

CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
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CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2011

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GENERAL INFORMATION

CITY OF LONE OAK, TEXAS
ROSTER OF CITY OFFICIALS
JUNE 30, 2011

Mayor.....Neil Dent
Mayor Pro-Tem.....Mona Collins
Council Member.....Wes Owens
Council Member.....Shirley Stogner
Council Member.....Larry Osborn
Council Member.....Gordon Galloway

City Secretary.....Lisa Thompson

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lone Oak, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lone Oak, Texas (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic 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 the 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lone Oak, Texas, as of June 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.

As described in Note G to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, on our consideration of the City'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.

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

March 8, 2012
Greenville, Texas

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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 Members of the City Council
City of Lone Oak, Texas

Members of the Council:

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lone Oak, Texas (City) as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City and have issued our report thereon dated March 8, 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's 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's 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 a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 described above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses (Item 2011-1) that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Lone Oak, Texas, in a separate letter dated March 8, 2012.

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

March 8, 2012
Greenville, Texas

CITY OF LONE OAK, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

Financial Statement Findings (Section I)

2011-1

Accounting Limitations

Condition: The City's accounting department currently does not prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America. Accordingly, the City has not established internal controls over the preparation of financial statements.

Criteria: Internal controls over the preparation of financial statements should be in place to provide reasonable assurance that the financial statements, complete with notes, are prepared in accordance with accounting principles generally accepted in the United States of America.

Effect: Due to the failure to establish internal controls over the preparation of financial statements, there is an increased risk that financial statements, complete with notes, will not be prepared in accordance with accounting principles generally accepted in the United States of America.

Recommendation: The City Council should determine whether the potential benefit would exceed the costs of acquiring additional training or personnel to have the resources available to prepare and review financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America.

City's Response: The City currently prepares monthly financial reports for use by the City Council. The Council tasked the auditors to prepare a draft of the financial statements for use in the document, including the related footnotes disclosures, to take advantage of their expertise and because of limited internal staff resources. City staff has reviewed these financial statements closely throughout their development to ensure completeness and accuracy as well as to review the adjustments proposed during the audit.

CITY OF LONE OAK, TEXAS
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

Prior Year Findings (Section II)

10-1

Accounting Limitations

City continues to task auditors to prepare a draft of the financial statements, and related footnote disclaimers. The City is still limited on internal staff, but has provided some additional training for preparing and reviewing financial statements.

Status: In Progress

CITY OF LONE OAK, TEXAS
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2011

Corrective Action Plans (Section III)

2011-1

Accounting Limitations

The City will review the recommendations and evaluate the cost versus benefit of obtaining outside assistance in the preparation of the financial statements.

Contact Person: Neil Dent, Mayor

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

CITY OF LONE OAK, TEXAS
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2011

This section of the City of Lone Oak, Texas annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2011. Please read it in conjunction with the City's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined total net assets were \$ 914,881 at June 30, 2011.
- During the year, the City's governmental activities expenses were \$ 13,484 less than the \$ 264,184 generated in taxes and other revenues. The expenses for the City's business type activities were \$ 74,825 less than the revenues earned.
- The total cost of the City's programs decreased over the prior year including a decrease in total revenues potentially as a result of a continued decline of economic conditions.
- The General Fund reported a fund balance at the end of the current year in the amount of \$ 15,928.

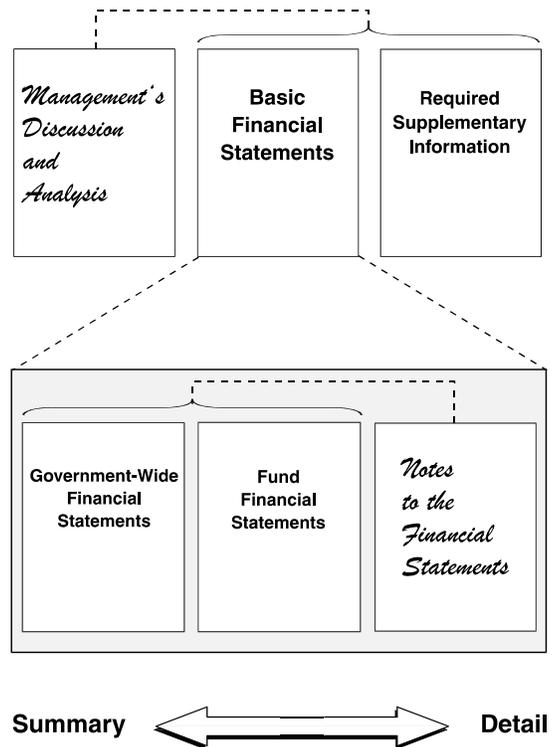
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as solid waste services.
- Fiduciary fund statements, if any, provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the City's Annual Financial Report



CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private businesses: solid waste services	Instances in which the city is the trustee or agent for someone else's resources
<i>Required financial statements</i>	♦ Statement of net assets	♦ Balance sheet	♦ Statement of net assets	♦ Statement of fiduciary net assets
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net assets ♦ Statement of cash flows	♦ Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid
<i>Type of inflow/outflow information</i>				

Figure A-2 summarizes the major features of the City's basic financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base and population.

