

CITY OF WHITE OAK, TEXAS

FINANCIAL STATEMENTS

September 30, 2011

PRINCIPAL OFFICIALS

September 30, 2011

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

Raymond "Bo" Rogers
City Judge

Darrell Atkinson
City Attorney

CITY OF WHITE OAK, TEXAS
SEPTEMBER 30, 2011
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of September 30, 2011, 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 April 2, 2012 on our consideration of the City of White Oak's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of White Oak, Texas' basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. This budgetary comparison schedule has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

April 2, 2012

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

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, 2011. 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, 2011 is \$17,043,284.
- The combined change in net assets is a decrease of \$106,661.
- The total fund balance in the general fund is \$2,865,373. This reflects an increase of \$206,925 from the previous fiscal year.
- The total net assets for the City's Enterprise (Water & Sewer) Fund is \$8,043,823, which was a \$142,816 increase over fiscal year 2010.
- As of September 30, 2011, the General Fund has \$2,846,432 in unrestricted funds and the Enterprise Fund has \$597,037.
- The City's long-term debt decreased \$317,028, leaving a balance due of \$4,069,392. 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, etc.), to assess the overall health or financial condition of the City.

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

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

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

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

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

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The City's combined net assets were \$17,043,284 as of September 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, the Governmental net assets are \$8,999,461 and the business-type activities net assets are \$8,043,823. 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 (2.2%) is for debt service, grant projects, court security, and court technology.

Unrestricted net assets (20.2%) 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, 2011**

FIGURE 1 - Summary of Net Assets
September 30, 2011

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Component Unit - WOEDCO</i>	
	2011	2010	2011	2010	2011	2010	2011	2010
Current & other assets	3,018,978	2,810,007	5,170,662	2,547,180	8,189,640	5,357,187	637,494	624,016
Capital Assets	6,136,059	6,577,316	7,063,049	10,145,116	13,199,108	16,722,432	1,086	2,338
TOTAL ASSETS	9,155,037	9,387,323	12,233,711	12,692,296	21,388,748	22,079,619	638,580	626,354
Current Liabilities	155,576	138,385	169,888	441,289	325,464	579,674	494	175
Non-Current Liabilities	-	-	4,020,000	4,350,000	4,020,000	4,350,000	-	-
TOTAL LIABILITIES	155,576	138,385	4,189,888	4,791,289	4,345,464	4,929,674	494	175
Net Assets:								
Invested in capital assets, net of related debt	6,136,059	6,577,316	7,083,970	7,475,470	13,220,029	14,052,786	1,086	2,338
Restricted for debt service	-	-	352,816	342,684	352,816	342,684	-	-
Restricted for grant projects	-	-	10,000	-	10,000	-	-	-
Restricted for other purposes	15,343	-	-	-	15,343	-	637,000	623,841
Unrestricted	2,848,059	2,671,622	597,037	82,853	3,445,096	2,754,475	-	-
TOTAL NET ASSETS	8,999,461	9,248,938	8,043,823	7,901,007	17,043,284	17,149,945	638,086	626,179

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 \$249,477 and the enterprise fund net assets increased \$142,816. 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 \$249,477 yet the fund balance increased \$206,925. The reconciliation between the increase 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.

The net assets in the Water & Sewer Fund increased \$142,816. The net asset increase from fiscal year 2009 to 2010 was \$498,598 and because of the ruptured raw water tank on Locker Plant Road which had to be replaced, there was \$249,043 removed from the fixed asset schedule shown as a loss on disposition of assets. If this incident had not occurred, the increase in net assets would have been higher.

**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

FIGURE 2 - Change in Net Assets September 30, 2011

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>		<i>Component Unit - WOEDCO</i>	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues:								
<i>Program Revenues:</i>								
Charges for service & grants	204,946	348,242	2,423,213	2,403,363	2,628,159	2,751,605	-	-
<i>General Revenues:</i>								
Taxes	2,243,221	2,077,419	-	-	2,243,221	2,077,419	261,858	249,786
Franchise Fees	365,363	320,766	-	-	365,363	320,766	-	-
Other	48,434	46,819	(243,752)	11,005	(195,318)	57,824	4,284	6,750
Total Revenues	2,861,964	2,793,246	2,179,461	2,414,368	5,041,425	5,207,614	266,142	256,536
Expenses:								
General Government	726,154	681,368	-	-	726,154	681,368		
Public Safety	1,574,735	1,555,303	-	-	1,574,735	1,555,303		
Public Works	488,213	494,995	-	-	488,213	494,995		
Development Services	36,996	36,879	-	-	36,996	36,879		
Culture & Recreation	285,343	240,816	-	-	285,343	240,816		
Water Utilities	-	-	2,036,645	1,915,770	2,036,645	1,915,770		
Total Expenses	3,111,441	3,009,361	2,036,645	1,915,770	5,148,086	4,925,131	254,235	475,314
Transfers In (Out)	-	-	-	-	-	-	-	-
<i>Change in Net Assets</i>	(249,477)	(216,115)	142,816	498,598	(106,661)	282,483	11,907	(218,778)
Net Assets, Beginning	9,248,938	9,465,053	7,901,007	7,402,409	17,149,945	16,867,462	626,179	844,957
Net Assets, Ending	8,999,461	9,248,938	8,043,823	7,901,007	17,043,284	17,149,945	638,086	626,179

