

**CITY OF WHITEWRIGHT, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2008**

**City of Whitewright, Texas**  
**Annual Financial Report**  
**For the Year Ended September 30, 2008**

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# **GREGG & COMPANY**

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## **INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Whitewright, Texas

We have audited the accompanying financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Whitewright, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Whitewright, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitewright, Texas, as of September 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with auditing standards generally accepted in the United States of America, we have also issued our report dated January 20, 2009, on our consideration of the City of Whitewright's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America and important for assessing the results of our audit.

The management discussion and analysis and budget comparison data on pages 2 through 6 and 26, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Gregg & Company CPAs*

Tom Bean, Texas  
January 20, 2009

**City of Whitewright, Texas  
Management Discussion and Analysis  
For the Year Ended September 30, 2008**

Our discussion and analysis of City of Whitewright's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of FY08 by \$2,462,782. This is an increase of \$293,631 over FY07's net asset value of \$2,108,319. Unrestricted net assets at the close of FY08 are \$405,742 and may be used to meet the City's ongoing obligations to citizens and creditors. This is an increase of \$33,814 over FY07's unrestricted net asset value of \$371,928.
- As of the close of the current fiscal year, the City's governmental funds reported on page 9 have an ending fund balance of \$313,515 which is a decrease of \$76,415 in comparison with the prior year. \$264,387 of the \$313,515 fund balance is available for spending at the City's discretion (unreserved fund balance).

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 7 and 8). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 9) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements show how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water and sewer operations.

The notes to the financial statements (beginning on page 16) provide narrative explanations and additional data needed for full disclosures for the government-wide statements and the fund financial statements.

**Reporting the City as a Whole – Government-Wide Financial Statements**

**The Statement of Net Assets and the Statement of Activities**

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 7. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Assets includes all the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, and 3) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

**Governmental Activities** – City services such as police protection, fire protection, medical protection, court services, street maintenance, and City administration are reported here. City property taxes and sanitation operations finance most of these activities.

**Business-Type Activities** - The City uses proprietary (business-type) funds to account for its water and sewer operations. The services are supported by monthly charges to citizens.

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements begin on page 9 and provide detailed information about the most significant funds. The City's two types of funds, governmental and proprietary, use different accounting approaches.

**Governmental Funds** – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed, short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 10 and 12.

**Proprietary Funds** – The City uses proprietary (business-type) funds to account for its water and sewer operations. The full-accrual basis of accounting is used for all proprietary type funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Eighty percent (80%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

### City of Whitewright-Statement of Net Assets

	<u>FY08</u>	<u>FY07</u>
Current and other assets	\$ 640,243	\$ 641,813
Capital assets	2,494,629	2,294,038
Total assets	<u>\$ 3,134,872</u>	<u>\$ 2,935,851</u>
Current payables & other liabilities	\$ 98,332	\$ 253,068
L-T bonds & leases payable	573,758	574,464
Total Liabilities	<u>\$ 672,090</u>	<u>\$ 827,532</u>
Net assets:		
Invested in capital assets,		
Net of related debt	\$ 1,920,871	\$ 1,613,295
Restricted for debt service & other	136,169	123,096
Unrestricted	405,742	371,928
Total net assets	<u>\$ 2,462,782</u>	<u>\$ 2,108,319</u>

### City of Whitewright-Statement of Activities

	<u>FY08</u>	<u>FY07</u>
Revenues:		
Program revenues		
Water Fund charges for services	\$ 490,175	\$ 499,008
General Fund charges for services	576,303	444,272
Grants and contributions	244,415	191,454
General revenues	566,497	459,534
Total Revenues	<u>\$ 1,877,390</u>	<u>\$ 1,594,268</u>
Expenses:		
General government	\$ 590,447	\$ 499,880
Water, sewer, and sanitation	371,448	403,898
Emergency medical service	321,637	294,652
Police	230,227	230,896
Fire	49,232	123,941
Library	20,768	22,057
Total Expenses	<u>1,583,759</u>	<u>1,575,324</u>
Increase (Decrease) in Net Assets	<u>\$ 293,631</u>	<u>\$ 18,944</u>