The government-wide financial statements of the City include the governmental activities. Most of the City's basic services are included here, such as police and fire protection, public works, community development and general administration. Property taxes, fees, fines and intergovernmental support, including grants, finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on: (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- Proprietary Funds- Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary Funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the City's other programs and activities.

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – The City's total assets amounted to \$ 914,881 at June 30, 2011. This represents a \$ 88,310 increase over the total net assets at June 30, 2010.

	Net Assets					
	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Assets						
Cash and Investments	\$ 88,566	\$ 30,993	\$ 37,718	\$ 29,670	\$ 126,284	\$ 60,663
Receivables and Other Assets	49,619	47,569	100,169	46,697	149,788	94,266
Capital Assets, Net of Accumulated Depreciation	84,721	89,599	882,637	864,199	967,358	953,798
Total Assets	\$ 222,906	\$ 168,161	\$ 1,020,524	\$ 940,566	\$ 1,243,430	\$ 1,108,727
Liabilities						
Current Liabilities	\$ 64,875	\$ 7,893	\$ 58,510	\$ 57,878	\$ 123,385	\$ 65,771
Long-term Liabilities	15,132	30,853	190,032	185,532	205,164	216,385
Total Liabilities	\$ 80,007	\$ 38,746	\$ 248,542	\$ 243,410	\$ 328,549	\$ 282,156
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$ 69,589	\$ 58,746	\$ 715,348	\$ 662,589	\$ 784,937	\$ 721,335
Unrestricted	73,310	70,669	56,634	34,568	129,944	105,236
Total Net Assets	\$ 142,899	\$ 129,415	\$ 771,982	\$ 697,157	\$ 914,881	\$ 826,571

Eighty-six percent (86%) of the City's net assets reflects its investment in capital assets (land, buildings, equipment and infrastructure), net of any related debt used to acquire the assets that is outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in 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. The remaining fourteen percent (14%) is available for use by the City.

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

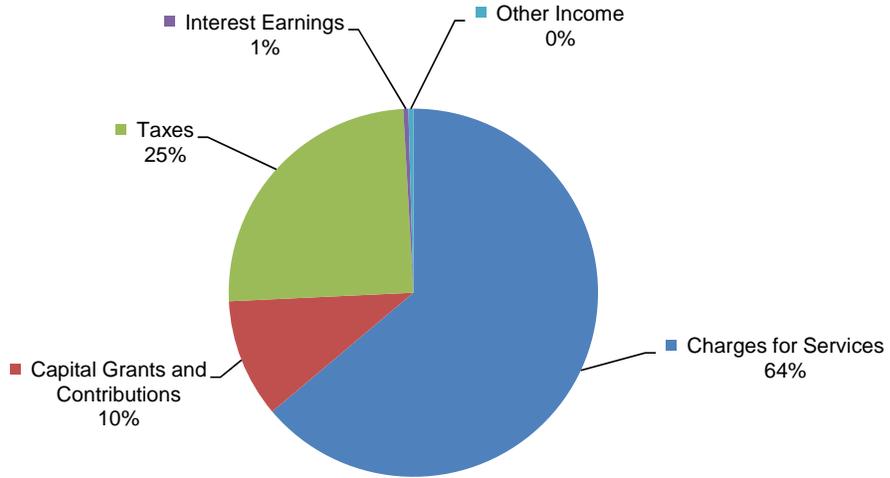
Changes in Net Assets – The City's net assets increased \$ 88,309 during the year. The revenue increased \$ 113,863 over the prior year and reflected increased property taxes earned for debt retirement as well as grant proceeds for a construction project. Expenses only increased \$ 16,665 for the year. The increases generally relate to overall operating cost increases based on general economic conditions.

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services	\$ 114,342	\$ 75,213	\$ 355,735	\$ 395,120	\$ 470,077	\$ 470,333
Capital Grants and Contributions	-	-	76,745	-	76,745	-
General Revenues:						
Taxes	183,060	148,571	-	-	183,060	148,571
Interest Earnings	3,246	107	39	260	3,285	367
Other Income	3,184	3,217	-	-	3,184	3,217
Total Revenues	\$ 303,832	\$ 227,108	\$ 432,519	\$ 395,380	\$ 736,351	\$ 622,488
Expenses						
Governmental Activities						
Public Safety	\$ 81,437	\$ 132,115	\$ -	\$ -	\$ 81,437	\$ 132,115
General Administration	128,698	64,923	-	-	128,698	64,923
Municipal Court	27,774	32,688	-	-	27,774	32,688
Public Works	10,559	15,682	-	-	10,559	15,682
Debt Service	2,232	28,256	-	-	2,232	28,256
Business-type Activities						
Water and Wastewater Utilities	-	-	397,342	357,713	397,342	357,713
Total Expenses	\$ 250,700	\$ 273,664	\$ 397,342	\$ 357,713	\$ 648,042	\$ 631,377
Excess (Deficiency) of Revenues Over (Under) Expenditures before Transfers	\$ 53,132	\$ (46,556)	\$ 35,177	\$ 37,667	\$ 88,309	\$ (8,889)
Transfer In (Out)	(39,648)	105,610	39,648	(105,610)	-	-
Change in Net Assets	\$ 13,484	\$ 59,054	\$ 74,825	\$ (67,943)	\$ 88,309	\$ (8,889)
Net Assets - July 1 (Beginning)	\$ 129,415	\$ 70,361	\$ 697,157	\$ 753,642	\$ 826,572	\$ 824,003
Prior Period Adjustment	-	-	-	11,458	-	11,458
Net Assets - Beginning as Restated	\$ 129,415	\$ 70,361	\$ 697,157	\$ 765,100	\$ 826,572	\$ 835,461
Net Assets - June 30 (Ending)	\$ 142,899	\$ 129,415	\$ 771,982	\$ 697,157	\$ 914,881	\$ 826,572

