

CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2009

RUTHERFORD, TAYLOR & COMPANY, P.C.
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CITY OF LONE OAK, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
<u>Financial Section</u>		
Independent Auditor's Reports.....	4	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5	
Schedule of Findings and Questioned Costs	7	
Status of Prior Audit Findings.....	8	
Corrective Action Plan.....	9	
Management's Discussion and Analysis (Required Supplementary Information)	11	
 <u>Basic Financial Statements:</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	19	A-1
Statement of Activities.....	20	A-2
Fund Financial Statements:		
Balance Sheet – Governmental Funds	21	A-3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	22	A-4
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	23	A-5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	24	A-6
Statement of Net Assets – Proprietary Funds.....	25	A-7
Statement of Revenues, Expenditures & Changes in Fund Net Assets – Proprietary Funds.....	26	A-8
Statement of Cash Flows – Proprietary Funds.....	27	A-9
Notes to the Financial Statements.....	28	A-10
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedule – General Fund.....	40	B-1

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lone Oak, Texas (City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Lone Oak, Texas, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

August 9, 2010
Greenville, Texas

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

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

Members of the Council:

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lone Oak, Texas (City) as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the City and have issued our report thereon dated August 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. (09-1). 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.

Compliance and Other Matters

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

Report on Internal Control – Continued

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

August 9, 2010
Greenville, Texas

CITY OF LONE OAK, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

**Schedule
Reference
Number**

Findings

09-1

Accounting Limitations

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

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

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

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

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

CITY OF LONE OAK, TEXAS
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

**Schedule
Reference
Number**

Prior Findings

08-1

Asserted Completeness of Revenues

City continues to organize and record transactions as incurred. Staffing issues are being addressed, including developing policies to include internal control procedures over financial reporting.

CITY OF LONE OAK, TEXAS
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2009

**Schedule
Reference
Number**

Actions Planned

09-1

Accounting Limitations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

**CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

This section of the City of Lone Oak, Texas annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2009. Please read it in conjunction with the City's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined total net assets were \$ 824,003 at June 30, 2009.
- During the year, the City's governmental activities expenses were \$ 18,616 more than the \$ 314,443 generated in taxes and other revenues. The expenses for the City's business type activities were \$ 335,129 less than the revenues earned and grant contributions received.
- The total cost of the City's programs increased over the prior year as a result of continued decline of infrastructure assets as well as other economic conditions.
- The General Fund reported a fund balance deficit at the end of the current year of \$ (7,858).

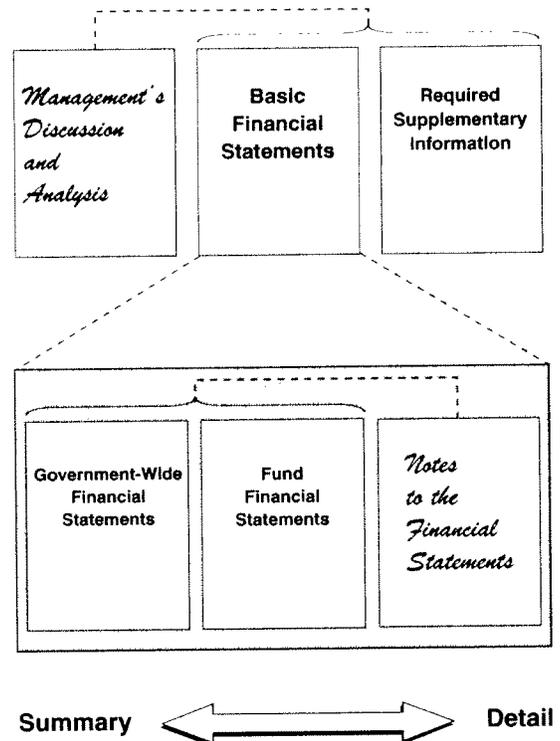
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



**CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

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

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the city that are not proprietary or fiduciary	Activities the city operates similar to private businesses: solid waste services	Instances in which the city is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – The City's total assets amounted to \$ 824,003 at June 30, 2009. This represents an \$ 316,513 increase over the total net assets at June 30, 2008. This is primarily due to the contribution of grant proceeds totaling \$ 350,000.