## **FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

The City's net assets increased from \$2,108,319 to \$2,462,782. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$366,999 at September 30, 2008.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues and other financing sources for the City's general fund were \$1,376,941, while total expenditures were \$1,453,356. This resulted in an excess of expenditures over revenues of \$76,415 from current operations. Last year's result was an excess of expenditures over revenues of \$105,284.

Operating revenues for the City's proprietary fund were \$490,175, while operating expenses were \$333,635. This resulted in an operating net income of \$156,540. Last year's result was an operating net income of \$131,552. The change in net assets after non operating income and expense and transfers was net income of \$125,891. Last year's result was net income of \$97,336.

## **THE CITY'S FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of \$313,515 compared to \$366,873 in FY07. This represents a decrease of \$53,358. The City's revenues and other financing sources for FY08 were \$261,922 more than the previous year. The largest increase in revenues came from Grant Revenues. The largest decrease in expenditures came from the City's Fire Department.

The significant variances between the budgeted and actual amounts are due to the City not budgeting for the revenue and expenses that the fire department and the library have on regular activities. However, management budgets for the salaries and the City's portion of the fire department and library in the general government budget. Also, the City received significant grants that were not included in the budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for all activities as of September 30, 2008 amounts to \$2,494,629, compared to \$2,294,038 (net of accumulated depreciation) at September 30, 2007. This investment in capital assets includes land, buildings and improvements, street improvements, water and sewer systems, equipment and vehicles. The total increase in the City's net investment in capital assets for the current fiscal year was \$200,591. Major capital asset activity during the current fiscal year included the purchase of furniture, equipment and machinery for the water and sewer fund, sewer system improvements, building additions and street improvements.



## **Long-term Debt**

At year-end, the City had total bonded debt outstanding of \$535,000. There were no contractual obligations issued during the year. Bond principal payments totaled \$85,000 and all payments were made when due.

The City also has a note payable for the building for the police department and emergency medical service with year-end payable balance of \$25,000. Note payable principal payments totaled \$10,000 and the payment was made when due.

The City had various capital lease agreements for equipment. Lease payments for the year were \$12,004. Leases payable at year ended September 30, 2008 are \$13,758.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In spite of the economic slowdown, the City continued to experience moderate growth in the collection of property tax, sales tax, and use tax.

Property taxes continue to be the City's primary source of revenue in the general fund. The City's adjusted 2008 tax base of \$46,914,845 showed a slight change from the 2007 tax base of \$46,385,473, for a total of increase in tax base of \$529,372. The increase in the tax roll is mostly due to new residential and commercial construction.

The City's estimated population at January 1, 2008 increased by approximately 2.3% to 1,825 from the prior year's population of 1,784, and is consistent with historical growth patterns and projections in accordance with the City's managed growth philosophy.

Each of these factors was considered in preparing the City's budget for the 2008-2009 fiscal year. The operating budget for the 2008-2009 fiscal year developed by city management and approved by the City's elected officials focused on using the City's available resources and maintaining close scrutiny on operating costs.

The City's Operating Budget is prepared each year in September, prior to the commencement of the fiscal year for which the budget is adopted. The City Council is provided a monthly report of revenues and expenditures to review and assess how consistent actual revenue and expenditures are in relation to the budget that was approved.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, at 206 W Grand, P. O. Box 516, Whitewright, Texas 75491 or (903) 364-2219.