Governmental Activities

Public Safety is the City's largest expense in the governmental fund. It counts for nearly 50.6% of all expenses. Public Safety includes the police, fire, fire marshal, code enforcement, and building inspection departments. The General Government category accounts for 23.3% of the general fund budget. The general fund includes most of city hall staff and court employees. This fund also includes expenses for the City's streetlights, tax collections, and the contract expense for the Humane Society. Public works (streets department) makes up for 15.6% of the general fund expenses. The remaining 10.5% 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 expenses for this fiscal year were \$3,111,441 and is \$102,080 more than FY 2010. Total revenue for FY 2011 was \$2,861,964, which is \$68,718 more than the previous fiscal year. The revenue that funded these expenses came from a variety of different sources. Property taxes accounted for 60% of the general fund revenue. Sales taxes follow with 18.3% 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 12.8% of the revenue. The City collects franchise tax from electric, gas, cable, phone, and sanitation providers. Municipal court fines accounted for 5.4% of total revenue. The remaining 3.5% 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, 2011**

FIGURE 3 - General Fund Revenues September 30, 2011

	2011	2010	Increase / Decrease
Property Taxes	1,719,507	1,591,144	128,363
Sales Taxes	523,715	499,573	24,142
Franchise Fees	365,363	320,766	44,597
Fines & Forfeitures	153,840	134,206	19,634
Other	27,419	29,298	(1,879)
Interest Income	21,014	22,552	(1,538)
Licenses & Permits	20,183	19,336	847
Park User Fees	20,084	-	20,084
Gain(Loss) on Sale of Assets	-	(18,329)	18,329
Grants	10,839	194,700	(183,861)
TOTAL REVENUE	2,861,964	2,793,246	68,718



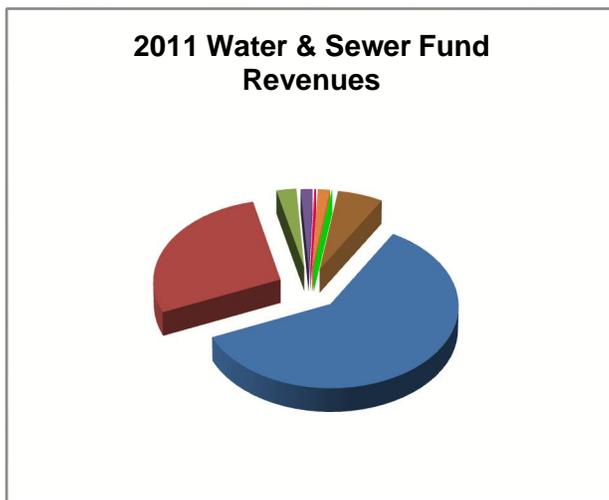
Business-Type Activities

Business-type activities consist of water, sewer, and sanitation revenues and expenses. Total revenue for the Water & Sewer Fund was \$2,428,504. Water sales alone made up 60% of this revenue. Sewer revenue was 28% of the total. The remaining 12% 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 2011 for the Water & Sewer Fund were \$1,863,975. Depreciation accounted for 27% of this total. The cost to obtain, treat, and deliver treated water was 45% of the total expenditures, while the cost of collecting and treating sewage was 23%. The remaining 5% was for miscellaneous expenses and customer accounting.

FIGURE 4 - Water & Sewer Fund Revenues September 30, 2011

	2011	2010	Increase / Decrease
Water Revenue	1,460,059	1,264,728	195,331
Sewer Revenue	678,233	652,119	26,114
Sanitation Revenue	62,997	62,931	66
Penalties	37,511	32,448	5,063
Interest Income	5,291	11,005	(5,714)
Installment Fees	38,522	25,604	12,918
Miscellaneous Revenue	1,859	3,725	(1,866)
Grant Proceeds	144,032	361,808	(217,776)
TOTAL REVENUE	2,428,504	2,414,368	14,136



**CITY OF WHITE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

FINANCIAL ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

Governmental funds

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

The total general fund balance at the end of the current fiscal year was \$2,865,373; an increase of \$206,925 in comparison with the prior year. Nearly all capital projects were placed on hold for this fiscal year because of the poor economy. The net income is due to the capital postponement, greater than expected revenue in property taxes, franchise taxes and court revenue. The department heads' careful control over their budgets also played a role in achieving a net income versus a net loss.

The *unreserved* fund balance in the general fund on September 30, 2011 was \$2,846,432 and is over 99% of the total fund balance. The *non-spendable* fund balance at year-end was \$3,598 and consisted of prepaid expenditures. The *restricted* fund balance at year-end was \$15,343 which is the total of municipal court security and court technology fees. This amount can only be used for restricted purposes according to the State of Texas.

In the general fund this year, revenues were \$36,794 more than expected. Due to the reasons already mentioned, general fund expenses were \$113,451 under budget. Total expenses for FY 2011 were \$2,657,211 and the unreserved fund balance represents 12.9 months of expenses.

General Fund Budget

The original general fund budget was \$2,795,342. There were two amendments approved for unexpected revenue with a net effect of \$32,000. The EMS building rent was increased \$12,000 to recognize the monthly rent due the City that was not expected. The City Council approved the collection of splash pad fees; therefore an amendment of \$20,000 was approved for this unexpected revenue. There were not any amendments to general fund expenses for FY 2011.