	Net Assets					
	Governmental Activities		Business-type Activities		Total Government	
	2009	2008	2009	2008	2009	2008
Assets						
Cash and Cash Equivalents	\$ -	\$ 59,652	\$ 62,196	\$ 59,593	\$ 62,196	\$ 119,245
Receivables and Other Assets	36,837	17,987	46,150	44,121	82,987	62,108
Capital Assets, Net of Accumulated Depreciation	<u>106,429</u>	<u>124,449</u>	<u>940,966</u>	<u>640,123</u>	<u>1,047,395</u>	<u>764,572</u>
Total Assets	<u>\$ 143,266</u>	<u>\$ 202,088</u>	<u>\$ 1,049,312</u>	<u>\$ 743,837</u>	<u>\$ 1,192,578</u>	<u>\$ 945,925</u>
Liabilities						
Current Liabilities	\$ 44,553	\$ 60,998	\$ 64,358	\$ 87,309	\$ 108,911	\$ 148,307
Long-term Liabilities	<u>28,352</u>	<u>52,113</u>	<u>231,312</u>	<u>238,015</u>	<u>259,664</u>	<u>290,128</u>
Total Liabilities	<u>\$ 72,905</u>	<u>\$ 113,111</u>	<u>\$ 295,670</u>	<u>\$ 325,324</u>	<u>\$ 368,575</u>	<u>\$ 438,435</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$ 55,668	\$ 43,421	\$ 719,304	\$ 365,772	\$ 774,972	\$ 409,193
Unrestricted	<u>14,693</u>	<u>45,556</u>	<u>34,338</u>	<u>52,741</u>	<u>49,031</u>	<u>98,297</u>
Total Net Assets	<u>\$ 70,361</u>	<u>\$ 88,977</u>	<u>\$ 753,642</u>	<u>\$ 418,513</u>	<u>\$ 824,003</u>	<u>\$ 507,490</u>

Ninety four percent (94%) of the City's net assets reflects its investment in capital assets (land, buildings, equipment and infrastructure), net of any related debt used to acquire the assets that is outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining six percent (6%) is available for use by the City.

**CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

Changes in Net Assets – The City's total revenues decreased by \$ 123,994, or 11% to \$ 976,784 during the year.

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for Services	\$ 141,154	\$ 140,437	\$ 311,741	\$ 298,099	\$ 452,895	\$ 438,536
Operating Grants	-	509,633	-	-	-	509,633
Capital Grants and Contributions	-	19,994	350,000	-	350,000	19,994
General Revenues:						
Taxes	116,950	125,638	-	-	116,950	125,638
Interest Earnings	248	162	600	2,086	848	2,248
Other Income	56,091	4,729	-	-	56,091	4,729
Total Revenues	\$ 314,443	\$ 800,593	\$ 662,341	\$ 300,185	\$ 976,784	\$ 1,100,778
Expenses						
Governmental Activities						
Public Safety	\$ 77,689	\$ 148,928	\$ -	\$ -	\$ 77,689	\$ 148,928
General Administration	62,256	138,173	-	-	62,256	138,173
Health and Welfare	480	499,600	-	-	480	499,600
Municipal Court	61,879	31,202	-	-	61,879	31,202
Public Works	112,162	11,779	-	-	112,162	11,779
Water and Wastewater	-	-	341,568	349,860	341,568	349,860
Debt Service	4,237	4,807	-	-	4,237	4,807
Total Expenses	\$ 318,703	\$ 834,489	\$ 341,568	\$ 349,860	\$ 660,271	\$ 1,184,349
Excess (Deficiency) of Revenues Over (Under) Expenditures before Transfers	\$ (4,260)	\$ (33,896)	\$ 320,773	\$ (49,675)	\$ 316,513	\$ (83,571)
Transfer In (Out)	\$ (14,356)	\$ 56,814	\$ 14,356	\$ (56,814)	\$ -	\$ -
Change in Net Assets	\$ (18,616)	\$ 22,918	\$ 335,129	\$ (106,489)	\$ 316,513	\$ (83,571)
Net Assets - July 1 (Beginning)	88,977	66,059	418,513	525,002	507,490	591,061
Net Assets - June 30 (Ending)	\$ 70,361	\$ 88,977	\$ 753,642	\$ 418,513	\$ 824,003	\$ 507,490

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

Governmental Activities – The City's total governmental activities revenues were \$ 314,443. In the current year, 37% of the City's revenue comes from taxes and franchise fees. Taxes include property taxes, sales taxes and utility franchise fees. 45% of revenue is generated through charges for services which include rental, licenses and permits, and other user charges. The remaining 18 % is comprised of other miscellaneous sources including investment earnings and grant proceeds.