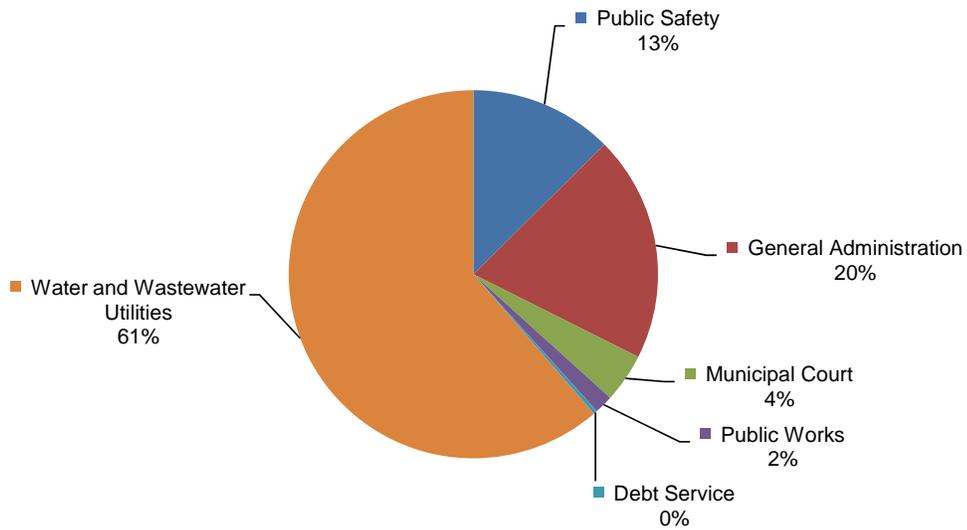
The charts that follow provide a snapshot of the government-wide activities of the City. The revenues are presented reflecting the sources and percentage of source of revenue. The expense chart presents expenses identified by the program or activity for which the expense was incurred.

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

Government-wide Revenues



Government-wide Expenses



CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

Governmental Activities – The City's total governmental activities revenues were \$ 303,832. In the current year, 60% of the City's revenue comes from taxes and franchise fees. Taxes include property taxes, sales taxes and utility franchise fees. 38% of revenue is generated through charges for services which include rental, licenses and permits, and other user charges. The remaining 2% is comprised of investment earnings and other government sources.

Public safety services comprised 32% of the current year expenses. 51% of current year expenses were related to general administration, which includes city clerical expenses. The remaining 15% of expenses includes municipal court, debt service and other governmental activities. The total cost of all governmental activities programs and services was \$ 250,700.

Business-Type Activities – The business type activities include the water and wastewater utility and solid waste utility.

The water and wastewater utility's revenue and transfers in from governmental activities exceeded its expenses by \$ 74,825. The utility provides water and wastewater services to the residents of the City.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflow, outflow, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported total ending fund balances of \$ 31,753. Of the total ending fund balance, \$ 15,928, constituted unassigned fund balance in the General Fund. The remainder of the fund balance constituted \$ 15,825 which is available for spending associated with special revenue funds which are restricted for specific purposes.

General Fund revenues and other resources were less than expenditures and other sources in the current period by \$ 4,250. The expenditures for the fund decreased slightly from the prior period. Transfers out to the water and wastewater fund in the amount of \$ 1,603 contributed to the decrease in revenues.

Other governmental funds, special revenue funds and debt service funds, ended the year with revenues exceeding expenditures by \$ 2,325.

Proprietary Funds – The proprietary funds – enterprise funds – are used to account for activities that are supported by charges for services rendered and are operated like a business. In the fund, the expenses were exceeded by the revenues and transfers in resulting in a gain for the year of \$ 74,825.

General Fund Budgetary Highlights

General Fund revenues were less than the final amended budget by \$ 62,575.

General Fund expenditures were more than final budgeted amounts. This amount, \$ 53,730, represents 22% of the General Fund budget.

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The City's investment in capital assets for its total governmental activities at June 30, 2011 amounted to \$ 370,322. Capital asset investments in the business type activities totaled \$ 1,964,732. These investments in capital assets included land and right-of-way costs, construction in progress, buildings and improvements, equipment and infrastructure. Additional information on the City's capital assets can be found in the notes to the financial statements following this analysis.