Proprietary Fund Types

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 \$12,379,670 exceeded liabilities of \$4,335,847, reporting net assets of \$8,043,823. This reflects a net increase of \$142,816 from the previous year. Within the net asset total, \$7,083,970 consisted of capital assets, net of related debt. The amount *restricted* for debt service was \$352,816 and the amount *restricted* for grant projects was \$10,000. The *unrestricted* fund balance at year-end was \$597,037 and represents 3.8 months of operating expenses. As noted earlier, the change in net assets last fiscal year was \$498,598 versus this fiscal year of \$142,816. The decrease in difference was \$355,782 with a large portion of this being the ruptured raw water storage tank.

**THE CITY OF WHITE OAK,
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

Enterprise (Water & Sewer) Fund Budget

When comparing the FY 2011 budget with actual figures, a net loss of \$838,143 is shown on the financial statements. Actual revenues exceeded budgeted amounts by \$229,723. Actual expenses exceeded budgeted amounts by \$145,988. This amount can be connected to the large water treatment plant project that was 99% complete at fiscal year-end. What this net loss does not take into consideration is the amount of \$1,285,809 that was transferred from the 2008 Certificate of Obligation into the operating account to reimburse these project expenses. At year-end, the 2008 Certificate of Obligation had a remaining balance of \$340,902, which will be used for further water and sewer projects.

There were seven budget amendments approved during this fiscal year with a net effect of \$-109,000:

- 1) To recognize an unexpected grant from the Sabine River Authority for \$10,000.
- 2) To increase the non-departmental vehicle maintenance to \$15,000 from \$8,000.
- 3) To increase the purchase of treated water from the City of Longview from \$50,000 to \$140,000 because of the serious drought.
- 4) To increase the electricity expense at the Big Sandy Creek Supply from \$25,000 to \$32,000, which was originally under-budgeted.
- 5) To increase the sewer line maintenance expense account for \$15,000 for an unexpected project on Maple and A-line streets.
- 6) To recognize unexpected grant revenue of \$82,458 for lift station generators.
- 7) To recognize unexpected grant expenses of \$82,458 for lift station generators.

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, 2011 totals \$16,872,412 (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 2010 and FY 2011. 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 the Water Treatment Plant Phase 2 construction. Capital assets added this fiscal year were water & sewer line improvements, the raw water tank replacement, and two generators for the Drake and Owens lift stations.

FIGURE 5 - Capital Assets September 30, 2011	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Land	201,297	201,297	96,824	96,824	298,121	298,121
Construction in Progress	14,925	-	1,886,855	1,266,801	1,901,780	1,266,801
Buildings & Improvements	651,765	687,134	89,942	95,208	741,707	782,342
Infrastructure	4,675,998	4,977,461	-	-	4,675,998	4,977,461
Furniture, Equip, & Machinery	592,074	711,424	104,256	132,166	696,330	843,590
Water & Sewer System	-	-	8,558,476	8,531,363	8,558,476	8,531,363
TOTAL	6,136,059	6,577,316	10,736,353	10,122,362	16,872,412	16,699,678

**THE CITY OF WHITE OAK,
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

Debt Administration

Long-term debt: At the end of the current fiscal year, the City had a total bonded debt outstanding of \$4,020,000 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 2010 by \$330,000. (See Note 5 – Long-Term Debt) A breakdown in balances per debt type is below in **Figure 6**.

FIGURE 6 - Outstanding Debt
September 30, 2011

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Certificate of Obligations	-	-	3,390,000	3,575,000	3,390,000	3,575,000
Revenue Bonds	-	-	630,000	775,000	630,000	775,000
TOTAL	-	-	4,020,000	4,350,000	4,020,000	4,350,000

The City's bond rating with Moody's Investor's Service, Inc. 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 2011, unemployment in the Longview/Tyler area was 7.3%, which was lower than the state's 7.9% unemployment rate. The overall economy is slowly improving.

Taxable assessed properties dropped for the first time in many years. The decrease between 2009 and 2010 in net assessed valuation was \$2,121,190 or .63%. This fiscal year's tax rate was increased \$.04/100 from \$.48/100 to \$.52/100. This increase was required to match the budgeted expenses required to operate the City at the current level. Even with the tax increase equivalent to \$133,372, only \$9,500 was budgeted for capital assets in the General Fund. This budget produced an estimated \$24,681 extra to add to the general fund balance.

Sales tax revenue, the second largest revenue source for the City's General Fund increased \$24,142 or 4.8% compared to FY 2010. With signs of a slow, but recovering economy, sales tax revenue will be budgeted slightly higher for FY 2012.

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. To create a safer environment for children, the City plans to resurface the splash pad with a non-slip surface. In addition, there is a new concession stand budgeted for the City park.

During the current fiscal year, the City of White Oak gained four new major businesses that will help future tax valuation amounts and bring more jobs to the City. These companies were Good Shepherd Family Health Center, which brings a family physician's center back to the City of White Oak, J&J Overhead Doors, Western Weatherseal, and Southwest Solutions.

**THE CITY OF WHITE OAK,
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
September 30, 2011**

Proprietary funds

For the upcoming FY 2012 Water & Sewer Fund budget, there are not any plans to increase utility rates while sustaining the same great level of quality water and customer service. There will be several capital expenditures budgeted which will be funded by the remaining Certificate of Obligation funds or grant proceeds. There are no capital expenditures budgeted with FY 2012 current user fee revenue. In fiscal year 2012, the only price increase will be from our sanitation provider, Allied Waste. This annual CPI increase will be absorbed by the City. The City's water and sewer rates continue to be lower than the local and state averages.

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. 17.