The total cost of all governmental activities programs and services was \$ 318,703. Public works, which includes street maintenance and related activities, represents 35% of the expenses. Public safety services comprised 24% of the current year expenses. 20% of current year expenses were related to general administration, which includes city clerical expenses. The remaining 21% of expenses include municipal court, debt service and other governmental activities.

Business-Type Activities - include the water and wastewater utility and solid waste utility.

The water and wastewater utility's revenues were exceeded by its expenses and transfers to governmental activities by \$ 335,129. This excess amount was the direct result of contributions received in the form of a Community Development Block Grant totaling \$ 350,000. Without this grant inflow of revenue, the City's expenses including depreciation would have exceeded its revenues by \$ 14, 871. The utility provides water and wastewater services to the residents of the City.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

As of the end of the current fiscal year, the City's governmental funds reported total ending fund balances of \$ 5,462. Of the total ending fund balance, \$ (7,858), constituted unreserved fund balance in the General Fund. The remainder of the fund balance constituted \$ 13,320 which is available for spending associated with special revenue funds.

General Fund revenues and other resources were less than expenses and other uses in the current period by \$ 32,896. The expenditures for the fund increased slightly from the prior period. Transfers out to the water and wastewater fund in the amount of \$ 14,356 contributed to the excess expenditures.

Other governmental funds, special revenue funds, ended the year with revenues exceeding expenditures by \$ 9.

Proprietary Funds – The proprietary funds – enterprise funds – are used to account for activities that are supported by charges for services rendered and are operated like a business. In the fund, the revenues were exceeded by the expenses and transfers in resulting in a profit for the year of \$ 335,129. This included \$ 350,000 grant proceeds from a Community Development Block Grant (CDBG) for wastewater facility improvements.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

General Fund revenues were less than the final amended budget by \$ 172,316. The shortage was the direct result of a decrease in anticipated fines and fees as well as smaller shortages in property tax collections.

General Fund expenditures were less than final budgeted amounts. This amount, \$ 125,401, represents 27% of the general fund budget.

**CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The City's investment in capital assets for its total governmental activities at June 30, 2009 amounted to \$ 387,376. Capital asset investments in the business type activities totaled \$ 1,867,651. These investments in capital assets included land and right-of-way costs, construction in progress, buildings and improvements, equipment and infrastructure. Additional information on the City's capital assets can be found in the notes to the financial statements following this analysis.

Capital Assets						
	Governmental Activities		Business-Type Activities		Total Government	
	2009	2008	2009	2008	2009	2008
Nondepreciable Assets						
Land	\$ 7,010	\$ 7,010	\$ 4,023	\$ 4,023	\$ 11,033	\$ 11,033
Depreciable Assets						
Buildings and Improvements	86,364	86,364	-	-	86,364	86,364
Infrastructure	168,132	168,132	1,798,208	1,406,895	1,966,340	1,575,027
Vehicles	95,130	95,130	-	-	95,130	95,130
Equipment	30,740	22,600	65,420	65,420	96,160	88,020
Total Capital Assets	\$ 387,376	\$ 379,236	\$ 1,867,651	\$ 1,476,338	\$ 2,255,027	\$ 1,855,574
Less Accumulated Depreciation	(280,947)	(239,593)	(926,685)	(815,533)	(1,207,632)	(1,055,126)
Net Capital Assets	<u>\$ 106,429</u>	<u>\$ 139,643</u>	<u>\$ 940,966</u>	<u>\$ 660,805</u>	<u>\$ 1,047,395</u>	<u>\$ 800,448</u>

Long-Term Obligations – The City's total long-term obligations, including capital leases, totaled \$ 286,239 at June 30, 2009. This number represents a total decrease of \$ 58,220 during the year. Additional information on the City's long-term obligations can be found in the notes to the basic financial statements following this analysis.

