

ANNUAL FINANCIAL REPORT
OF THE
CITY OF LONE OAK, TEXAS

FOR

FISCAL YEAR ENDED

JUNE 30, 2016

*Mayor
Doug Williams*



City of Lone Oak, Texas

**CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

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City of Lone Oak, Texas

INTRODUCTORY SECTION

CITY OF LONE OAK, TEXAS

City Council

For the Year Ended June 30, 2016

Douglas E. Williams	Mayor
Melinda Placke	Place 1
Sandra Willaims	Place 2
Christene Barrow	Place 3
Gordon Galloway	Place 4
Wes Owen	Place 5

FINANCIAL SECTION



City of Lone Oak, Texas



Michael Conway, CPA
Neil Conway, CPA

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CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

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American Institute of CPAs
Texas Society of CPAs

September 15, 2016

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Lone Oak
Lone Oak, Texas

Members of the City 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Commerce, Texas 75428
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Greenville, Texas 75402
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603 South Goliad Street
Rockwall, Texas 75087
Office (972) 771-1065
Fax (972) 771-1022

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

Basis for Modified Opinion

We are unable to determine the accuracy and completeness of revenues reported by the Municipal Court. For this reason, we are unable to determine that all revenues have been recognized.

Modified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Modified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lone Oak, Texas as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lone Oak, Texas' basic financial statements. Management Discussion and Analysis and the introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Management Discussion and Analysis and introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2016, on our consideration of the City of Lone Oak, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.



City of Lone Oak, Texas

CITY OF LONE OAK, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2016

As management of the City of Lone Oak ("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 June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the end of the fiscal year by \$895,791 (net position). Of this amount \$715,183, or 80%, is net investment in capital assets. Net position restricted for specific purposes is \$42,313, or, 5%. The remaining amount of \$138,295, or, 15%, (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net position decreased by (\$55,270). This is due to a significant decrease in revenues in the governmental activities.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$113,282, a decrease of (\$11,070) in comparison with the prior year. Approximately 63% of this total amount, or \$70,969, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$70,969, or 21%, of total general fund expenditures. The decrease in fund balance for the General Fund in the amount of (\$11,070), is due to a decrease in revenues.
- The City's total long-term debt decreased by (\$46,681), or (31%), during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

**CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Basic Financial Statements

The first two statements (pages 21 - 23) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 24 - 31) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** on pages 32 - 46. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety and general administration. Property and sales taxes finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City.

The government-wide financial statements are on pages 21 - 23 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City’s programs. The relationship between government activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule is presented using the same format, language, and classifications as the legal budget document. The schedule shows four columns: 1) the original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City has one type of proprietary fund which is the Water and Sewer Fund. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary Funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 29 - 31 of this report.

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 are on pages 32 – 46 of this report.

New Pronouncements – The following statements for GASB were effective for the City in the fiscal year ending June 30, 2016:

GASB Statement No. 69, “Governmental Combinations and Disposals of Government Operations”, will be implemented as required by GASB during the fiscal year June 30, 2016. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of this Statement does not result in any changes to the City’s financial statements.

GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees”, will be implemented as required by GASB during the fiscal year June 30, 2016. This statement requires a government that extends nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The implementation of this Statement does not result in any changes to the City’s financial statements.

**CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", is to extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. The implementation of this Statement does not result in any changes to the City's financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

GASB Statement No. 72, "Fair Value Measurement and Application" addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and, also, provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. The City is evaluating the potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plan other than Pension Plans" is to replace Statements No. 43, as amended, and No. 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, No. 43, as amended, and No. 50. The City is evaluating the potential changes to the financial statements as a result of the implementation of this statement.

**CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 181,946	\$ 180,726	\$ 70,042	\$ 63,630	\$ 251,988	\$ 244,356
Capital assets	88,858	110,930	730,907	816,987	819,765	927,917
Total assets	<u>270,804</u>	<u>291,656</u>	<u>800,949</u>	<u>880,617</u>	<u>1,071,753</u>	<u>1,172,273</u>
Long-term liabilities	44,016	67,103	64,481	82,000	108,497	149,103
Current liabilities	27,668	10,208	39,797	61,901	67,465	72,109
Total liabilities	<u>71,684</u>	<u>77,311</u>	<u>104,278</u>	<u>143,901</u>	<u>175,962</u>	<u>221,212</u>
Net position:						
Net investment in capital assets	47,276	43,827	667,907	734,987	715,183	778,814
Restricted	42,313	-	-	-	42,313	-
Unrestricted	109,531	170,518	28,764	1,729	138,295	172,247
Total net position	<u>\$ 199,120</u>	<u>\$ 214,345</u>	<u>\$ 696,671</u>	<u>\$ 736,716</u>	<u>\$ 895,791</u>	<u>\$ 951,061</u>

As noted earlier, net position may serve over time as one useful indicator of a City's financial condition. The net position of the City exceeded liabilities by \$895,791 as of June 30, 2016. The City's net position decreased by (\$55,270) for the fiscal year ended June 30, 2016.

Net investment in capital assets:

The largest portion of the City's net position, \$715,183 or, 80%, reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. 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 outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

The restricted net position of \$42,313, or 5%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state and contractually imposed restrictions which are \$6,423, or 15%, for court use, economic development use of \$1,793, or 4%, and \$34,097, or 81%, is for street maintenance.

Unrestricted net position:

Unrestricted net position of \$138,295, or 15%, is available to fund City programs to citizens and debt obligations to creditors.

CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUE:						
Program Revenues						
Charges for Services	\$ 107,711	\$ 236,156	\$ 387,226	\$ 351,918	\$ 494,937	\$ 588,074
Operating Grants and Contributions	12,308	-	50	-	12,358	-
Capital Grants and Contributions	-	-	9,075	-	9,075	-
General Revenues:						
Property Taxes	95,758	94,789	-	-	95,758	94,789
Sales Taxes	93,350	65,931	-	-	93,350	65,931
Franchise Taxes	23,814	15,636	-	-	23,814	15,636
Investment Income	40	37	14	12	54	49
Miscellaneous	230	-	13,944	429	14,174	429
Total Revenues	333,211	412,549	410,309	352,359	743,520	764,908
EXPENSES:						
Program Expenses:						
General Government	122,040	139,623	-	-	122,040	139,623
Public Safety	152,993	200,450	-	-	152,993	200,450
Public Services	45,476	101,863	-	-	45,476	101,863
Public Works	10,423	11,227	-	-	10,423	11,227
Interest on Long-Term Debt	2,668	-	-	-	2,668	-
Water and Sewer	-	-	465,190	452,291	465,190	452,291
Total Expenses	333,600	453,163	465,190	452,291	798,790	905,454
Change in Net Position before Transfers	(389)	(40,614)	(54,881)	(99,932)	(55,270)	(140,546)
Transfers	(14,836)	(21,838)	14,836	21,838	-	-
Change in Net Position	(15,225)	(62,452)	(40,045)	(78,094)	(55,270)	(140,546)
Net Position - beginning of year	214,345	276,797	736,716	814,810	951,061	1,091,607
Net Position - end of year	\$ 199,120	\$ 214,345	\$ 696,671	\$ 736,716	\$ 895,791	\$ 951,061

Governmental activities decreased (\$15,225). This is due, in large part, to a significant decrease in municipal court revenues of an estimated 50%.

Business-type activities decreased (\$40,045). Although the change in net position indicates a loss for the current fiscal year, the change in net position did increase by \$38,049 from the previous fiscal year. This is due to an increase in charge for services of \$35,308.

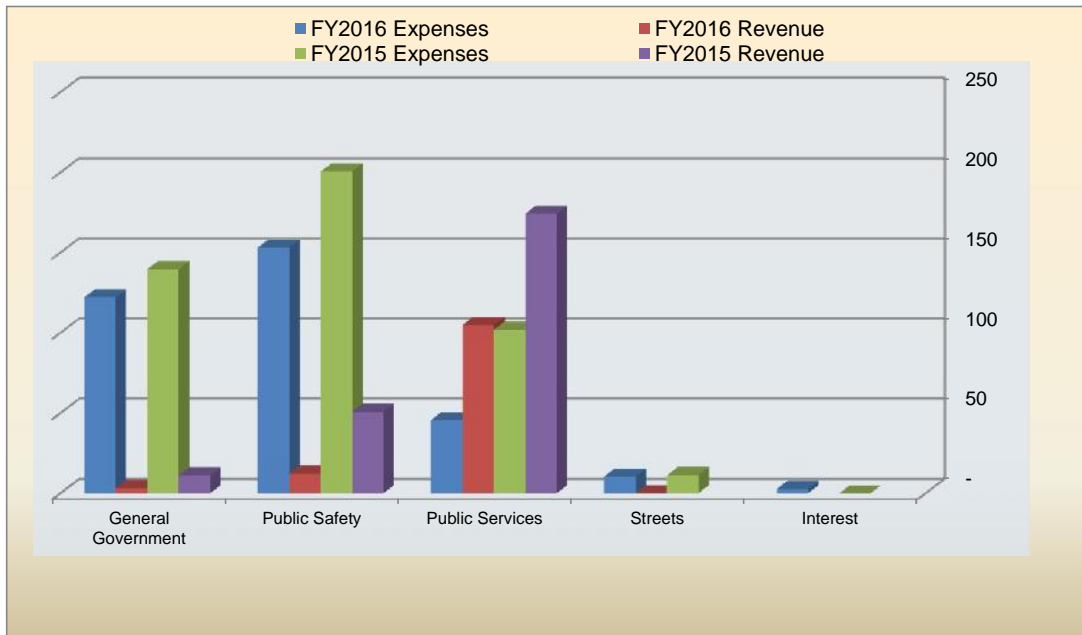
**CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Governmental-type activities - Governmental-type activities decreased the City's net position by (\$15,225). A key element of this decrease is as follows:

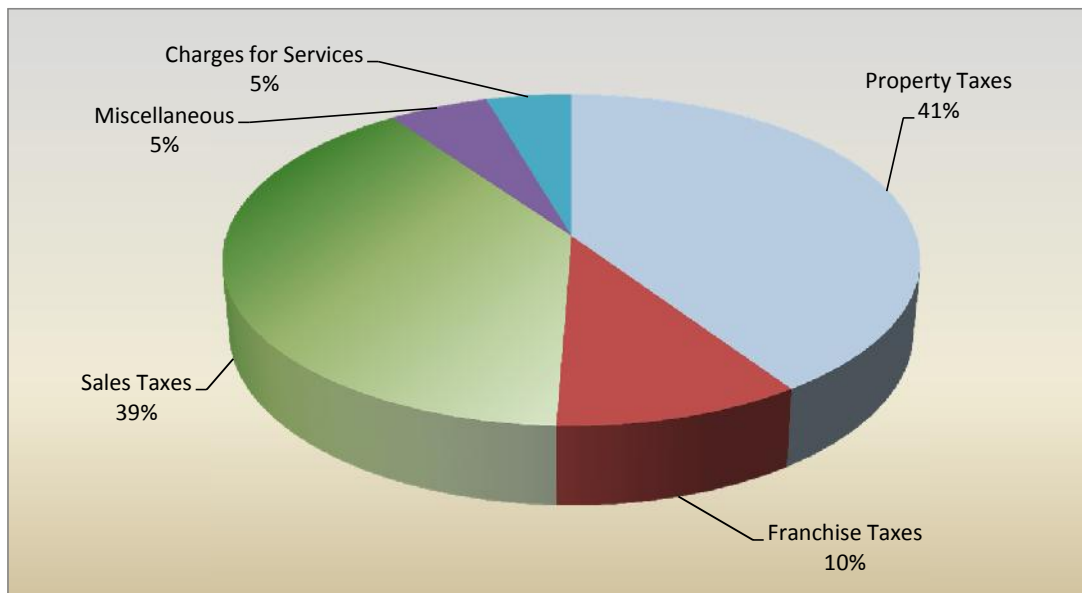
Charge for services decreased (\$128,445), or (54%) which was offset by a decrease in total expenditures of \$119,563, or 26%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities

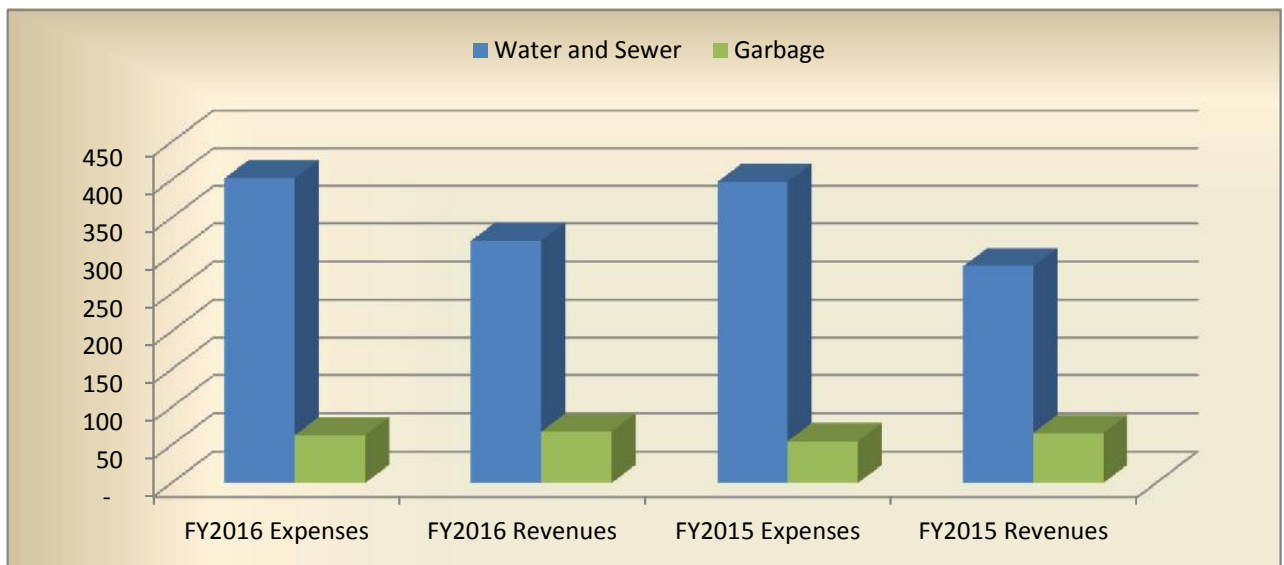


**CITY OF LONE OAK, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 JUNE 30, 2016**

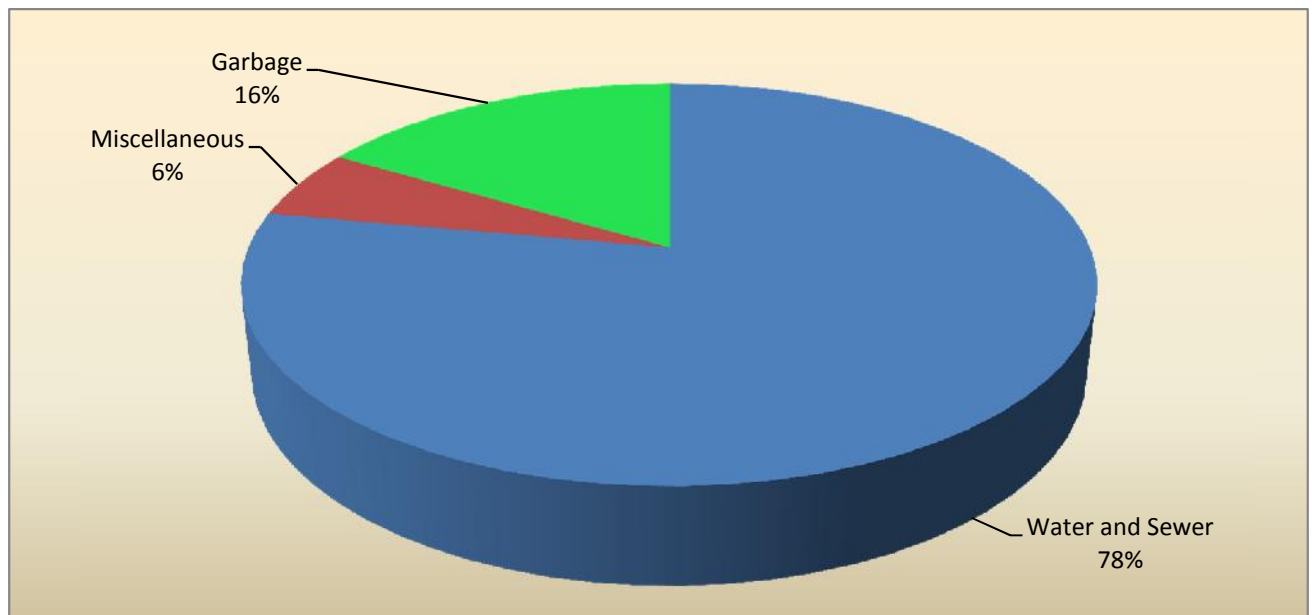
Business-type Activities - Business-type activities decreased the City's net position by (\$40,045). A key element of this decrease is as follows:

Overall expenses increased 12,899, or 3%.

Expenditures and Program Revenues - Business-type Activities
 (amounts expressed in thousands)



Revenues by Source - Business-type Activities



**CITY OF LONE OAK, TEXAS
MANAGEMENT AND DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$70,969, a decrease of (30%) in comparison with the prior year.

The restricted fund balances of \$42,313, or 37% ,of total net position consist of amounts with constraints put on their use by externally imposed creditors, grantors, contributors, laws, regulations or enabling legislation. This consists of \$6,423, or 15%, is for court use; \$1,793, or 4%, for economic development; and \$34,097, or 81%, for street maintenance.

Unassigned fund balance of \$70,969, or 63%, represents the residual classification for the City's General Fund.

General Fund Budgetary Highlights: During the fiscal year, the City did revise the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were less than the budgeted amounts in most classifications. Expenditures were less than budgeted amounts at the fund level.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$28,764.

CITY OF LONE OAK, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$819,765 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment. The total decrease in the City's investment in capital assets for the current fiscal year was (12%).