Capital Assets						
	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Nondepreciable Assets						
Land	\$ 7,010	\$ 7,010	\$ 4,023	\$ 4,023	\$ 11,033	\$ 11,033
Construction In Progress	-	-	78,366	-	78,366	-
Total Capital Assets	\$ 7,010	\$ 7,010	\$ 82,389	\$ 4,023	\$ 89,399	\$ 11,033
Depreciable Assets						
Buildings and Improvements	\$ 86,364	\$ 86,363	\$ -	\$ -	\$ 86,364	\$ 86,363
Infrastructure	168,132	168,132	1,816,923	1,798,207	1,985,055	1,966,339
Vehicles	78,076	95,130	-	-	78,076	95,130
Equipment	30,740	30,740	65,420	65,420	96,160	96,160
Total Capital Assets	\$ 370,322	\$ 387,375	\$ 1,964,732	\$ 1,867,650	\$ 2,335,054	\$ 2,255,025
Less Accumulated Depreciation	(285,601)	(297,776)	(1,082,065)	(1,003,451)	(1,367,666)	(1,301,227)
Net Capital Assets	\$ 84,721	\$ 89,599	\$ 882,667	\$ 864,199	\$ 967,388	\$ 953,798

Long-Term Obligations – The City's total long-term obligations, including capital leases, totaled \$ 182,421 at June 30, 2011. This number represents a total decrease of \$ 50,043 during the year. Additional information on the City's long-term obligations can be found in the notes to the basic financial statements following this analysis.

Long Term Obligations						
	Governmental Activities		Business-Type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ 12,827	\$ 25,043	\$ 167,289	\$ 201,612	\$ 180,116	\$ 226,655
Notes Payable	2,305	5,809	-	-	2,305	5,809
Total Debt Payable	\$ 15,132	\$ 30,852	\$ 167,289	\$ 201,612	\$ 182,421	\$ 232,464

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2012, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The City's growth in new residences and businesses has slowed with the economic downturn. Projected growth in population, water and wastewater service, and property values is anticipated to remain flat with little or no growth. The City's surrounding area continues to grow resulting in slight increases in sales tax revenue. City staffing and services will be maintained at current levels with reductions in costs achieved through elimination of unnecessary expenses.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Neil Dent, Mayor for the City.

BASIC FINANCIAL STATEMENTS

CITY OF LONE OAK, TEXAS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Investments	\$ 88,566	\$ 37,718	\$ 126,284
Accounts Receivable, Net	-	31,998	31,998
Taxes Receivable, Net	16,675	-	16,675
Fines and Fees Receivable, Net	25,318	-	25,318
Sales Tax Receivable	7,575	-	7,575
Due from Other Governments	51	31,418	31,469
Due from Other Funds	-	25,979	25,979
Capitalized Bond and Other Debt Issuance Costs, Net	-	10,774	10,774
Capital Assets, Net			
Nondepreciable	7,010	82,359	89,369
Depreciable	77,711	800,278	877,989
Total Assets	\$ 222,906	\$ 1,020,524	\$ 1,243,430
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 38,459	\$ 57,841	\$ 96,300
Sales Tax Payable	-	669	669
Interest Payable	437	-	437
Due to Other Funds	25,979	-	25,979
Non-Current Liabilities:			
Customer Meter Deposits	-	22,743	22,743
Due Within One Year	15,132	35,789	50,921
Due in More Than One Year	-	131,500	131,500
Total Liabilities	\$ 80,007	\$ 248,542	\$ 328,549
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 69,589	\$ 715,348	\$ 784,937
Unrestricted	73,310	56,634	129,944
Total Net Assets	\$ 142,899	\$ 771,982	\$ 914,881

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Public Safety	\$ 81,437	\$ -	\$ -	\$ -	\$ (81,437)	\$ -	\$ (81,437)
General Administration	128,698	-	-	-	(128,698)	-	(128,698)
Municipal Court	27,774	114,342	-	-	86,568	-	86,568
Public Works	10,559	-	-	-	(10,559)	-	(10,559)
Debt Service	2,232	-	-	-	(2,232)	-	(2,232)
Total Governmental Activities	\$ 250,700	\$ 114,342	\$ -	\$ -	\$ (136,358)	\$ -	\$ (136,358)
Business-type Activities:							
Water/Wastewater Utility	\$ 397,342	\$ 355,735	\$ -	\$ 76,745	\$ -	\$ 35,138	\$ 35,138
Total Business-type Activities	\$ 397,342	\$ 355,735	\$ -	\$ 76,745	\$ -	\$ 35,138	\$ 35,138
Total Government	\$ 648,042	\$ 470,077	\$ -	\$ 76,745	\$ (136,358)	\$ 35,138	\$ (101,220)
General Revenues:							
Taxes/Franchise Fees					\$ 183,060	\$ -	\$ 183,060
Interest Earnings					3,246	39	3,285
Other Income					3,184	-	3,184
Transfers					(39,648)	39,648	-
Total General Revenues					\$ 149,842	\$ 39,687	\$ 189,529
Change in Net Assets					\$ 13,484	\$ 74,825	\$ 88,309
Net Assets - Beginning (July 1)					129,415	697,157	826,572
Net Assets - Ending (June 30)					\$ 142,899	\$ 771,982	\$ 914,881