Long Term Obligations						
	Governmental Activities		Business-Type Activities		Total Government	
	2009	2008	2009	2008	2009	2008
Bonds Payable	\$ 36,678	\$ 48,262	\$ 234,015	\$ 264,541	\$ 270,693	\$ 312,803
Capital Leases Payable	-	5,018	-	-	-	5,018
Notes Payable	14,083	16,828	1,463	9,810	15,546	26,638
Total Debt Payable	<u>\$ 50,761</u>	<u>\$ 70,108</u>	<u>\$ 235,478</u>	<u>\$ 274,351</u>	<u>\$ 286,239</u>	<u>\$ 344,459</u>

CITY OF LONE OAK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2010, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF LONE OAK, TEXAS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 62,196	\$ 62,196
Accounts Receivable, Net	-	32,334	32,334
Taxes Receivable, Net	10,459	-	10,459
Due from Other Funds	26,378	-	26,378
Capitalized Bond and Other Debt Issuance Costs, Net	-	13,814	13,814
Capital Assets, Net			
Nondepreciable	7,010	4,023	11,033
Depreciable	99,419	936,943	1,036,362
Total Assets	\$ 143,266	\$ 1,049,310	\$ 1,192,576
LIABILITIES			
Current Liabilities:			
Cash Overdraft Payable	4,934	-	4,934
Accounts Payable	9,270	3,550	12,820
Accrued Interest Payable	1,228	-	1,228
Payroll Liabilities Payable	564	564	1,128
Due to Other Funds	-	26,378	26,378
Due to Other Governments	6,148	-	6,148
Due Within One Year	22,409	33,866	56,275
Long-term Liabilities:			
Customer Meter Deposits	-	29,700	29,700
Due in More Than One Year	28,352	201,612	229,964
Total Liabilities	\$ 72,905	\$ 295,670	\$ 368,575
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 55,668	\$ 705,488	\$ 761,156
Unrestricted	14,693	48,154	62,847
Total Net Assets	\$ 70,361	\$ 753,642	\$ 824,003

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Public Safety	\$ 77,689	\$ 70,577	\$ -	\$ -	\$ (7,112)	\$ -	\$ (7,112)
General Administration	62,256	-	-	-	(62,256)	-	(62,256)
Municipal Court	61,879	70,577	-	-	8,698	-	8,698
Public Works	112,162	-	-	-	(112,162)	-	(112,162)
Health and Welfare	480	-	-	-	(480)	-	(480)
Debt Service	4,237	-	-	-	(4,237)	-	(4,237)
Total Governmental Activities	\$ 318,703	\$ 141,154	\$ -	\$ -	\$ (177,549)	\$ -	\$ (177,549)
Business-type Activities:							
Water/Wastewater Utility	\$ 341,568	\$ 311,741	\$ -	\$ 350,000	\$ -	\$ 320,173	\$ 320,173
Total Business-type Activities	\$ 341,568	\$ 311,741	\$ -	\$ 350,000	\$ -	\$ 320,173	\$ 320,173
Total Government	\$ 660,271	\$ 452,895	\$ -	\$ 350,000	\$ (177,549)	\$ 320,173	\$ 142,624
General Revenues:							
Taxes					\$ 116,950	\$ -	\$ 116,950
Interest Earnings					248	600	848
Other Income					56,091	-	56,091
Transfers					\$ (14,356)	\$ 14,356	\$ -
Total General Revenues					\$ 158,933	\$ 14,956	\$ 173,889
Change in Net Assets					\$ (18,616)	\$ 335,129	\$ 316,513
Net Assets - (July 1) - Beginning					88,977	418,513	507,490
Net Assets - (June 30) - Ending					\$ 70,361	\$ 753,642	\$ 824,003

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 13,320	\$ 13,320
Receivables:			
Sales/Property Taxes	11,621	-	11,621
Allowance for Uncollectible Taxes	(1,162)	-	(1,162)
Due from Other Funds	26,378	-	26,378
Total Assets	\$ 36,837	\$ 13,320	\$ 50,157
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Cash Overdraft Payable	\$ 18,254	\$ -	18,254
Accounts Payable	9,270	-	9,270
Payroll Liabilities Payable	564	-	564
Due to Other Governments	6,148	-	6,148
Deferred Tax Revenue	10,459	-	10,459
Total Liabilities	\$ 44,695	\$ -	\$ 44,695
FUND BALANCE			
Unreserved - Undesignated, Reported in:			
General Fund	\$ (7,858)	\$ -	\$ (7,858)
Special Revenue Funds	-	13,320	13,320
Total Fund Balance	\$ (7,858)	\$ 13,320	\$ 5,462
Total Liabilities and Fund Balance	\$ 36,837	\$ 13,320	\$ 50,157