Major capital asset events during the current fiscal year included the following:

- Purchase of truck

Capital Assets
As of June 30, 2016
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land & Improvements	\$ 7,010	\$ 7,010	\$ 4,023	\$ 4,023	\$ 11,033	\$ 11,033
Machinery & Equipment	36,138	54,244	15,244	11,143	51,382	65,387
Buildings	39,768	42,647	254,115	279,526	293,883	322,173
Infrastructure	5,942	7,029	448,450	522,295	454,392	529,324
Construction in Progress	-	-	9,075	-	9,075	-
Total	\$ 88,858	\$ 110,930	\$ 730,907	\$ 816,987	\$ 819,765	\$ 927,917

More detailed information about the City's capital assets is presented in Note F to the financial statements

Long-term Obligations - As of June 30, 2016, the City had long-term obligations of \$108,497. The debt is secured by property taxes and/or revenues. The total long-term obligation decreased by (\$46,681), or (31%).

Outstanding Debt
As of June 30, 2016

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Certificates of obligation	\$ -	\$ -	\$ 63,000	\$ 82,000	\$ 63,000	\$ 82,000
Capital lease payable	655	2,160	-	-	655	2,160
Notes payable	40,927	67,103	-	-	40,927	67,103
Total	\$ 41,582	\$ 69,263	\$ 63,000	\$ 82,000	\$ 104,582	\$ 151,263

More detailed information about the City's long-term liabilities is presented in Note G to the financial statements.

**CITY OF LONE OAK
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
JUNE 30, 2016**

Economic Factors and Next Year's Budgets and Rates

The following known factors were considered in preparing the City's operating budget for FY 2016-2017:

Property tax revenues are expected to increase \$40,000, or 42%, over the previous year. The City's property tax rate will increase to \$0.65 per \$100 value.

The budget for all revenues in the governmental funds for FY2017 is \$443,250. This is a decrease of (\$17,460) from the prior fiscal year due to projected decrease in municipal court fine revenues.

The budget for all expenditures in the governmental funds for FY2017 is \$443,250. This is a decrease of (\$17,460) from the prior fiscal year due to projected decrease in other general expenditures.

The overall budget for the Water/Sewer Fund for FY2017 is \$666,525. This is a decrease of (\$404,475) due to less grant revenues with the completion of the infrastructure project.

Request for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lone Oak, P O Box 127, Lone Oak, Texas 75453.



City of Lone Oak, Texas

BASIC FINANCIAL STATEMENTS



City of Lone Oak, Texas

**CITY OF LONE OAK, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 29,688	\$ 19,903	\$ 49,591
Receivables (net of allowance for uncollectible)	64,732	29,322	94,054
Restricted assets:			
Cash and cash equivalents	87,526	20,817	108,343
Capital assets, not being depreciated:			
Land & improvements	7,010	4,023	11,033
Construction in progress	-	9,075	9,075
Capital assets, net of accumulated depreciation:			
Buildings and improvements	39,768	254,115	293,883
Infrastructure	5,942	448,450	454,392
Machinery & equipment	36,138	15,244	51,382
Total Assets	<u>270,804</u>	<u>800,949</u>	<u>1,071,753</u>
LIABILITIES			
Accounts payable	23,257	16,705	39,962
Customer deposits	-	20,805	20,805
Accrued expenses	2,684	1,849	4,533
Other liabilities	1,727	438	2,165
Noncurrent Liabilities:			
Due within one year:			
Compensated absence accrual	740	-	740
Capital lease payable	655	-	655
Notes payable	27,235	-	27,235
Bonds payable	-	20,500	20,500
Due in more than one year:			
Compensated absence accrual	1,694	1,481	3,175
Notes payable	13,692	-	13,692
Bonds payable	-	42,500	42,500
Total Liabilities	<u>71,684</u>	<u>104,278</u>	<u>175,962</u>
NET POSITION			
Net investment in capital assets	47,276	667,907	715,183
Restricted for:			
Street maintenance	34,097	-	34,097
Economic development	1,793	-	1,793
Court use	6,423	-	6,423
Unrestricted	109,531	28,764	138,295
Total Net Position	<u>\$ 199,120</u>	<u>\$ 696,671</u>	<u>\$ 895,791</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Function/Program Activities				
Primary Government				
Governmental Activities:				
General Government	\$ 122,040	\$ 1,474	\$ 1,600	-
Public Safety	152,993	1,480	10,630	-
Public Services and Operations	45,476	104,757	-	-
Public Works	10,423	-	78	-
Interest on Long-Term Debt	2,668	-	-	-
Total governmental activities	<u>333,600</u>	<u>107,711</u>	<u>12,308</u>	<u>-</u>
Business-type Activities:				
Water and Sewer	465,190	387,226	50	9,075
Total business-type activities	<u>465,190</u>	<u>387,226</u>	<u>50</u>	<u>9,075</u>
Total primary government	<u>\$ 798,790</u>	<u>\$ 494,937</u>	<u>\$ 12,358</u>	<u>9,075</u>

General revenues:
Property taxes
Sales taxes
Franchise taxes
Investment income
Miscellaneous
Transfers
Total general revenues & transfers
Change in net position
Net position - beginning
Net position - ending

The notes to the financial statements are an integral part of this financial statement.