BASIC FINANCIAL STATEMENTS

CITY OF WHITE OAK, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	WOEDCO
ASSETS				
Cash	\$ 1,555,521	\$ 359,993	\$ 1,915,514	\$ 84,150
Temporary investments	1,150,000	-	1,150,000	58,332
Receivables (net of allowance for uncollectibles):				
Taxes	142,080	-	142,080	47,330
Accounts	-	458,216	458,216	-
Other	21,820	10,424	32,244	128
Internal balances	145,959	(145,959)	-	-
Prepaid expenses	3,598	-	3,598	-
Restricted assets:				
Cash	-	793,763	793,763	-
Notes receivable	-	-	-	447,554
Debt issuance costs	-	20,921	20,921	-
Capital assets (net of accumulated depreciation):				
Land	201,297	96,824	298,121	-
Buildings and improvements	651,765	89,942	741,707	-
Water and sewer system	-	8,558,476	8,558,476	-
Machinery and equipment	592,074	104,256	696,330	1,086
Infrastructure	4,675,998	-	4,675,998	-
Construction in progress	14,925	1,886,855	1,901,780	-
Total assets	<u>9,155,037</u>	<u>12,233,711</u>	<u>21,388,748</u>	<u>638,580</u>
LIABILITIES				
Accounts payable	82,103	55,329	137,432	494
Accrued wages payable	24,081	5,876	29,957	-
Payable from restricted assets				
Accrued interest	-	13,665	13,665	-
Meter deposits	-	82,485	82,485	-
Accrual for compensated absences	49,392	12,533	61,925	-
Noncurrent liabilities:				
Due within one year	-	345,000	345,000	-
Due in more than one year	-	3,675,000	3,675,000	-
Total liabilities	<u>155,576</u>	<u>4,189,888</u>	<u>4,345,464</u>	<u>494</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,136,059	7,083,970	13,220,029	1,086
Restricted for debt service	-	352,816	352,816	-
Restricted for grant projects	-	10,000	10,000	-
Restricted for other purposes	15,343	-	15,343	637,000
Unrestricted	<u>2,848,059</u>	<u>597,037</u>	<u>3,445,096</u>	<u>-</u>
Total net assets	<u>\$ 8,999,461</u>	<u>\$ 8,043,823</u>	<u>\$ 17,043,284</u>	<u>\$ 638,086</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, 2011

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	\$ 726,154	\$ 20,183	\$ -	\$ -	\$ (705,971)	\$ -	\$ (705,971)	\$ -
Public safety	1,574,735	153,840	1,627	-	(1,419,268)	-	(1,419,268)	-
Public works	488,213	-	-	-	(488,213)	-	(488,213)	-
Developmental services	36,996	-	-	-	(36,996)	-	(36,996)	-
Recreation	285,343	20,084	-	9,212	(256,047)	-	(256,047)	-
Total governmental activities	<u>3,111,441</u>	<u>194,107</u>	<u>1,627</u>	<u>9,212</u>	<u>(2,906,495)</u>	<u>-</u>	<u>(2,906,495)</u>	<u>-</u>
Business-type activities:								
Water utilities	2,036,645	2,279,181	-	144,032	-	386,568	386,568	-
Total primary government	<u>\$ 5,148,086</u>	<u>\$ 2,473,288</u>	<u>\$ 1,627</u>	<u>\$ 153,244</u>	<u>\$ (2,906,495)</u>	<u>\$ 386,568</u>	<u>\$ (2,519,927)</u>	<u>\$ -</u>
Component unit:								
WOEDCO	\$ 254,235	-	-	-	-	-	-	(254,235)
General revenues								
Property taxes					1,719,506	-	1,719,506	-
Sales taxes					523,715	-	523,715	261,858
Franchise taxes					365,363	-	365,363	-
Unrestricted investment earnings					21,014	5,291	26,305	4,284
Miscellaneous					27,420	-	27,420	-
Gain/loss on disposition of assets					-	(249,043)	(249,043)	-
Total general revenues and transfers					<u>2,657,018</u>	<u>(243,752)</u>	<u>2,413,266</u>	<u>266,142</u>
Change in net assets					(249,477)	142,816	(106,661)	11,907
Net assets - beginning					<u>9,248,938</u>	<u>7,901,007</u>	<u>17,149,945</u>	<u>626,179</u>
Net assets - ending					<u>\$ 8,999,461</u>	<u>\$ 8,043,823</u>	<u>\$ 17,043,284</u>	<u>\$ 638,086</u>

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

CITY OF WHITE OAK, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General Fund</u>
ASSETS AND OTHER DEBITS:	
Cash	\$ 1,555,521
Temporary investments	1,150,000
Due from other funds	145,959
Receivables:	
Taxes	142,080
Miscellaneous	21,820
Prepaid expenditures	<u>3,598</u>
TOTAL ASSETS	<u>\$ 3,018,978</u>
LIABILITIES AND FUND BALANCE:	
LIABILITIES:	
Accounts payable	\$ 82,103
Unearned revenue	47,421
Accrued wages	<u>24,081</u>
TOTAL LIABILITIES	<u>153,605</u>
FUND BALANCE	
Fund balance - nonspendable	3,598
Fund balance - restricted	15,343
Fund balance - unassigned	<u>2,846,432</u>
TOTAL FUND BALANCE	<u>2,865,373</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,018,978</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, 2011