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balance - Governmental Funds	\$	5,462
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore not reported in the balance sheet		119,721
Property taxes recorded in the current period as deferred revenues are recognized as earned in the current period.		10,458
Interest payable on noncurrent liabilities are not due and payable in the current period and are not reported in the funds		(1,228)
Noncurrent liabilities are not due and payable in the current period and therefore not reported in the funds as follows		(64,052)

Total Net Assets - Governmental Activities (Exhibit A-1)	\$	70,361

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Taxes and Franchise Fees	\$ 115,776	\$ -	\$ 115,776
Licenses and Permits	825	-	825
Fines	140,329	-	140,329
Miscellaneous	56,091	-	56,091
Interest Earnings	239	9	248
Total Revenues	\$ 313,260	\$ 9	\$ 313,269
EXPENDITURES			
Current:			
Public Safety	\$ 68,537	\$ -	\$ 68,537
General Administration	59,540	-	59,540
Municipal Court	61,879	-	61,879
Public Works	106,011	-	106,011
Health and Welfare	480	-	480
Debt Service	35,353	-	35,353
Total Expenditures	\$ 331,800	\$ -	\$ 331,800
OTHER FINANCING SOURCES (USES)			
Transfers Out	\$ (14,356)	\$ -	\$ (14,356)
Net Other Financing Sources (Uses)	\$ (14,356)	\$ -	\$ (14,356)
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	\$ (32,896)	\$ 9	\$ (32,887)
Fund Balance - (July 1) - Beginning	25,038	13,311	38,349
Fund Balance - (June 30) - Ending	\$ (7,858)	\$ 13,320	\$ 5,462

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND EQUITY OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2009

Net Change in Fund Equity - Total Governmental Funds	\$	(32,887)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital asset cost is allocated over the estimated useful life and reported as depreciation in the statement of activities		(18,019)
Repayment of debt principal is an expenditure in the funds but the payments reduce liabilities in the statement of net assets.		30,267
Expenses classified as capital asset expenditures do not require the use of current financial resources and are not reported as expenditures in the funds.		-
Proceeds from loans received during the year are not reported as resources in the funds.		-
(Increase) Decrease in accrued interest expense from beginning of period to end of period		849
Revenues in the statement of activities that do not provide current current financial resources are not reported as revenue in the funds		1,174
		<hr style="border-top: 1px solid black;"/>
Change in Net Assets - Governmental Activities	\$	<u><u>(18,616)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2009

	Water & Wastewater Utility	CDBG Grant	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 62,196	\$ -	\$ 62,196
Services Receivable	28,784	3,550	\$ 32,334
Capitalized Debt Issuance Costs, Net	13,816	-	\$ 13,816
Total Current Assets	\$ 104,796	\$ 3,550	\$ 108,346
Non-current Assets:			
Nondepreciable	\$ 4,023	\$ -	\$ 4,023
Depreciable	936,943	-	\$ 936,943
Total Non-current Assets	\$ 940,966	\$ -	\$ 940,966
Total Assets	\$ 1,045,762	\$ 3,550	\$ 1,049,312
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ -	\$ 3,550	\$ 3,550
Payroll Liabilities Payable	564	-	564
Due to General Fund	26,378	-	26,378
Debt Due Within One Year	33,866	-	33,866
Total Current Liabilities	\$ 60,808	\$ 3,550	\$ 64,358
Non-current Liabilities:			
Debt Due in more than one year	\$ 201,612	\$ -	\$ 201,612
Customer Meter Deposits	29,700	-	29,700
Total Non-current Liabilities	\$ 231,312	\$ -	\$ 231,312
Total Liabilities	\$ 292,120	\$ 3,550	\$ 295,670
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 719,304	\$ -	\$ 719,304
Unrestricted	34,338	-	34,338
Total Net Assets	\$ 753,642	\$ -	\$ 753,642