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government		
Governmental Activities	Business Activities	Total
\$ (118,966)	\$ -	\$ (118,966)
(140,883)	-	(140,883)
59,281	-	59,281
(10,345)	-	(10,345)
(2,668)	-	(2,668)
<u>(213,581)</u>	<u>-</u>	<u>(213,581)</u>
-	(68,839)	(68,839)
-	(68,839)	(68,839)
<u>\$ (213,581)</u>	<u>\$ (68,839)</u>	<u>\$ (282,420)</u>
\$ 95,758	\$ -	\$ 95,758
93,350	-	93,350
23,814	-	23,814
40	14	54
230	13,944	14,174
(14,836)	14,836	-
<u>198,356</u>	<u>28,794</u>	<u>227,150</u>
(15,225)	(40,045)	(55,270)
<u>214,345</u>	<u>736,716</u>	<u>951,061</u>
<u>\$ 199,120</u>	<u>\$ 696,671</u>	<u>\$ 895,791</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 29,688
Receivables (net of allowances for uncollectible)	64,732
Cash - Restricted	87,526
Total Assets	181,946
LIABILITIES	
Accounts payable	23,257
Accrued expenses	2,684
Other liabilities	1,727
Total Liabilities	27,668
DEFERRED INFLOW OF RESOURCES	
Unavailable revenue-property taxes	9,173
Unavailable revenue-warrants	31,823
Total Deferred Inflow of Resources	40,996
FUND BALANCES	
Restricted for:	
Street maintenance	34,097
Economic development	1,793
Court use	6,423
Unassigned	70,969
Total Fund Balances	113,282
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	\$ 181,946

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balances - governmental funds balance sheet	\$ 113,282
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	428,028
Accumulated depreciation has not been included in the governmental fund financial statements.	(339,170)
Revenues reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	40,996
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(2,434)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	(41,582)
Net position of governmental activities - statement of net position	<u>\$ 199,120</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund
	<u> </u>
REVENUE	
Property taxes	\$ 100,929
Sales tax	93,350
Franchise tax	23,814
Licenses and permits	75
Fines and forfeitures	104,682
Charge for services	2,954
Donations	12,308
Investment income	40
Miscellaneous	230
Total Revenues	<u>338,382</u>
EXPENDITURES	
Current:	
General Government	118,217
Public Safety	132,706
Public Services and Operations	45,459
Public Works	7,886
Debt Service:	
Principal retirement	27,680
Interest expense	2,668
Total Expenditures	<u>334,616</u>
Excess (deficiency) of revenues over (under) expenditures	3,766
Other Revenues and Financing Sources (uses)	
Transfers	(14,836)
Total Other Financing Sources (uses)	<u>(14,836)</u>
Net Change in Fund Balances	(11,070)
Fund Balances, October 1	124,352
Fund Balances, September 30	<u>\$ 113,282</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE 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 JUNE 30, 2016**

Net change in fund balances - total governmental funds	\$ (11,070)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(25,500)
Current year long-term debt principal payments on contractual obligations, and bonds payable are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	27,680
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	(2,434)
Current year changes in unearned property tax revenues in the governmental fund statements are not shown as an change in liabilities in the government-wide financial statements.	(5,169)
Expenditures reported in the government-wide financial statements that do not require the use of current financial resources are not reported as expenditures in governmental funds.	1,268
Change in net position of governmental activities - statement of activities	<u><u>\$ (15,225)</u></u>

The notes to the financial statements are an integral part of this financial statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE				
Property taxes	\$ 139,000	\$ 145,000	\$ 100,929	\$ (44,071)
Fines and forfeitures	219,000	202,000	104,682	(97,318)
Licenses and permits	150	150	75	(75)
Sales taxes collected	82,000	81,000	93,350	12,350
Franchise tax	17,000	16,460	23,814	7,354
Charge for services	18,960	20,960	2,954	(18,006)
Donations	25,000	20,000	12,308	(7,692)
Investment income	40	40	40	-
Miscellaneous	2,000	2,000	230	(1,770)
Total Revenues	503,150	487,610	338,382	(149,228)
EXPENDITURES				
General government	208,850	179,350	118,217	61,133
Public safety	180,400	184,800	132,706	52,094
Public services and operations	45,900	56,000	45,459	10,541
Public works	10,000	10,000	7,886	2,114
Debt Service:				
Principal Retirement	37,000	37,000	27,680	9,320
Interest Expense	4,000	4,000	2,668	1,332
Total Expenditures	486,150	471,150	334,616	136,534
Excess (deficiency) of revenues over (under) expenditures	17,000	16,460	3,766	(12,694)
Other Revenues and Financing Sources (uses)				
Transfers	-	-	(14,836)	(14,836)
Total Other Financing Sources (uses)	-	-	(14,836)	(14,836)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	17,000	16,460	(11,070)	(27,530)
Fund Balances/Equity, October 1	\$ 124,352	\$ 124,352	\$ 124,352	
Fund Balances/Equity, September 30	\$ 141,352	\$ 140,812	\$ 113,282	

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
STATEMENT OF FUNDS NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	<u>Water/Sewer Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 19,903
Receivables (net of allowances for uncollectible)	29,322
Restricted cash and cash equivalents	20,817
Total Current Assets	<u>70,042</u>
Noncurrent Assets:	
Capital Assets:	
Land	4,023
Building & improvements	381,170
Machinery & equipment	83,660
Infrastructure	1,850,762
Construction in progress	9,075
Less: accumulated depreciation	<u>(1,597,783)</u>
Total Capital Assets (net of accumulated depreciation)	<u>730,907</u>
Total Noncurrent Assets	<u>730,907</u>
Total Assets	<u>800,949</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	16,705
Accrued expenses payable	1,849
Other liabilities	438
Payables from restricted funds:	
Customer deposits	20,805
Bonds payable - current	20,500
Total Current Liabilities	<u>60,297</u>
Noncurrent Liabilities:	
Compensated absences	1,481
Bonds payable	42,500
Total Non-Current Liabilities	<u>43,981</u>
Total Liabilities	<u>104,278</u>
NET POSITION	
Net investment in capital assets	667,907
Restricted for:	
Unrestricted	28,764
Total Net Position	<u>\$ 696,671</u>

The accompanying notes to the basic financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Water/Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 384,976
Tap fees	2,250
Rental income	12,903
Miscellaneous income	1,091
Total Operating Revenues	<u>401,220</u>
OPERATING EXPENSES	
Personnel costs	109,078
Supplies and materials	8,013
Maintenance and repair	38,104
Water purchases	102,405
Contractual services	90,450
Utilities	11,609
Depreciation	101,655
Total Operating Expenses	<u>461,314</u>
Operating Income (Loss)	<u>(60,094)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(3,876)
Investment income	14
Total Non-Operating Revenues (Expenses)	<u>(3,862)</u>
Income before capital contributions and transfers	<u>(63,956)</u>
Capital Contributions	9,075
Transfers	<u>14,836</u>
Change in Net Position	(40,045)
Net position - Beginning, October 1	<u>736,716</u>
Net Position - Ending, September 30	<u><u>\$ 696,671</u></u>