Total fund balances - governmental funds balance sheet	\$ 2,865,373
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	6,136,059
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	47,421
Payables for compensated absences which are not due in the current period are not reported in the funds.	<u>(49,392)</u>
Net assets of governmental activities - statement of net assets	<u><u>\$ 8,999,461</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, 2011

	General Fund
REVENUES:	
Property taxes	\$ 1,721,679
Franchise taxes	365,363
Sales taxes	523,715
Licenses, permits and fees	20,183
Fines, forfeitures and penalties	153,840
Park user fees	20,084
Investment income	21,014
Grant revenues	10,839
Miscellaneous	27,419
 TOTAL REVENUES	 2,864,136
EXPENDITURES:	
General government	693,881
Public safety	1,455,688
Public works	291,944
Developmental services	36,191
Recreation	179,507
 TOTAL EXPENDITURES	 2,657,211
 EXCESS (DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	 206,925
 NET CHANGE IN FUND BALANCE	 206,925
FUND BALANCE, OCTOBER 1, 2010	2,658,448
 FUND BALANCE, SEPTEMBER 30, 2011	 \$ 2,865,373

(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, 2011

Net change in fund balances - total governmental funds	\$ 206,925
<p>Amounts reported for governmental activities in the statement of activities ("SOA") are different because:</p>	
Capital outlays are not reported as expenses in the SOA.	27,832
The depreciation of capital assets used in governmental activities is not reported in the funds.	(469,089)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(2,173)
(Increase) decrease in accrual for compensated absences.	<u>(12,972)</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$ (249,477)</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, 2011

	Water Utilities
ASSETS:	
Current assets:	
Cash	\$ 359,993
Accounts receivable	458,216
Other receivables	10,424
Restricted assets:	
Cash	793,763
Noncurrent assets:	
Debt issuance costs	20,921
Land	96,824
Construction in progress	1,886,855
Capital assets, net	8,752,674
TOTAL ASSETS	12,379,670
LIABILITIES:	
Current liabilities:	
Accounts payable	55,329
Accrued wages	5,876
Accrual for compensated absences	12,533
Due to other funds	145,959
Payable from restricted assets:	
Accrued interest payable	13,665
Customer deposits	82,485
Noncurrent liabilities:	
Due within one year	345,000
Due in more than one year	3,675,000
TOTAL LIABILITIES	4,335,847
NET ASSETS	
Invested in capital assets, net of related debt	7,083,970
Restricted for debt service	352,816
Restricted for grant projects	10,000
Unrestricted	597,037
TOTAL NET ASSETS	\$ 8,043,823

(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, 2011

	Water Utilities
OPERATING REVENUES:	
Water revenue	\$ 1,460,059
Sewer revenue	678,233
Sanitation revenue	62,997
Penalties	37,511
Installment fees	38,522
Miscellaneous revenue	1,859
TOTAL OPERATING REVENUES	2,279,181
OPERATING EXPENSES:	
Administration	65,358
Water supply	196,877
Water distribution	166,891
Water purification	475,395
Sanitary sewer maintenance	169,539
Sanitary sewer treatment	253,159
Depreciation and amortization	498,758
Miscellaneous	37,998
TOTAL OPERATING EXPENSES	1,863,975
OPERATING INCOME	415,206
NONOPERATING REVENUES (EXPENSES)	
Investment proceeds	5,291
Loss on disposition of assets	(249,043)
Grant proceeds	144,032
Debt service - interest	(169,920)
Debt service - fees	(2,750)
TOTAL NONOPERATING REVENUES (EXPENSES)	(272,390)
CHANGE IN NET ASSETS	142,816
TOTAL NET ASSETS - BEGINNING	7,901,007
TOTAL NET ASSETS - ENDING	\$ 8,043,823

(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, 2011

	Water Utilities
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers for water sales and sewer service	\$ 2,215,716
Cash payments to employees	(399,454)
Cash payments for goods and services	(1,238,715)
NET CASH PROVIDED BY OPERATING ACTIVITIES	577,547
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Loans repaid to other funds	(50,000)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(50,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(1,359,960)
Grant proceeds	247,845
Principal paid on debt	(330,000)
Interest paid on debt	(171,108)
Fees paid on debt	(2,750)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,615,973)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment proceeds	5,291
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,291
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,083,135)
CASH AND CASH EQUIVALENTS - OCTOBER 1, 2010	2,236,891
CASH AND CASH EQUIVALENTS - SEPTEMBER 30, 2011	\$ 1,153,756
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 415,206
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	498,758
(Increase) decrease in accounts receivable	(66,205)
Increase (decrease) in customer deposits	2,740
Increase (decrease) in accounts payable	(278,665)
Increase (decrease) in accrued wages	618
Increase (decrease) in accrual for compensated absences	5,095
Total adjustments	162,341
Net cash provided by operating activities	\$ 577,547

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

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011

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 2011, 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, 2011

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, 2011.

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, 2011

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, 2010 upon which the 2011 fiscal-year levy was based, was \$333,678,269 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, 2011, for the fiscal 2011 tax levy were 97.8 percent of the total tax levy for that year.

Delinquent taxes as of September 30, 2011, were \$71,051.