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Water & Wastewater Utility	CDBG Grant	Total
OPERATING REVENUES			
Utility Services	\$ 305,657	\$ -	\$ 305,657
Late Charges	6,084	-	6,084
Total Operating Revenues	<u>\$ 311,741</u>	<u>\$ -</u>	<u>\$ 311,741</u>
OPERATING EXPENSES			
Water/Wastewater Services	\$ 275,748	\$ -	\$ 275,748
Depreciation Expense	55,470	-	55,470
Amortization Expense	1,521	-	1,521
Total Operating Expenses	<u>\$ 332,739</u>	<u>\$ -</u>	<u>\$ 332,739</u>
Operating Income (Loss)	<u>\$ (20,998)</u>	<u>\$ -</u>	<u>\$ (20,998)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Earned	\$ 600	\$ -	\$ 600
Interest and Fee Expense	(8,829)	-	(8,829)
Grant Revenues	-	350,000	350,000
Total Nonoperating Revenues (Expenses)	<u>\$ (8,229)</u>	<u>\$ 350,000</u>	<u>\$ 341,771</u>
Income (Loss) before Contributions and Transfers	\$ (29,227)	\$ 350,000	\$ 320,773
Operating Transfers In (Out)	<u>364,356</u>	<u>(350,000)</u>	<u>14,356</u>
Change in Net Assets	\$ 335,129	\$ -	\$ 335,129
Net Assets - Beginning (July 1)	<u>418,513</u>	<u>-</u>	<u>418,513</u>
Net Assets - Ending (June 30)	<u><u>\$ 753,642</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 753,642</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Water and Wasterwater Utility	Total
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 311,741	\$ 311,741
Cash Payments for Goods and Services	(209,264)	(209,264)
Cash Payments to Employees for Services	(66,917)	(66,917)
Net Cash Provided by (Used for) Operating Activities	\$ 35,560	\$ 35,560
Cash Flows from Capital and Related Financing Activities:		
Grant Proceeds	\$ 350,000	\$ 350,000
Principal Payments on Debts	(38,873)	(38,873)
Purchases of Fixed Assets	(350,000)	(350,000)
Interest Paid on Debt	(8,829)	(8,829)
Net Cash Provided by (Used for) Capital and Related Financing Activities	\$ (47,702)	\$ (47,702)
Cash Flows from Investing Activities:		
Interest Received	\$ 600	\$ 600
Customer Deposits	(211)	(211)
Transfers to Other Funds	14,356	14,356
Net Cash Provided by (Used for) Investing Activities	\$ 14,745	\$ 14,745
Net Increase (Decrease) in Cash	\$ 2,603	\$ 2,603
Cash and Cash Equivalents - July 1 (Beginning)	59,593	59,593
Cash and Cash Equivalents - June 30 (Ending)	\$ 62,196	\$ 62,196
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss)	\$ (20,998)	\$ (20,998)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Depreciation Expense	55,470	55,470
Amortization Expense	1,521	1,521
Changes in Assets and Liabilities:		
Service Receivables	(3,550)	(3,550)
Accounts Payable	3,117	3,117
Net Cash Provided by (Used for) Operating Activities	\$ 35,560	\$ 35,560

The accompanying notes are an integral part of this statement.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies

Financial Reporting Entity

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

The accompanying financial statements present the City of Lone Oak, Texas (City), the primary government, and any component units. The financial data of any component units would be included in the City's reporting entity because of the significance of their operational or financial relationships with the City. As of June 30, 2009, the City has no component units.

Basic Financial Statements

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

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

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

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

CDBG Grant Fund – This fund accounts for the transactions relating to the Community Development Block Grant which the City obtained for utility improvements for water and wastewater services.

Measurement Focus and Basis of Accounting

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

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

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

Capital Assets

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

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

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

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

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

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

Fund Balances

In the fund financial statements, governmental funds could report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Currently, the City does not have any fund balance restrictions or designations.

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies (Continued)

Budgetary Principles

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

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

Property Taxes

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

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

The City levied taxes on property within the City at \$ 0.292359 to fund general operations of the City.

Revenue Recognition for Utility Funds

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

Use of Estimates

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

B. Cash and Cash Equivalents

The City's funds are deposited and invested under the terms of a depository agreement. The agreement requires the depository to pledge approved securities in an amount significant to protect the City's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2009, all City cash deposits were covered by FDIC insurance or by pledged collateral held by the City or the depository in the City's name. The City's deposits appear to have been properly secured throughout the fiscal year.