City of Whitewright, Texas  
Statement of Net Assets  
September 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 266,177	\$ 17,300	\$ 283,477	\$ 194,293	\$ 112,448
Current Investments	20,000	51,798	71,798	-	-
Property Taxes Receivable, net	38,742	-	38,742	-	-
Sales Taxes Receivable, net	32,964	-	32,964	16,482	16,482
Other Receivables, net	36,281	40,812	77,093	130,545	-
Internal Balances	(48,362)	48,362	-	-	-
Restricted Assets:					
Cash - Fire Department	7,518	-	7,518	-	-
Cash - Library	28,998	-	28,998	-	-
Investments - Library	12,612	-	12,612	-	-
Deposits held in Trust by GTUA	-	87,041	87,041	-	-
Capital Assets not being Depreciated:					
Land	105,602	-	105,602	-	31,500
Construction in Progress	-	-	-	25,000	117,677
Capital Assets net of Accumulated Depreciation:					
Buildings and Improvements	214,833	-	214,833	43,130	-
Furniture, Equipment & Machinery	129,033	45,449	174,482	-	-
Public Infrastructure	280,114	1,719,598	1,999,712	-	-
<b>Total Assets</b>	<b>1,124,512</b>	<b>2,010,360</b>	<b>3,134,872</b>	<b>409,450</b>	<b>278,107</b>
<b>LIABILITIES</b>					
Accounts Payable	42,672	9,765	52,437	-	-
Customer Deposits Payable	-	45,770	45,770	-	-
Compensated Absences	-	125	125	-	-
Deferred Revenues	-	-	-	130,545	-
Noncurrent Liabilities:					
Due within One Year	31,987	90,000	121,987	10,379	-
Due in More than One Year	6,771	445,000	451,771	70,898	-
<b>Total Liabilities</b>	<b>81,430</b>	<b>590,660</b>	<b>672,090</b>	<b>211,822</b>	<b>-</b>
<b>NET ASSETS</b>					
Investment in Capital Assets, net of					
Related Debt	690,824	1,230,047	1,920,871	(12,505)	149,177
Restricted for Fiscal Agent	-	87,041	87,041	-	-
Restricted for Fire Department	7,518	-	7,518	-	-
Restricted for Library	41,610	-	41,610	-	-
Unrestricted	303,130	102,612	405,742	210,133	128,930
<b>Total Net Assets</b>	<b>\$ 1,043,082</b>	<b>\$ 1,419,700</b>	<b>\$ 2,462,782</b>	<b>\$ 197,628</b>	<b>\$ 278,107</b>

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

City of Whitewright, Texas  
Statement of Activities  
For the Year Ended September 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 590,447	\$ 188,506	\$ 34,676	\$ 125,000	\$ (242,265)	-	\$ (242,265)
Police and Court	230,227	77,384	-	-	(152,843)	-	(152,843)
Fire Protection	49,232	-	38,607	-	(10,625)	-	(10,625)
Emergency Medical Service	321,637	299,485	23,234	-	1,082	-	1,082
Library	20,768	10,928	17,532	5,366	13,058	-	13,058
Total Governmental Activities	1,212,311	576,303	114,049	130,366	(391,593)	-	(391,593)
<b>Business-Type Activities:</b>							
Water and Sewer - Debt Service	30,690	-	-	-	-	(30,690)	(30,690)
Water and Sewer - Operating	340,758	490,175	-	-	-	149,417	149,417
Total Business-Type Activities	371,448	490,175	-	-	-	118,727	118,727
<b>Total Primary Government</b>	<b>\$ 1,583,759</b>	<b>\$ 1,066,478</b>	<b>\$ 114,049</b>	<b>\$ 130,366</b>	<b>(391,593)</b>	<b>118,727</b>	<b>(272,866)</b>
<b>Component Units:</b>							
Economic Development Corporation	\$ 23,534	\$ -	\$ -	\$ -	-	(23,534)	-
Community Development Corporation	33,353	-	-	-	-	-	21,364
<b>Total Component Units</b>	<b>\$ 56,887</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 54,717</b>	<b>-</b>	<b>(23,534)</b>	<b>21,364</b>
<b>General Revenues:</b>							
Property Taxes					297,960	-	297,960
General Sales and Use Taxes					202,183	-	202,183
Franchise Taxes					56,058	-	56,058
Investment Earnings					3,132	7,164	10,296
Miscellaneous					-	-	-
Total General Revenues					559,333	7,164	566,497
Change in Net Assets					167,740	125,891	293,631
Net Assets - Beginning					852,285	1,256,034	2,108,319
Prior Period Adjustment					23,057	37,775	60,832
Net Assets - Ending					\$ 1,043,082	\$ 1,419,700	\$ 2,462,782