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, 2011 is \$23,630.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2011 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	-	14,925
Total capital assets not being depreciated	<u>201,297</u>	<u>14,925</u>	<u>-</u>	<u>216,222</u>
Capital assets being depreciated:				
Buildings & improvements	982,545	-	-	982,545
Infrastructure	7,235,383	-	-	7,235,383
Furniture and equipment	1,894,624	12,907	-	1,907,531
Total capital assets being depreciated	<u>10,112,552</u>	<u>12,907</u>	<u>-</u>	<u>10,125,459</u>
Less accumulated depreciation for:				
Buildings & improvements	(295,411)	(35,369)	-	(330,780)
Infrastructure	(2,271,598)	(287,787)	-	(2,559,385)
Furniture and equipment	(1,169,524)	(145,933)	-	(1,315,457)
Total accumulated depreciation	<u>(3,736,533)</u>	<u>(469,089)</u>	<u>-</u>	<u>(4,205,622)</u>
Total capital assets being depreciated, net	<u>6,376,019</u>	<u>(456,182)</u>	<u>-</u>	<u>5,919,837</u>
Governmental activities capital assets, net	<u>\$ 6,577,316</u>	<u>\$ (441,257)</u>	<u>\$ -</u>	<u>\$ 6,136,059</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 96,824	\$ -	\$ -	\$ 96,824
Construction in progress	1,266,801	1,398,760	778,706	1,886,855
Total capital assets, not being depreciated	<u>1,363,625</u>	<u>1,398,760</u>	<u>778,706</u>	<u>1,983,679</u>
Capital assets being depreciated:				
Water and sewer system	15,837,047	739,906	450,078	16,126,875
Buildings	255,590	-	-	255,590
Machinery and equipment	428,296	-	-	428,296
Total capital assets being depreciated	<u>16,520,933</u>	<u>739,906</u>	<u>450,078</u>	<u>16,810,761</u>

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Less accumulated depreciation for:				
Water and sewer system	(7,305,684)	(463,750)	(201,035)	(7,568,399)
Buildings	(160,382)	(5,266)	-	(165,648)
Machinery and equipment	(296,130)	(27,910)	-	(324,040)
Total accumulated depreciation	<u>(7,762,196)</u>	<u>(496,926)</u>	<u>(201,035)</u>	<u>(8,058,087)</u>
 Total capital assets being depreciated, net	 <u>8,758,737</u>	 <u>242,980</u>	 <u>249,043</u>	 <u>8,752,674</u>
 Business-type activities capital assets, net	 <u>\$ 10,122,362</u>	 <u>\$ 1,641,740</u>	 <u>\$ 1,027,749</u>	 <u>\$ 10,736,353</u>

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

Governmental activities:	
General government	\$ 34,676
Public safety	123,388
Public works	191,985
Recreation	<u>119,040</u>
Total depreciation expense - governmental activities	<u>469,089</u>
 Business-type activities:	
Water utilities	<u>496,926</u>
Total depreciation expense - business-type activities	<u>496,926</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt transactions for the year ended September 30, 2011, are summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Accrual for Compensated Absences	\$ 36,420	\$ 12,972	\$ -	\$ 49,392	\$ -
Total Governmental Activities	<u>\$ 36,420</u>	<u>\$ 12,972</u>	<u>\$ -</u>	<u>\$ 49,392</u>	<u>\$ -</u>
 Business-type Activities:					
<u>Certificates of Obligation</u>					
Series 1999, interest at 5.05%, maturing 3/01/2014	\$ 715,000	\$ -	\$ 165,000	\$ 550,000	\$ 175,000
Series 2008, interest at 3.50-4.25%, maturing 3/01/2023	2,860,000	-	20,000	2,840,000	20,000
<u>Revenue Bonds</u>					
Series 2001, interest at 3.20-3.95%, maturing 3/01/2015	<u>775,000</u>	<u>-</u>	<u>145,000</u>	<u>630,000</u>	<u>150,000</u>
Total Business-Type Activities	<u>\$ 4,350,000</u>	<u>\$ -</u>	<u>\$ 330,000</u>	<u>\$ 4,020,000</u>	<u>\$ 345,000</u>
Total Long-term Debt	<u>\$ 4,386,420</u>	<u>\$ 12,972</u>	<u>\$ 330,000</u>	<u>\$ 4,069,392</u>	<u>\$ 345,000</u>

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Aggregate maturities of long-term debt subsequent to September 30, 2011 are as follows:

Business-type activities:

Year Ending September 30	Principal	Interest	Total
2012	\$ 345,000	\$ 156,437	\$ 501,437
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
2017-2021	1,620,000	307,078	1,927,078
2022-2023	755,000	30,130	785,130
	<u>\$ 4,020,000</u>	<u>\$ 967,621</u>	<u>\$ 4,987,621</u>

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 2010</u>	<u>Plan Year 2011</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, 2011

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

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

Annual required contribution (ARC)	\$ 288,376
Interest on net pension obligation	-
Adjustment to the ARC	-
Annual pension cost	<u>288,376</u>
Contributions made	<u>288,376</u>
Increase(decrease) in net pension	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

<u>Valuation Date</u>	<u>12/31/08</u>	<u>12/31/09</u>	<u>12/31/10 Prior to Restructuring</u>	<u>12/31/10 Restructured</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29 years; closed period	28.1 years; closed period	27.2 years; closed period	27.2 years; closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return *	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases *	Varies	Varies	Varies	Varies
* Includes Inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress - In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	12/31/10	12/31/10
Fund Structure Used	Original	New
Actuarial Value of Assets	\$ 2,816,447	\$ 6,993,758
Actuarial Accrued Liability (AAL)	4,812,530	8,334,062
Funded Ratio	58.5%	83.9%
Unfunded AAL (UAAL)	1,996,083	1,340,304
Covered Payroll	1,734,021	1,734,021
UAAL as a Percentage of Covered Payroll	115.1%	77.3%

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 6 - EMPLOYEE BENEFITS (CONTINUED)

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.

