEXAS
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-
BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
OPERATING REVENUES:						
Water revenue	\$ 1,200,000	\$ 1,200,000	\$ 1,389,502	\$ -	\$ 1,389,502	\$ 189,502
Sewer revenue	635,000	635,000	656,417	-	656,417	21,417
Sanitation revenue	62,000	62,000	74,638	-	74,638	12,638
Penalties	32,000	32,000	37,592	-	37,592	5,592
Installment fees	24,200	24,200	50,234	-	50,234	26,034
Miscellaneous revenue	1,000	1,000	10,099	-	10,099	9,099
TOTAL OPERATING REVENUES	1,954,200	1,954,200	2,218,482	-	2,218,482	264,282
OPERATING EXPENSES:						
Administration	67,317	67,317	67,387	-	67,387	(70)
Water supply	140,600	140,600	108,162	-	108,162	32,438
Water distribution	164,837	167,686	142,823	-	142,823	24,863
Water purification	499,126	499,636	493,934	-	493,934	5,702
Sanitary sewer maintenance	181,541	182,205	162,228	-	162,228	19,977
Sanitary sewer treatment	268,224	268,224	244,881	-	244,881	23,343
Depreciation and amortization	-	-	510,778	(510,778)	-	-
Miscellaneous	51,501	47,479	31,538	-	31,538	15,941
Capital outlay	232,192	275,336	-	204,610	204,610	70,726
TOTAL OPERATING EXPENSES	1,605,338	1,648,483	1,761,731	(306,168)	1,455,563	192,920
OPERATING INCOME (LOSS)	348,862	305,717	456,751	306,168	762,919	457,202
NONOPERATING REVENUES (EXPENSES)						
Investment proceeds	1,900	1,900	4,182	-	4,182	2,282
Grant proceeds	51,842	51,842	-	-	-	(51,842)
Debt service - interest	(156,438)	(156,438)	(155,181)	-	(155,181)	1,257
Debt service - fees	(3,000)	(3,000)	(4,582)	-	(4,582)	(1,582)
Debt service - principal	(345,000)	(345,000)	-	(345,000)	(345,000)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(450,696)	(450,696)	(155,581)	(345,000)	(500,581)	(49,885)
NET INCOME (LOSS)	(101,834)	(144,979)	301,170	(38,832)	262,338	407,317
NET ASSETS - BEGINNING	8,043,823	8,043,823	8,043,823	-	8,043,823	-
NET ASSETS - ENDING	\$ 7,941,989	\$ 7,898,844	\$ 8,344,993	\$ (38,832)	\$ 8,306,161	\$ 407,317

This page left blank intentionally.

COMPLIANCE SECTION

This page left blank intentionally.

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

INDEPENDENT AUDITORS' REPORT

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

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of White Oak, Texas' basic financial statements and have issued our report thereon dated February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of White Oak in a separate letter dated February 21, 2013.

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

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
February 21, 2013

CITY OF WHITE OAK, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

<u>Program</u>	<u>Finding</u>	<u>Status</u>
None		

CITY OF WHITE OAK
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

None required.

CITY OF WHITE OAK, TEXAS
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Texas General Land Office
CFDA Number 14.228
Project Number GLO 10-5305-000-5313 (formerly Texas Dept of Rural Affairs #DRS010202)
Contract Period 12/01/2009 - 12/31/2013

	Budget	Actual				Total	Variance
		Prior Years		Current Year			
		Federal	Local	Federal	Local		
REVENUE							
Federal/State	\$ 170,794	\$ 125,327	\$ -	\$ -	\$ -	\$ 125,327	\$ (45,467)
Local	28,645	-	1,770	-	-	1,770	(26,875)
TOTAL REVENUE	199,439	125,327	1,770	-	-	127,097	(72,342)
EXPENDITURES							
Federal/State:							
Sewer Facilities	121,007	92,882	-	-	-	92,882	28,125
Engineering	31,000	19,800	-	-	-	19,800	11,200
Planning/Project Delivery	18,787	12,645	-	-	-	12,645	6,142
Local:							
Sewer Facilities	28,645	-	1,770	-	-	1,770	26,875
TOTAL EXPENDITURES	199,439	125,327	1,770	-	-	127,097	72,342
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

February 21, 2013

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

In planning and performing our audit of the financial statements of the City of White Oak, Texas for the year ended September 30, 2012, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding those matters. We previously reported on the City's internal control based on an audit performed in accordance with *Government Auditing Standards* in a report dated February 21, 2013. This letter does not affect our report dated February 21, 2013, on the financial statements of the City of White Oak, Texas.

PRIOR YEAR CONSIDERATIONS

None

CURRENT YEAR CONSIDERATIONS

Water and Sewer System Billings

During our audit, we determined that the City does not have a formal policy with respect to the cut-off of water and sewer services for nonpayment by the customers. As a result, the balance of past due accounts continues to increase. We recommend that a policy be set and that cut-offs be done on a timely basis before additional charges are incurred.

Mayor and City Council
February 21, 2013
Page Two

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

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.