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 43,080	\$ 25,979	\$ 19,507	\$ 88,566
Receivables:				
Property Taxes	12,009	6,519	-	18,528
Allowance for Uncollectible Taxes	(1,201)	(652)	-	(1,853)
Fines and Fees Receivable	255,838	-	-	255,838
Allowance for Uncollectible Fines	(230,520)	-	-	(230,520)
Sales Taxes	7,575	-	-	7,575
Due from Other Funds	4,372	-	690	5,062
Due from Other Governments	51	-	-	51
Total Assets	\$ 91,204	\$ 31,846	\$ 20,197	\$ 143,247
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ 38,459	\$ -	\$ -	\$ 38,459
Due to Other Funds	690	25,979	4,372	31,041
Deferred Revenues	36,127	5,867	-	41,994
Total Liabilities	\$ 75,276	\$ 31,846	\$ 4,372	\$ 111,494
FUND BALANCE				
Unassigned	\$ 15,928	\$ -	\$ -	\$ 15,928
Restricted:				
Debt Retirement	-	-	-	-
Other Purposes	-	-	15,825	15,825
Total Fund Balance	\$ 15,928	\$ -	\$ 15,825	\$ 31,753
Total Liabilities and Fund Balance	\$ 91,204	\$ 31,846	\$ 20,197	\$ 143,247

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total Fund Balance - Governmental Funds (Exhibit A-3)	\$	31,753
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore not reported in the balance sheet		84,721
Revenues recorded in the current period as deferred revenues are recognized as earned in the current period.		41,994
Interest payable on noncurrent liabilities are not due and payable in the current period and are not reported in the funds		(437)
Noncurrent liabilities are not due and payable in the current period and therefore not reported in the funds as follows		(15,132)
Total Net Assets - Governmental Activities (Exhibit A-1)	\$	142,899

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes and Franchise Fees	\$ 127,315	\$ 51,514	\$ -	\$ 178,829
Licenses and Permits	69	-	-	69
Fines	106,068	-	8,274	114,342
Miscellaneous	3,184	-	-	3,184
Interest Earnings	3,245	-	-	3,245
Total Revenues	\$ 239,881	\$ 51,514	\$ 8,274	\$ 299,669
EXPENDITURES				
Current:				
Public Safety	\$ 77,120	\$ -	\$ 5,949	\$ 83,069
General Administration	125,982	-	-	125,982
Municipal Court	27,774	-	-	27,774
Public Works	6,764	-	-	6,764
Debt Service	4,888	13,468	-	18,356
Total Expenditures	\$ 242,528	\$ 13,468	\$ 5,949	\$ 261,945
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	\$ (1,603)	\$ (38,046)	\$ -	\$ (39,649)
Net Other Financing Sources (Uses)	\$ (1,603)	\$ (38,046)	\$ -	\$ (39,649)
Change in Fund Balance	\$ (4,250)	\$ -	\$ 2,325	\$ (1,925)
Fund Balance - Beginning (July 1)	20,178	-	13,500	33,678
Fund Balance - Ending (June 30)	\$ 15,928	\$ -	\$ 15,825	\$ 31,753

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND EQUITY OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011

Net Change in Fund Equity - Total Governmental Funds (Exhibit A-5)	\$ (1,925)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital asset cost is allocated over the estimated useful life and reported as depreciation in the statement of activities	(12,628)
Repayment of debt principal is an expenditure in the funds but the payments reduce liabilities in the statement of net assets.	15,721
(Increase) Decrease in accrued interest expense from beginning of period to end of period	404
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	4,162
Capital assets acquisitions are not reported as expenses in the Statement of Activities	<u>7,750</u>
Change in Net Assets - Governmental Activities (Exhibit A-2)	<u>\$ 13,484</u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011