The accompanying notes to the basic financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Water/Sewer Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 376,242
Cash received from other sources	13,994
Cash paid to or on behalf of employees for services	(109,078)
Cash payments to suppliers for goods and services	(249,196)
Net cash provided by (used for) operating activities	<u>31,962</u>
Cash Flows from Noncapital Financing Activities	
Transfers to/from other funds	14,836
Intergovernmental receipts	9,075
Net Cash Provided by Non-capital Financing Activities	<u>23,911</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(5,175)
Disposal of assets	(10,400)
Principal payments on debt obligations	(19,000)
Interest and fiscal charges on debt	(3,876)
Net cash provided by (used for) capital and related financing activities	<u>(38,451)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,436
Cash and Cash Equivalents at Beginning of Year	23,284
Cash and Cash Equivalents at End of Year	<u>\$ 40,720</u>
Reconciliation of operating income to net cash provided by (used for) operation activities	
Operating income (loss)	<u>\$ (60,094)</u>
Adjustment to reconcile operating income to net provided by operating activities:	
Depreciation	101,655
Change in Assets and Liabilities	
Decrease (increase) in receivables	(10,984)
Increase (decrease) in accounts payable	(2,383)
Total Adjustments	92,056
Net cash provided by (used for) operating activities	<u>\$ 31,962</u>

The accompanying notes to the basic financial statements are an integral part of this financial statement.

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lone Oak ("City") operates under a Mayor-Council form of government and provides police protection, water and sewer services, and general administration.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units".

Under GASB Statement No. 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB Statement No. 39 added clarification to GASB Statement No. 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Based upon the application of these tests, the City does not have any component units.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

2. Basis of Presentation, Basis of Accounting

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. Significantly, the City's statement of net position include both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Basis of Presentation, Basis of Accounting (continued)

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resource measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis provides an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted budget and final amended General Fund budget with actual results.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, and Municipal Court) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise taxes, and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental fund is the general fund. The major proprietary fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The proprietary funds distinguish operating revenues and expenses from non-operating 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 and sewer business-type fund are the charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service, administrative expenses, and depreciation on assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

The government-wide focus is 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. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund level 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 when 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 and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

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

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major governmental funds of the City:

The **General Fund** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to a private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The following is a description of the proprietary funds of the City:

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Measurement Focus, Basis of Accounting (continued)

The **Water and Sewer Fund** accounts for the operations of the water and sanitary sewer utilities and garbage which are self-supporting activities rendering services on a user-charge basis.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest in certificates of deposits, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

Trade and property tax receivables are shown net of an allowance for uncollectible.

c. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for specific capital additions, and municipal court uses and seizure funds. Restricted assets in the proprietary funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers.

Customer deposits received for the water and sewer service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

d. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. There was not any interest accrued in the current period.

Management elected not to retroactively report infrastructure assets within the scope of GASB Statement No. 34.

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15 - 50
Building & Improvements	20 - 50
Machinery and equipment	5 - 20

e. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method and netted with the long term obligations in the liabilities. The City has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if any, are expensed during the year they are incurred in accordance with GASB Statement No. 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

f. Compensated Absences

Regular full-time employees are eligible for 120 hours personal time off (PTO) per calendar year. After five years of continuous service, regular full-time employees will receive 160 hours per calendar year. Employees are allowed to retain 40 hours of PTO each year to be rolled over to the next year. Any remaining PTO balance will be forfeited.

g. Deferred Outflows/Inflows of Resources

In addition to assets, the fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City does not have any items to report in this category.

In addition to liabilities, the fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to that time. The City has only two types of deferred inflow of resources in the governmental fund financial statement. Deferred revenue from property taxes and outstanding warrants is deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

h. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent:

- *Nonspendable fund balance* - includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaid) or because they must remain intact such as the principal of an endowment.
- *Restricted fund balance* - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.
- *Committed fund balance* - includes the portion of net resources for which the City Council has imposed limitations of use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. Commitments may be changed or lifted only by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* - includes the portion of net resources for which an *intended* use has been established by the Mayor or Finance Officer is authorized to do so by the City Council. Assignments of fund balances are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.
- *Unassigned fund balance* - includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City does not have a minimum fund balance policy.

i. Net Position Flow Assumption

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

j. Fund Balance Flow Assumption

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

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

k. Federal and State Grants

Grants are generally accounted for within the fund financed. The City currently has one grant from the Texas Department of Agriculture that is governed by HUD.

l. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

m. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consideration. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges an appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position. The government did not have any Internal Balances at fiscal year end.

n. Use of Estimates

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

o. Program Revenues

Certain revenues such as charges for services are included in program revenues.

p. Program Expenditures

Certain indirect costs such as administrative costs are included in the program expenditures reported for individual functional activities.

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
No adopted investment policy or required training	City Council will adopt an investment policy and required training will be attended

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

B. COMPLIANCE AND ACCOUNTABILITY (continued)

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each May, the Mayor submits to the City Council a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Before June 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the Mayor, shall be deemed to have been adopted by the City Council.
- The budget for the General Fund is legally adopted on a modified accrual basis.
- According to the Local Government Code for General Law A cities, total estimated expenditures of the General Fund is to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The Mayor is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

C. CASH AND INVESTMENTS

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

Cash Deposits

At June 30, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$157,934, and the bank balance was \$166,857. The City's cash deposits at June 30, 2016 and during the year ended June 30, 2016 were entirely covered by FDIC.

Statement of net position:

Primary Government	
Cash and cash equivalents	\$ 49,591
Restricted assets-cash & cash equivalents	108,343
Total cash and cash equivalents	<u>\$ 157,934</u>

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

C. CASH AND INVESTMENTS

Cash Deposits (continued)

Governmental - Restricted cash	
Municipal Court - technology, building security, etc	\$ 6,423
Street maintenance	34,097
Economic development	1,793
Debt	<u>45,213</u>
Total restricted cash and cash equivalents	<u>87,526</u>
Business-type - Restricted cash	
Customer Deposits	<u>20,817</u>
Total Restricted Cash	<u>\$ 108,343</u>

Investments:

The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditor perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are report at 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 "non-participating" means that the investment value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investment is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The Public Funds Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state or local governmental unit. The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC at all times.