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 2011, 2010 and 2009 were \$3,375, \$3,261 and \$3,108, respectively, which equaled the required contributions each year.

NOTE 7 - INTERFUND BALANCES AND ACTIVITIES

Balances due to and from other funds at September 30, 2011, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Water Utilities Fund	<u>\$ 145,959</u>	Long-term loan

This balance is not expected to be repaid within FY12.

NOTE 8 - RESTRICTED FUND BALANCE

As of September 30, 2011, fund balances restricted for specific purposes were as follows:

General Fund		
Municipal Court Security Fees	\$	9,923
Municipal Court Technology Fees		<u>5,420</u>
	\$	<u>15,343</u>

NOTE 9 - ACCRUAL FOR COMPENSATED ABSENCES

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

The accompanying financial statements report accrued vacation benefits as of September 30, 2011.

CITY OF WHITE OAK, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

NOTE 10 - DEPOSITS AND INVESTMENTS

Cash Deposits

Deposits - At September 30, 2011, the carrying amounts of the City's bank balances were \$2,709,277. The City's cash deposits at September 30, 2011 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.

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, 2011, 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.

CITY OF WHITE OAK, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 10 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Contingencies

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

Liabilities

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

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 2, 2012, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

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CITY OF WHITE OAK, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES:				
Property taxes	\$ 1,673,324	\$ 1,673,324	\$ 1,721,679	\$ 48,355
Franchise taxes	351,700	351,700	365,363	13,663
Sales taxes	577,918	577,918	523,715	(54,203)
Licenses, permits and fees	10,800	10,800	20,183	9,383
Fines, forfeitures and penalties	113,300	113,300	153,840	40,540
Park user fees	-	20,000	20,084	84
Investment income	17,000	17,000	21,014	4,014
Grant revenues	44,600	44,600	10,839	(33,761)
Miscellaneous	6,700	18,700	27,419	8,719
TOTAL REVENUES	<u>2,795,342</u>	<u>2,827,342</u>	<u>2,864,136</u>	<u>36,794</u>
EXPENDITURES:				
General government	726,602	712,538	693,881	18,657
Public safety	1,464,071	1,495,871	1,455,688	40,183
Public works	362,495	348,572	291,944	56,628
Developmental services	35,787	35,787	36,191	(404)
Recreation	181,707	177,894	179,507	(1,613)
TOTAL EXPENDITURES	<u>2,770,662</u>	<u>2,770,662</u>	<u>2,657,211</u>	<u>113,451</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	24,680	56,680	206,925	150,245
OTHER FINANCING SOURCES (USES):				
Transfers	50,000	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	74,680	56,680	206,925	150,245
FUND BALANCE, OCTOBER 1, 2010	<u>2,658,448</u>	<u>2,658,448</u>	<u>2,658,448</u>	<u>-</u>
FUND BALANCE, SEPTEMBER 30, 2011	<u>\$ 2,733,128</u>	<u>\$ 2,715,128</u>	<u>\$ 2,865,373</u>	<u>\$ 150,245</u>

CITY OF WHITE OAK, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2) - (1)		(4) / (5)
12/31/08	3,032,985	4,831,818	62.8%	1,798,833	1,549,014	116.1%
12/31/09	2,446,070	4,379,093	55.9%	1,933,023	1,684,965	114.7%
12/31/10 (1)	2,816,447	4,812,530	58.5%	1,996,083	1,734,021	115.1%
12/31/10 (2)	6,993,758	8,334,062	83.9%	1,340,304	1,734,021	77.3%

- (1) Actuarial valuation performed under the original fund structure
(1) Actuarial valuation performed under the new fund structure

OTHER SUPPLEMENTAL INFORMATION

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CITY OF WHITE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-
BUDGET (NON-GAAP BASIS) AND ACTUAL - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	Positive
						(Negative)
OPERATING REVENUES:						
Water revenue	\$ 1,200,000	\$ 1,200,000	\$ 1,460,059	\$ -	\$ 1,460,059	\$ 260,059
Sewer revenue	635,000	635,000	678,233	-	678,233	43,233
Sanitation revenue	63,000	63,000	62,997	-	62,997	(3)
Penalties	30,000	30,000	37,511	-	37,511	7,511
Installment fees	21,500	21,500	38,522	-	38,522	17,022
Miscellaneous revenue	2,000	2,000	1,859	-	1,859	(141)
TOTAL OPERATING REVENUES	1,951,500	1,951,500	2,279,181	-	2,279,181	327,681
OPERATING EXPENSES:						
Administration	65,199	66,010	65,358	-	65,358	652
Water supply	127,700	293,610	196,877	-	196,877	96,733
Water distribution	158,080	164,928	166,891	-	166,891	(1,963)
Water purification	476,063	474,184	475,395	-	475,395	(1,211)
Sanitary sewer maintenance	176,824	171,500	169,539	-	169,539	1,961
Sanitary sewer treatment	248,293	256,986	253,159	-	253,159	3,827
Depreciation and amortization	-	-	498,758	(498,758)	-	-
Miscellaneous	24,800	54,468	37,998	-	37,998	16,470
Capital outlay	1,138,135	1,134,866	-	1,398,760	1,398,760	(263,894)
TOTAL OPERATING EXPENSES	2,415,094	2,616,552	1,863,975	900,002	2,763,977	(147,425)
OPERATING INCOME (LOSS)	(463,594)	(665,052)	415,206	(900,002)	(484,796)	180,256
NONOPERATING REVENUES (EXPENSES)						
Investment proceeds	5,000	5,000	5,291	-	5,291	291
Loss on disposition of assets	-	-	(249,043)	249,043	-	-
Grant proceeds	149,823	242,281	144,032	-	144,032	(98,249)
Debt service - interest	(171,107)	(171,107)	(169,920)	-	(169,920)	1,187
Debt service - fees	(3,000)	(3,000)	(2,750)	-	(2,750)	250
Debt service - principal	(330,000)	(330,000)	-	(330,000)	(330,000)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(349,284)	(256,826)	(272,390)	(80,957)	(353,347)	(96,521)
NET INCOME (LOSS)	(812,878)	(921,878)	142,816	(980,959)	(838,143)	83,735
NET ASSETS - BEGINNING	7,901,007	7,901,007	7,901,007	-	7,901,007	-
NET ASSETS - ENDING	\$ 7,088,129	\$ 6,979,129	\$ 8,043,823	\$ (980,959)	\$ 7,062,864	\$ 83,735