	Water & Wastewater Utility	Total
ASSETS		
Current Assets:		
Cash and Investments	\$ 37,718	\$ 37,718
Services Receivable	31,998	31,998
Due from Other Governments	31,418	31,418
Due from Other Funds	25,979	25,979
Total Current Assets	<u>\$ 127,113</u>	<u>\$ 127,113</u>
Non-Current Assets:		
Non-depreciable Capital Assets, Net	\$ 82,359	82,359
Depreciable Capital Assets, Net	800,278	800,278
Capitalized Debt Issuance Costs, Net	10,774	10,774
Total Non-Current Assets	<u>\$ 893,411</u>	<u>\$ 893,411</u>
Total Assets	<u>\$ 1,020,524</u>	<u>\$ 1,020,524</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 57,841	57,841
Sales Tax Payable	669	669
Customer Meter Deposits	22,743	22,743
Total Current Liabilities	<u>\$ 81,253</u>	<u>\$ 81,253</u>
Non-current Liabilities:		
Debt Due Within One Year	\$ 35,789	35,789
Debt Due in More than One Year	131,500	131,500
Total Non-current Liabilities	<u>\$ 167,289</u>	<u>\$ 167,289</u>
Total Liabilities	<u>\$ 248,542</u>	<u>\$ 248,542</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 715,348	715,348
Unrestricted	56,634	56,634
Total Net Assets	<u><u>\$ 771,982</u></u>	<u><u>\$ 771,982</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Water & Wastewater Utility	Total
OPERATING REVENUES		
Utility Services	\$ 355,735	\$ 355,735
Total Operating Revenues	<u>\$ 355,735</u>	<u>\$ 355,735</u>
OPERATING EXPENSES		
Salaries and Benefits	\$ 77,956	\$ 77,956
Repair/Maintenance/Supplies	34,597	34,597
Water Purchases	91,675	91,675
Contracted Services - Sanitation	44,121	44,121
Insurance	9,208	9,208
Utilities	23,956	23,956
Other Operating Expenses	25,453	25,453
Depreciation Expense	78,615	78,615
Amortization Expense	1,521	1,521
Total Operating Expenses	<u>\$ 387,102</u>	<u>\$ 387,102</u>
Operating Income (Loss)	<u>\$ (31,367)</u>	<u>\$ (31,367)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Earned	\$ 39	\$ 39
Interest and Fee Expense	(10,240)	(10,240)
Grant Proceeds	76,745	76,745
Total Nonoperating Revenues (Expenses)	<u>\$ 66,544</u>	<u>\$ 66,544</u>
Income (Loss) before Contributions and Transfers	\$ 35,177	\$ 35,177
Operating Transfers In (Out)	<u>39,648</u>	<u>39,648</u>
Change in Net Assets	\$ 74,825	\$ 74,825
Net Assets - Beginning (July 1)	<u>697,157</u>	<u>697,157</u>
Net Assets - Ending (June 30)	<u><u>\$ 771,982</u></u>	<u><u>\$ 771,982</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Water and Wastewater Utility	Total
	<u> </u>	<u> </u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 356,697	\$ 356,697
Cash Payments for Goods and Services	(244,530)	(244,530)
Cash Payments to Employees for Services and Benefits	<u>(78,937)</u>	<u>(78,937)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 33,230</u>	<u>\$ 33,230</u>
Cash Flows from Noncapital Financing Activities:		
Transfers from Other Funds	<u>\$ 39,648</u>	<u>\$ 39,648</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>\$ 39,648</u>	<u>\$ 39,648</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Debts	\$ (34,321)	\$ (34,321)
Interest Paid on Debt	(10,240)	(10,240)
Grant Proceeds	<u>76,745</u>	<u>76,745</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>\$ 32,184</u>	<u>\$ 32,184</u>
Cash Flows from Investing Activities:		
Purchase of Capital Asset	\$ (97,053)	\$ (97,053)
Interest Received	<u>39</u>	<u>39.00</u>
Net Cash Provided by (Used for) Investing Activities	<u>\$ (97,014)</u>	<u>\$ (97,014)</u>
Net Increase (Decrease) in Cash	\$ 8,048	\$ 8,048
Cash and Cash Equivalents - Beginning (July 1)	<u>29,670</u>	<u>29,670</u>
Cash and Cash Equivalents - Ending (June 30)	<u><u>\$ 37,718</u></u>	<u><u>\$ 37,718</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss)	\$ (31,367)	\$ (31,367)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Depreciation Expense	78,615	78,615
Amortization Expense	1,521	1,521
Changes in Assets and Liabilities:		
Service Receivables	963	963
Accounts Payable	35,991	35,991
Due from Other Governments	(29,976)	(29,976)
Due from Other Funds	(25,979)	(25,979)
Sales Tax Payable	(57)	(57)
Payroll Liabilities	(981)	(981)
Customer Meter Deposits	<u>4,500</u>	<u>4,500</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 33,230</u></u>	<u><u>\$ 85,723</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies

Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit board, and either: a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Lone Oak, Texas (City), the primary government, and any component units. The financial data of any component units would be included in the City's reporting entity because of the significance of their operational or financial relationships with the City. As of June 30, 2011, the City has no component units.

Basic Financial Statements

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. 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. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables, as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The Government-Wide Statement of Net Assets - reports all financial and capital resources to the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) external imposition by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposition by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies (Continued)

The Government-Wide Statement of Activities - demonstrates the degree to which both direct and indirect expenses of the various function and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated among separate functions. Program revenues include: 1) fees, fines and charges paid by those who benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The City reports the following major governmental funds:

General Fund – This 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.

Debt Service Fund – The City collects property taxes to retire debt issued for City construction projects. The Debt Service Fund accounts for these collections and subsequent payments of principal and interest on the issued debt. The City transfers funds collected to the water and sewer fund to assist the fund in retiring debt issued to complete water and sewer system upgrades and improvements.

The City reports the following major enterprise funds:

Water and Wastewater Utility Fund – This fund accounts for the operation of the City’s wastewater utility, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of the City of Lone Oak.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, licenses, fees and permits, intergovernmental revenues, charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies (Continued)

1. Disbursements for the purchase of capital assets providing future benefits are considered expenditures.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary financial statements.

Enterprise funds account for operations where the intent of the City is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges. Under the GASB Statement No. 34, enterprise funds are also required for an activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expenses that are not a result of the direct operations of the activity.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Funds Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 20, 1989.

Cash and Investments

The City pools available cash from all funds for the purpose of increasing revenue through interest income. Interest income, which includes changes in fair value, is allocated to all individual funds.

For purposes of the basic financial statements, the City considers cash and investments to be highly liquid short-term investments that are readily convertible to known amounts of cash and mature within ninety days of the date they are acquired.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Under GASB Statement No. 34, all capital assets owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements. Governments with total annual revenues of less than \$ 10 million, or *Phase 3 Governments*, are not required under GASB Statement No. 34 to report general infrastructure assets acquired prior to July 1, 2003, in the basic financial statements. The City has not reported any prior infrastructure in agreement with GASB Statement No. 34 standards. General infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that normally are stationary in nature, including roads, bridges, drainage systems and street lighting systems.