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

C. Capital Assets

Capital asset activities for the year ended June 30, 2009, were as follows:

	Beginning Balance 7/1/2008	Additions	Deletions	Ending Balance 6/30/2009
Governmental Activities:				
Capital Assets not being Depreciated				
Land	\$ 7,010	\$ -	\$ -	\$ 7,010
Total Capital Assets not being Depreciated	\$ 7,010	\$ -	\$ -	\$ 7,010
Capital Assets being Depreciated:				
Buildings and Improvements	\$ 86,364	\$ -	\$ -	\$ 86,364
Infrastructure	168,132	-	-	168,132
Vehicles	95,130	-	-	95,130
Equipment	30,740	-	-	30,740
Total Capital Assets being Depreciated	\$ 380,366	\$ -	\$ -	\$ 380,366
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 23,565	\$ 2,880	\$ -	\$ 26,445
Infrastructure	153,493	1,087	-	154,580
Vehicles	68,183	10,389	-	78,572
Equipment	17,686	3,664	-	21,350
Total Accumulated Depreciation	\$ 262,927	\$ 18,020	\$ -	\$ 280,947
Total Capital Assets being Depreciated, Net	\$ 117,439	\$ (18,020)	\$ -	\$ 99,419
Governmental Activities Capital Assets, Net	\$ 124,449	\$ (18,020)	\$ -	\$ 106,429
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 4,023	\$ -	\$ -	\$ 4,023
Total Capital Assets not being Depreciated	\$ 4,023	\$ -	\$ -	\$ 4,023
Capital Assets being Depreciated:				
Water Distribution System	\$ 1,441,895	\$ 356,313	\$ -	\$ 1,798,208
Equipment	65,420	-	-	65,420
Total Capital Assets being Depreciated	\$ 1,507,315	\$ 356,313	\$ -	\$ 1,863,628
Less Accumulated Depreciation for:				
Water Distribution System	\$ 835,484	\$ 50,863	\$ -	\$ 886,347
Equipment	35,731	4,607	-	40,338
Total Accumulated Depreciation	\$ 871,215	\$ 55,470	\$ -	\$ 926,685
Total Capital Assets being Depreciated, Net	\$ 636,100	\$ 300,843	\$ -	\$ 936,943
Business-Type Activities Capital Assets, Net	\$ 640,123	\$ 300,843	\$ -	\$ 940,966
Depreciation was charged to the following functions:				
General Government	\$ 2,717			
Public Safety	9,152			
Public Works	6,151			
Total - Governmental Activities	\$ 18,020			
Total Business Type Activities	55,470			

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

D. Long-Term Obligations

The following is a summary of changes in long term obligations reported in the government-wide financial statements for the year ended June 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balances	Amounts Due in One Year
<u>Governmental Activities</u>					
Obligation Bonds Payable	\$ 47,759	\$ -	\$ 11,081	\$ 36,678	\$ 11,635
Capital Leases Payable	5,017	-	5,017	-	-
Notes Payable	28,252	-	14,169	14,083	10,774
Governmental Activities Total	\$ 81,028	\$ -	\$ 30,267	\$ 50,761	\$ 22,409
<u>Business-type Activities:</u>					
Refunding Bonds Payable	\$ 264,541	\$ -	\$ 30,526	\$ 234,015	\$ 32,403
Notes Payable	9,810	-	8,347	1,463	1,463
Business-type Activities Total	\$ 274,351	\$ -	\$ 38,873	\$ 235,478	\$ 33,866

Governmental Activities

Bonds

Bonds	Date Issued	Interest Rate	Original Balance	Outstanding Balance
City of Lone Oak, Texas - Combination Tax and Revenue Certifications of Obligation, Series 2001	11/2/01	5.00%	\$ 104,000	\$ 36,678

Debt service requirements for future periods at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2010	\$ 11,635	\$ 1,833	\$ 13,468
2011	12,216	1,252	13,468
2012	12,827	641	13,468
Totals	\$ 36,678	\$ 3,726	\$ 40,404