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

City of Whitewright, Texas  
Balance Sheet  
Governmental Funds  
September 30, 2008

	<u>General Fund</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 266,177
Investments	20,000
Receivables, net	
Property Taxes	38,742
Other	69,245
Total Current Assets	<u>394,164</u>
Restricted Assets:	
Cash - Fire Department	7,518
Cash - Library	28,998
Investment - Library	12,612
Total Restricted Assets	<u>49,128</u>
<b>Total Assets</b>	<b><u>\$ 443,292</u></b>
<b>LIABILITIES AND FUND BALANCES</b>	
Current Liabilities:	
Accounts Payable	\$ 42,672
Due to Other Funds	48,362
Deferred Revenue	38,743
Total Current Liabilities	<u>129,777</u>
Fund Balances:	
Reserved Fund Balances:	
Fire Department	7,518
Library	41,610
Unreserved	264,387
Total Fund Balances	<u>313,515</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 443,292</u></b>

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

**City of Whitewright, Texas**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**For the Year Ended September 30, 2008**

<b>Fund Balance(s) of Governmental Funds</b>	<b>\$ 313,515</b>
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Amounts reported for *Governmental Activities* in the Statement of Net Assets differ from the Balance Sheet for the following reasons:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in Governmental Funds.	729,582
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Long term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in Governmental Funds.	(38,758)
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Delinquent property taxes are reported as deferred income on the fund financial statement, but the amount should not be shown as a liability on the Statement of Net Assets.	38,743
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<b>Net Assets of Governmental Activities</b>	<u><u>\$ 1,043,082</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Whitewright, Texas  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2008

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes:	
Property	\$ 294,850
General Sales and Use	202,183
Franchise	56,058
Emergency Medical Service	322,719
Grants	159,676
Solid Waste Disposal	134,733
Police Department and Court	77,384
Fire Department	38,607
Library	33,826
Other Revenue	43,311
Permits and Fees	10,462
Interest Revenue	3,132
Total Revenues	<u>1,376,941</u>
<b>EXPENDITURES</b>	
Current:	
General Government	582,601
Emergency Medical Service	305,468
Police Department and Court	217,378
Fire Department	32,562
Library	12,524
Debt Service:	
Principal	17,236
Interest	2,020
Capital Outlay:	
Streets	241,851
Equipment	35,790
Buildings	5,926
Total Expenditures	<u>1,453,356</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(76,415)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Total Other Financing Sources (Uses)	<u>-</u>
Net Change in Fund Balance	(76,415) ✓
Fund Balance - Beginning	366,873
Prior Period Adjustment	23,057
Fund Balance - Ending	<u>\$ 313,515</u>

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

**City of Whitewright, Texas**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended September 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** **\$ (76,415)**

Amounts reported for *Governmental Activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. 223,808

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The amount is the net effect of these differences in the treatment of long-term debt and related items. 17,236

Governmental funds report some prior year tax revenues as income in the current year. However, in the Statement of Activities, the revenue is recognized in the year in which it is earned. The net effect of deferred revenue is to decrease net assets. 3,111

**Change in net assets of governmental activities** \$ 167,740

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

City of Whitewright, Texas  
Statement of Net Assets  
Proprietary Fund  
September 30, 2008