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

D. PROPERTY TAXES

Property tax is levied each July 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios.

The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to \$1.50 per \$100 assessed valuation. The City's 2016 ad valorem tax rate of \$0.457501 is in compliance with the rate limitation.

E. RECEIVABLES

Receivables as of year-end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Proprietary	Total
Taxes receivable	\$ 37,854	\$ -	\$ 37,854
Fees and charges	318,234	32,580	350,814
Gross Receivables	<u>356,088</u>	<u>32,580</u>	<u>388,668</u>
Less: Allowance for Uncollectible	<u>(291,356)</u>	<u>(3,258)</u>	<u>(294,614)</u>
Total Net Receivables	<u>\$ 64,732</u>	<u>\$ 29,322</u>	<u>\$ 94,054</u>

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

F. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2016 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 7,010	\$ -	\$ -	\$ 7,010
Total capital assets, not being depreciated	<u>7,010</u>	<u>-</u>	<u>-</u>	<u>7,010</u>
Capital assets, being depreciated:				
Buildings and improvements	86,364	-	-	86,364
Infrastructure	168,132	-	-	168,132
Machinery & equipment	211,966	-	(45,444)	166,522
Total capital assets being depreciated	<u>466,462</u>	<u>-</u>	<u>(45,444)</u>	<u>421,018</u>
Less accumulated depreciation for:				
Buildings & Improvements	(43,717)	(2,879)	-	(46,596)
Infrastructure	(161,103)	(1,087)	-	(162,190)
Machinery & Equipment	(154,294)	(21,534)	45,444	(130,384)
Total accumulated depreciation	<u>(359,114)</u>	<u>(25,500)</u>	<u>45,444</u>	<u>(339,170)</u>
Total capital assets, being depreciated, net	<u>107,348</u>	<u>(25,500)</u>	<u>-</u>	<u>81,848</u>
Governmental activities capital assets, net	<u>\$ 114,358</u>	<u>\$ (25,500)</u>	<u>\$ -</u>	<u>\$ 88,858</u>
	Beginning Balances	Additions	Decreases	Ending Balances
Business-type Activities:				
Water/Sewer				
Capital assets, not being depreciated				
Land	\$ 4,023	\$ -	\$ -	\$ 4,023
Construction in Progress	-	9,075	-	9,075
Total capital assets, not being depreciated	<u>4,023</u>	<u>9,075</u>	<u>-</u>	<u>13,098</u>
Capital assets, being depreciated:				
Buildings and improvements	381,170	-	-	381,170
Infrastructure	1,850,762	-	-	1,850,762
Machinery & equipment	87,560	6,500	(10,400)	83,660
Total capital assets being depreciated	<u>2,319,492</u>	<u>6,500</u>	<u>(10,400)</u>	<u>2,315,592</u>
Less accumulated depreciation for:				
Buildings & Improvements	(101,644)	(25,411)	-	(127,055)
Infrastructure	(1,328,467)	(73,845)	-	(1,402,312)
Machinery & Equipment	(76,417)	(2,399)	10,400	(68,416)
Total accumulated depreciation	<u>(1,506,528)</u>	<u>(101,655)</u>	<u>10,400</u>	<u>(1,597,783)</u>
Total capital assets, being depreciated, net	<u>812,964</u>	<u>(95,155)</u>	<u>-</u>	<u>717,809</u>
Business-type activities capital assets, net	<u>\$ 816,987</u>	<u>\$ (86,080)</u>	<u>\$ -</u>	<u>\$ 730,907</u>

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

F. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General Government		\$ 4,250
Public Safety		18,713
Public Works, including depreciation of general infrastructure assets		2,537
		<u>\$ 25,500</u>
Business-type activities:		
Water and Sewer		<u>\$ 101,655</u>

G. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended June 30, 2016 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Lease	\$ 2,160	\$ -	\$ (1,505)	\$ 655	\$ 655
Notes Payable	67,102	-	(26,175)	40,927	27,235
Compensated absences	4,669	3,344	(5,579)	2,434	740
Long-term Obligations	<u>\$ 73,931</u>	<u>\$ 3,344</u>	<u>\$ (33,259)</u>	<u>\$ 44,016</u>	<u>\$ 28,630</u>
	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Certificate of Obligations	\$ 82,000	\$ -	\$ (19,000)	\$ 63,000	\$ 20,500
Total bond payable	82,000	-	(19,000)	63,000	20,500
Compensated absences	2,531	2,097	(3,147)	1,481	-
Long-term Obligations	<u>\$ 84,531</u>	<u>\$ 2,097</u>	<u>\$ (22,147)</u>	<u>\$ 64,481</u>	<u>\$ 20,500</u>

Compensated Absences

The compensated absences liability will be liquidated by the General Fund and Water/Sewer Fund based on the assignment of the employee at date of termination.

Changes in Governmental Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding		Amounts Outstanding		Due Within One Year
			June 30, 2015	Issued	Retired	June 30, 2016	
Kansas State Bank	3.95%	\$ 40,000	\$ 28,817	\$ -	\$ (7,832)	\$ 20,985	\$ 8,147
Kansas State Bank	3.97%	25,000	25,000	-	(12,291)	12,709	12,709
American Nat'l Bank	4.969%	9,900	5,391	-	(2,522)	2,869	2,651
American Nat'l Bank	4.90%	13,971	7,894	-	(3,530)	4,364	3,728
Total notes payable		88,871	67,102	-	(26,175)	40,927	27,235
Compensated absences			4,669	3,344	(5,579)	2,434	740
Total debt obligations		<u>\$ 88,871</u>	<u>\$ 71,771</u>	<u>\$ 3,344</u>	<u>\$ (31,754)</u>	<u>\$ 43,361</u>	<u>\$ 27,975</u>

**CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

G. LONG-TERM OBLIGATIONS (continued)

Debt service requirements are as follows:

Year Ending June 30:	Principal	Interest	Total Requirements
2017	\$ 27,235	\$ 1,218	\$ 28,453
2018	9,318	359	9,677
2019	4,374	50	4,424
	<u>\$ 40,927</u>	<u>\$ 1,627</u>	<u>\$ 42,554</u>

The City secured a note with Kansas State Bank in the amount of \$40,000 for the purchase of police equipment (radars, video cameras, and body camera) in December 2013. This note will be repaid monthly with an interest rate of 3.95%. It will be paid in full in FY2019.