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COMPLIANCE SECTION

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INDEPENDENT AUDITORS' REPORT

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

Honorable Mayor and City Council
City of White Oak, Texas

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City of White Oak, Texas' basic financial statements and have issued our report thereon dated April 2, 2012. 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.

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
April 2, 2012

CITY OF WHITE OAK, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011

None required.

CITY OF WHITE OAK, TEXAS
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Texas Department of Rural Affairs
CFDA Number 14.228
Project Number 729057
Contract Period 05/07/2009 - 05/06/2011

	Budget	Actual				Total	Variance
		Prior Years		Current Year			
		Federal	Local	Federal	Local		
REVENUE							
Federal/State	\$ 158,000	\$ 156,600	\$ -	\$ 1,400	\$ -	\$ 158,000	\$ -
Local	32,000	-	35,021	-	500	35,521	3,521
TOTAL REVENUE	190,000	156,600	35,021	1,400	500	193,521	3,521
EXPENDITURES							
Federal/State:							
Water Facilities	119,000	119,000	-	-	-	119,000	-
Engineering	21,000	21,000	-	-	-	21,000	-
Administration	18,000	16,600	-	1,400	-	18,000	-
Local:							
Water Facilities	31,000	-	34,521	-	-	34,521	(3,521)
Administration	1,000	-	500	-	500	1,000	-
TOTAL EXPENDITURES	190,000	156,600	35,021	1,400	500	193,521	(3,521)
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF WHITE OAK, TEXAS
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Texas Department of Rural Affairs
CFDA Number 14.225
Project Number 729720
Contract Period 09/15/2009 - 09/14/2011

	Actual						Total	Variance
	Budget	Prior Years		Current Year				
		Federal	Local	Federal	Local			
REVENUE								
Federal/State	\$ 240,182	\$ 197,165	\$ -	\$ 22,030	\$ -	\$ 219,195	\$ (20,987)	
ARRA Funding	6,693	6,693	-	-	-	6,693	-	
Local	49,375	-	32,000	-	14,321	46,321	(3,054)	
TOTAL REVENUE	296,250	203,858	32,000	22,030	14,321	272,209	(24,041)	
EXPENDITURES								
Federal/State:								
Water Facilities	198,182	157,665	-	19,530	-	177,195	20,987	
Water Facilities - ARRA	6,693	6,693	-	-	-	6,693	-	
Engineering	42,000	39,500	-	2,500	-	42,000	-	
Local:								
Water Facilities	19,375	-	15,000	-	-	15,000	4,375	
Administration	30,000	-	17,000	-	14,321	31,321	(1,321)	
TOTAL EXPENDITURES	296,250	203,858	32,000	22,030	14,321	272,209	24,041	
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

CITY OF WHITE OAK, TEXAS
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 - 06/30/2012

	Budget	Actual				Total	Variance
		Prior Years		Current Year			
		Federal	Local	Federal	Local		
REVENUE							
Federal/State	\$ 170,794	\$ 14,725	\$ -	\$ 110,602	\$ -	\$ 125,327	\$ (45,467)
Local	41,706	-	-	-	1,770	1,770	(39,936)
TOTAL REVENUE	212,500	14,725	-	110,602	1,770	127,097	(85,403)
EXPENDITURES							
Federal/State:							
Sewer Facilities	136,794	-	-	92,882	-	92,882	43,912
Engineering	20,000	8,000	-	11,800	-	19,800	200
Planning/Project Delivery	14,000	6,725	-	5,920	-	12,645	1,355
Local:							
Sewer Facilities	22,206	-	-	-	1,770	1,770	20,436
Engineering	14,500	-	-	-	-	-	14,500
Planning/Project Delivery	5,000	-	-	-	-	-	5,000
TOTAL EXPENDITURES	212,500	14,725	-	110,602	1,770	127,097	85,403
EXCESS REVENUE OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

KAREN A. JACKS & ASSOCIATES, P.C.

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April 2, 2012

To the City Council and Management
City of White Oak, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of White Oak, Texas for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 29, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of White Oak are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during FY2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates for the year ended September 30, 2011.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 2, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council of the City of White Oak, Texas and its management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.