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

D. Long-Term Obligations (Continued)

<u>Notes</u>	<u>Agreement Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>
American National Bank of Texas – Promissory Agreement – Police Vehicle	10/18/06	5.287%	\$ 14,916	\$ 1,776
American National Bank of Texas – Promissory Agreement – Police Vehicle	09/30/07	5.287%	17,895	7,281
Sheffield Financial – Notes Payable – Scag Mower	04/03/08	3.900%	8,140	<u>5,026</u>
			Total	<u>\$ 14,083</u>

Debt Service requirements for future periods at June 30, 2009, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 10,774	\$ 391	\$ 11,165
2011	<u>3,309</u>	<u>45</u>	<u>3,354</u>
Totals	<u>\$ 14,083</u>	<u>\$ 436</u>	<u>\$ 14,519</u>

Business-Type Activities

<u>Bonds</u>	<u>Date Issued</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>
City of Lone Oak, Texas - Combination Tax and Revenue Refunding Bonds, Series 2001	11/2/01	5.00%	\$ 164,500	\$ 45,015
City of Lone Oak, Texas - Combination Tax and Revenue Refunding Bonds, Series 2006	8/1/06	5.35%	200,000	<u>189,000</u>
Totals				<u>\$ 234,015</u>

CITY OF LONE OAK, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

D. Long-Term Obligations (Continued)

Business-Type Activities

Debt Service requirements for future periods at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2010	\$ 32,403	\$ 11,936	\$ 44,339
2011	34,323	10,241	44,564
2012	35,789	8,458	44,247
2013	16,000	6,602	22,602
2014	16,500	5,734	22,234
2015-2019	99,000	13,819	112,819
Totals	\$ 234,015	\$ 56,790	\$ 290,805

Loans

Notes	Agreement Date	Interest Rate	Original Amount	Outstanding Balance
Texas Commission on Environmental Quality Promissory Note	9/16/05	-	\$ 17,675	\$ 1,463
			Total	\$ 1,463

Debt service requirements for future periods at June 30, 2009, are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2010	\$ 1,463	\$ 109	\$ 1,572
Totals	\$ 1,463	\$ 109	\$ 1,572

E. Commitments and Contingencies

Litigation -- The City does not appear to be involved in any litigation at June 30, 2009.

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

CITY OF LONE OAK, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2009

F. Risk Management

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

G. Compliance, Stewardship and Accountability

Expenditures over Appropriations

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

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
Public Works	\$ 42,100	\$ 106,011	\$ 63,911
Health and Welfare	400	480	80
Debt Service	25,000	35,353	10,353

H. Interfund Balances and Activities

Transfers To and From Other Funds

Transfers to and from other funds consisted of the following during the year ended June 30, 2009:

<u>Fund from</u>	<u>Fund to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Water/Wastewater Utility Fund	\$ 14,356	Operations Support

Interfund Receivables and Payable

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LONE OAK, TEXAS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2009

	Budgeted Amounts			Actual	Variance with Final Budget Positive (Negative)
	Original	Amended			
REVENUES					
Taxes and Franchise Fees	\$ 154,000	\$ 154,000	\$ 115,776	\$ (38,224)	
Licenses and Permits	2,200	2,200	825	(1,375)	
Fines	307,800	302,300	140,329	(161,971)	
Miscellaneous	24,995	26,746	56,091	29,345	
Interest Earnings	330	330	239	(91)	
Total Revenues	\$ 489,325	\$ 485,576	\$ 313,260	\$ (172,316)	
EXPENDITURES					
Current:					
Public Safety	\$ 155,241	\$ 155,241	\$ 68,537	86,704	
General Administration	87,700	87,700	59,540	28,160	
Municipal Court	146,760	146,760	61,879	84,881	
Public Works	42,100	42,100	106,011	(63,911)	
Health and Welfare	400	400	480	(80)	
Debt Service	25,000	25,000	35,353	(10,353)	
Total Expenditures	\$ 457,201	\$ 457,201	\$ 331,800	\$ 125,401	
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	\$ -	\$ -	\$ (14,356)	\$ (14,356)	
Net Other Financing Sources (Uses)	\$ -	\$ -	\$ (14,356)	\$ (14,356)	
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses					
	\$ 32,124	\$ 28,375	\$ (32,896)	\$ (61,271)	
Fund Balance - Beginning (July 1)	25,038	25,038	25,038	-	
Fund Balance - Ending (June 30)	\$ 57,162	\$ 53,413	\$ (7,858)	\$ (61,271)	