The City secured a note with Kansas State Bank in the amount of \$25,000 for water tower riser and bowl and billing software in February 2015. This note will be repaid in semi-annual payments with an interest rate of 3.97%. It will be paid in full in FY2017.

The City secured a note with American National Bank in the amount of \$9,900 for the purchase of a 2011 Ford Crown Victoria in July 2013. This note will be repaid monthly with an interest rate of 4.969%. It will be paid in full in FY2018.

The City secured a note with American National Bank in the amount of \$13,971 for the purchase of a 2009 Ford Expedition in August 2013. This note will be repaid monthly with an interest rate of 4.90%. It will be paid in full in FY2018.

Changes in Business-type Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding June 30, 2015	Issued	Retired	Amounts Outstanding June 30, 2016	Due Within One Year
Series 2006, CO	5.35%	\$ 200,000	\$ 82,000	\$ -	\$ (19,000)	\$ 63,000	\$ 20,500
Total bond payable		\$ 200,000	\$ 82,000	\$ -	\$ (19,000)	\$ 63,000	\$ 20,500
Compensated absences			2,531	2,097	(3,147)	1,481	-
Total debt obligations		<u>\$ 200,000</u>	<u>\$ 84,531</u>	<u>\$ 2,097</u>	<u>\$ (22,147)</u>	<u>\$ 64,481</u>	<u>\$ 20,500</u>

Debt service requirements are as follows:

Year Ending June 30:	Principal	Interest	Total Requirements
2017	\$ 20,500	\$ 2,820	\$ 23,320
2018	21,000	1,711	22,711
2019	21,500	575	22,075
Totals	<u>\$ 63,000</u>	<u>\$ 5,106</u>	<u>\$ 68,106</u>

\$695,000 Series 2012 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of sewer infrastructure improvements.

Capital Lease

The City incurred a capital lease payable with U.S. Bank in the amount of \$6,856 for the purchase of a copier. This lease will be paid in full in FY2017.

Capital lease requirements are as follows:

June 30 2017	\$ 665
Less: Amount Representing Interest	(10)
Present Value of Minimum Lease Payments	<u>\$ 655</u>

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

H. CONSTRUCTION COMMITMENTS

The City has one active construction project as of June 30, 2016. The project is for water/sewer infrastructure improvements to be paid, in part, with grant funds. Commitments for this project are as follows:

	Project Budget		Remaining
	Appropriation	Spent to Date	Commitment
Water/sewer improvements	\$ 288,750	\$ 9,075	\$ 279,675

I. HEALTH CARE COVERAGE AND LIFE INSURANCE

During the current fiscal year, eligible employees of the City were covered by a health care insurance plan. The City contributed \$350 per month toward each employee's health insurance premium. Any remaining cost is the responsibility of the employee. In addition, the City provided a \$15,000 life insurance policy for each employee that worked more than 30 hours per week. Additional coverage may be purchased at the employee's expense.

J. INSURANCE COVERAGE

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims up to \$125,000 and for aggregate loss. According to the latest actuarial opinion dated July 1, 2015, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

K. RISK MANAGEMENT

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

L. LITIGATION

Currently, management is unaware of significant pending litigation against the City.

M. ADDITIONAL WATER AND SEWER INFORMATION

The following information is included at the request of the Texas Water Development Board for the year under audit. Water Accountability Report:

Gallons Pumped	18,214,000
Gallons Billed	17,470,199

**CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

N. TRANSFERS

Transfers between funds for debt payments during the fiscal year were as follows:

<u>Transfers Out</u>	<u>General Fund</u>	<u>Water and Sewer Fund</u>
General Fund	\$ (14,836)	\$ -
Water and Sewer	-	14,836
	<u>\$ (14,836)</u>	<u>\$ 14,836</u>

O. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after June 30, 2016 up through September 15, 2016, the date the financial statements were available to be issued. Management noted no subsequent events requiring disclosure.



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INDEPENDENT AUDITOR'S 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*

Mayor and City Council
City of Lone Oak
Lone Oak, Texas

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lone Oak, Texas, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Lone Oak, Texas' basic financial statements and have issued our report thereon dated September 15, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness: 2016-01 and 2016-02.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lone Oak, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

City of Lone Oak's Response to Findings

City of Lone Oak, Texas' response to finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Lone Oak, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

City of Lone Oak, Texas
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016

2016-01

Condition: Training of Municipal Court clerk and Court system and ineffective controls

Criteria: Unrecognized revenue and lack of supporting documentation

Cause: The lack of the clerk's training in the court's software limited audit procedures

Effect or Potential Effect: Potential for unrecognized revenues

Recommendation: Court clerk should be sufficiently trained in the court software to provide any backup documentation needed to support revenues or other information requested by City management and Council.

Response: Mayor, City Council and Management have reviewed the condition and recommendation for the need of Municipal Court software training. The City is currently researching and arranging software training for the Court Clerk to resolve this matter.

2016-02

Condition: Effectiveness of internal control over refundable utility deposits

Criteria: The dollar amount of refundable customer utility deposits is undetermined

Cause: The exact dollar amount of refundable deposits cannot be supported from the utility system and is not reconciled to the general ledger.

Effect or Potential Effect: Liability of refundable deposits to customers may be inaccurately reported.

Recommendation: Utility deposits reflected in the utility system should be reviewed for accuracy and reconciled to the general ledger monthly.

Response: As of October 25, 2016, water account deposit monies have been transferred to correct the balance in the Construction and Maintenance Customer Deposit bank account. Utility deposits will be reviewed and reconciled to the general ledger monthly starting in fiscal year 2016-2017.



City of Lone Oak, Texas