Capital assets, including general infrastructure assets, are defined as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major outlays for capital assets and improvements are capitalized as the projects are constructed.

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

Buildings, Structures and Improvements	20-50 years
Equipment Including Vehicles	5-20 years
Infrastructure	15-100 years

Capital assets transferred between funds would be transferred at their net book value (cost less accumulated depreciation), as of the date of transfer.

Fund Balances

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority. The City Council has delegated the authority to assign fund balances to the Mayor.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies (Continued)

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Restricted				
Municipal Court Security	\$ -	\$ -	\$ 9,254	\$ 9,254
Municipal Court Technology	-	-	4,704	4,704
Law Officer Training	-	-	1,867	1,867
Unassigned	15,928	-	-	15,928
Totals	<u>\$ 15,928</u>	<u>\$ -</u>	<u>\$ 15,825</u>	<u>\$ 31,753</u>

Budgetary Principles

The City is required by law to adopt an annual budget on or before the 1st day of its fiscal year. The General fund has a legally adopted budget. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. Throughout the fiscal year, the budget was amended to add supplementary appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund be presented as required supplementary information. These statements must display original budget, amended budget and actual results (on a budgetary basis).

Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service, if any, based on rates adopted for the year of the levy. Allowance for uncollectibles within the General Fund is based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the City to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The City levied taxes on property within the City at \$ 0.199215 to fund maintenance and operations and 0.300785 for payment on principal and interest on debt obligations.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

A. Summary of Significant Accounting Policies (Continued)

Revenue Recognition for Utility Funds

Revenue is recorded in the period in which services are provided. As such, revenue is recorded as billed to customer on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

B. Cash and Investments

The City's funds are deposited and invested under the terms of a depository agreement. The agreement requires the depository to pledge approved securities in an amount significant to protect the City's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2011, all City cash deposits were covered by FDIC insurance or by pledged collateral held by the City or the depository in the City's name. The City's deposits appear to have been properly secured throughout the fiscal year.

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

C. Capital Assets

Capital asset activities for the year ended June 30, 2011, were as follows:

	Beginning Balance 7/1/2010	Additions	Deletions	Ending Balance 6/30/2011
<u>Governmental Activities:</u>				
Capital Assets not being Depreciated				
Land	\$ 7,010	\$ -	\$ -	\$ 7,010
Total Capital Assets not being Depreciated	\$ 7,010	\$ -	\$ -	\$ 7,010
Capital Assets being Depreciated:				
Buildings and Improvements	\$ 86,364	\$ -	\$ -	\$ 86,364
Infrastructure	168,132	-	-	168,132
Vehicles	95,130	7,750	(24,804)	78,076
Equipment	30,740	-	-	30,740
Total Capital Assets being Depreciated	\$ 380,366	\$ 7,750	\$ (24,804)	\$ 363,312
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 29,323	\$ 2,879	\$ -	\$ 32,202
Infrastructure	155,667	1,087	-	156,754
Vehicles	88,729	5,954	(24,804)	69,879
Equipment	24,058	2,708	-	26,766
Total Accumulated Depreciation	\$ 297,777	\$ 12,628	\$ (24,804)	\$ 285,601
Total Capital Assets being Depreciated, Net	\$ 82,589	\$ (4,878)	\$ -	\$ 77,711
Governmental Activities Capital Assets, Net	\$ 89,599	\$ (4,878)	\$ -	\$ 84,721
<u>Business-Type Activities:</u>				
Capital Assets not being Depreciated:				
Land	\$ 4,023	\$ -	\$ -	\$ 4,023
Construction in Progress	-	78,366	-	78,366
Total Capital Assets not being Depreciated	\$ 4,023	\$ 78,366	\$ -	\$ 82,389
Capital Assets being Depreciated:				
Water and Sewer Systems	\$ 1,798,207	\$ 18,716	\$ -	\$ 1,816,923
Equipment	65,420	-	-	65,420
Total Capital Assets being Depreciated	\$ 1,863,627	\$ 18,716	\$ -	\$ 1,882,343
Less Accumulated Depreciation for:				
Water and Sewer Systems	\$ 958,505	\$ 74,008	\$ -	\$ 1,032,513
Equipment	44,945	4,607	-	49,552
Total Accumulated Depreciation	\$ 1,003,450	\$ 78,615	\$ -	\$ 1,082,065
Total Capital Assets being Depreciated, Net	\$ 860,177	\$ (59,899)	\$ -	\$ 800,278
Business-Type Activities Capital Assets, Net	\$ 864,200	\$ 18,467	\$ -	\$ 882,667

Depreciation was charged to the following governmental activities functions:

General Government	\$ 2,716
Public Safety	6,117
Public Works	3,795
Total - Governmental Activities	\$ 12,628
Total Business Type Activities	\$ 78,615

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

D. Long-Term Obligations

The following is a summary of changes in long term obligations reported in the government-wide financial statements for the year ended June 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balances	Amounts Due in One Year
<u>Governmental Activities:</u>					
Bonds Payable	\$ 25,043	\$ -	\$ 12,216	\$ 12,827	\$ 12,827
Notes Payable	5,809		3,504	2,305	2,243
Governmental Activities Total	\$ 30,852	\$ -	\$ 15,720	\$ 15,132	\$ 15,070
<u>Business-type Activities:</u>					
Bonds Payable	\$ 201,610	\$ -	\$ 34,321	\$ 167,289	\$ 35,789
Notes Payable	-			-	-
Business-type Activities Total	\$ 201,610	\$ -	\$ 34,321	\$ 167,289	\$ 35,789

Governmental Activities

Bonds

Description	Date Issued	Interest Rate	Original Balance	Outstanding Balance
City of Lone Oak, Texas - Combination Tax and Revenue Certifications of Obligation, Series 2001	11/2/01	5.00%	\$ 104,000	\$ 12,827

Debt service requirements for future periods as of June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2012	\$ 12,827	\$ 641	\$ 13,468
Totals	\$ 12,827	\$ 641	\$ 13,468

Notes

Payee/Purpose	Agreement Date	Interest Rate	Original Amount	Outstanding Balance
Sheffield Financial – Notes Payable – Scag Mower	04/03/08	3.900%	5,025	\$ 2,305

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

D. Long-Term Obligations (Continued)

Debt service requirements for future periods as of June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2012	\$ 2,305	\$ 44	\$ 2,349
Totals	<u>\$ 2,305</u>	<u>\$ 44</u>	<u>\$ 2,349</u>

Business-Type Activities

Bonds

Description	Date Issued	Interest Rate	Original Amount	Outstanding Balance
City of Lone Oak, Texas - Combination Tax and Revenue Refunding Bonds, Series 2001	11/2/01	5.00%	\$ 164,500	\$ 20,289
City of Lone Oak, Texas - Combination Tax and Revenue Refunding Bonds, Series 2006	8/1/06	5.35%	200,000	<u>147,000</u>
Totals				<u>\$ 167,289</u>

Debt service requirements for future periods as of June 30, 2011, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2012	\$ 35,789	\$ 8,458	\$ 44,247
2013	16,000	6,602	22,602
2014	16,500	5,734	22,234
2015	17,000	4,838	21,838
2016	19,000	3,876	22,876
2017 - 2021	<u>63,000</u>	<u>5,105</u>	<u>68,105</u>
Totals	<u>\$ 167,289</u>	<u>\$ 34,613</u>	<u>\$ 201,902</u>

E. Commitments and Contingencies

Litigation – The City does not appear to be involved in any litigation at June 30, 2011.

Grants – Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects any amounts, if any, to be immaterial.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

F. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to provide coverage of their associated risks. There has been no significant change in insurance coverage from the previous year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

G. Subsequent Events

The City's management has evaluated subsequent events through March 8, 2012 the date which the financial statements were available for issue.

H. Compliance, Stewardship and Accountability

Expenditures over Appropriations

The following individual funds incurred expenditures in excess of appropriations at functional expenditure levels:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
Municipal Court	\$ 738	\$ 27,774	\$ 27,036
Public Safety	31,321	77,120	45,799
Public Works	2,990	6,764	3,774

I. Interfund Balances and Activities

Interfund Receivables and Payable

Balances receivable and payable between funds are expected to be liquidated in the current period. The balances remaining at year end are as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Municipal Court Security	General Fund	\$ 1,198
Municipal Court Technology	General Fund	3,174
General Fund	LEOSE	690
Debt Service	Water/Waste Water	25,979
Total		<u>\$ 31,041</u>

Transfers To and From Other Funds

Transfers to and from other funds consisted of the following during the year ended June 30, 2011:

<u>Fund to</u>	<u>Fund from</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Water/Waste Water	\$ 1,603	Administrative Support
Water/Waste Water	Debt Service	38,046	Debt Retirement
Total		<u>\$ 39,649</u>	

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LONE OAK, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Amended	Actual	
REVENUES				
Taxes and Franchise Fees	\$ 168,663	\$ 170,211	\$ 127,315	\$ (42,896)
Licenses and Permits	169	206	69	(137)
Fines	135,000	124,991	106,068	(18,923)
Miscellaneous	1,831	3,858	3,184	(674)
Interest Earnings	3,193	3,193	3,245	52
Total Revenues	\$ 308,856	\$ 302,459	\$ 239,881	\$ (62,578)
EXPENDITURES				
Current:				
Public Safety	\$ 114,810	\$ 31,321	\$ 77,120	(45,799)
General Administration	109,802	236,283	125,982	110,301
Municipal Court	31,314	738	27,774	(27,036)
Public Works	12,000	2,990	6,764	(3,774)
Debt Service	40,930	24,926	4,888	20,038
Total Expenditures	\$ 308,856	\$ 296,258	\$ 242,528	\$ 53,730
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	\$ -	\$ -	\$ (1,603)	\$ (1,603)
Net Other Financing Sources (Uses)	\$ -	\$ -	\$ (1,603)	\$ (1,603)
Change in Fund Balance	\$ -	\$ 6,201	\$ (4,250)	\$ (10,451)
Fund Balance - Beginning (July 1)	20,178	20,178	20,178	-
Fund Balance - Ending (June 30)	\$ 20,178	\$ 26,379	\$ 15,928	\$ (10,451)