	<u>Proprietary Funds</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 17,300
Investments - Current	51,798
Due from Other Funds	48,362
Accounts Receivables (Net of Allowance)	40,812
Total Current Assets	<u>158,272</u>
Restricted Assets:	
Deposit Held by GTUA	87,041
Total Restricted Assets	<u>87,041</u>
Capital Assets:	
Machinery and Equipment	106,431
Water and Sewer System	2,675,827
Less Accumulated Depreciation	(1,017,211)
Total Capital Assets (Net)	<u>1,765,047</u>
<b>Total Assets</b>	<u>2,010,360</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	9,765
Compensated Absences	125
Bonds Payable - Current Portion Long-term	90,000
Customer Deposits Payable	45,770
Total Current Liabilities	<u>145,660</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	445,000
Total Noncurrent Liabilities	<u>445,000</u>
<b>Total Liabilities</b>	<u>590,660</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,230,047
Restricted - GTUA Deposits	87,041
Unrestricted	102,612
<b>Total Net Assets</b>	<u>\$ 1,419,700</u>

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



**City of Whitewright, Texas**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended September 30, 2008**

	<u>Proprietary Funds</u>
<b>Operating Revenues:</b>	
Charges for Sales and Services:	
Water	\$ 277,211
Sewer	206,764
Tap Fees	6,200
Total Operating Revenues	<u>490,175</u>
<b>Operating Expenses:</b>	
Utilities	88,917
Sanitation Plant Expense	48,561
Depreciation	57,182
Other Operating Expenses	47,373
Maintenance and Repairs	23,206
Water Expense	21,369
Salaries and Wages	32,604
Employee Benefits	6,889
Supplies	7,534
Total Operating Expenses	<u>333,635</u>
Operating Income (Loss)	<u>156,540</u>
<b>Nonoperating Revenues (Expenses):</b>	
Interest Revenue	7,164
Interest Expense	(30,690)
Bond Issuance Costs	(7,123)
Total Nonoperating Revenue (Expenses)	<u>(30,649)</u>
Change in Net Assets	125,891
Total Net Assets - Beginning	1,256,034
Prior Period Adjustment	37,775
Total Net Assets - Ending	<u><u>\$ 1,419,700</u></u>

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

**City of Whitewright, Texas**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended September 30, 2008**

	<b>Proprietary Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 502,905
Cash Paid to Employees	(39,368)
Cash Paid to Suppliers for Goods and Services	(333,783)
Net Cash Provided by Operating Activities	<u>129,754</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Increase due to Prior Period Adjustment	37,775
Net Cash Provided by Noncapital Financing Activities	<u>37,775</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Cash from Restricted Account held by GTUA	442
Cash Used for Bond Issue	(7,123)
Interest Paid on Capital Debt	(30,690)
Acquisition and Construction of Capital Assets	(36,666)
Principal Paid on Capital Debt	(89,748)
Net Cash Provided (Used) by Capital and related Financing Activities	<u>(163,785)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	7,164
Net Cash Provided by Investing Activities	<u>7,164</u>
Net Increase (decrease) in Cash and Cash Equivalents	10,908
Cash and Cash Equivalents, October 1, 2007	<u>6,392</u>
Cash and Cash Equivalents, September 30, 2008	<u>\$ 17,300</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income (Loss)	\$ 156,540
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	57,182
(Increase) Decrease in Accounts Receivable	12,730
(Increase) Decrease in Due from Other Funds	(48,362)
Increase (Decrease) in Accounts Payable	(10,264)
Increase (Decrease) in Other Current Liabilities	(38,112)
Increase (Decrease) in Compensated Absences	125
Increase (Decrease) in Customer Deposits Payable	(85)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 129,754</u>

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

**City of Whitewright, Texas**  
**Notes to the Financial Statements**  
**September 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Whitewright, Texas (the "City") operates under a council-mayor form of government and provides the following general government functions: law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Proprietary Funds are used to account for the operations of the City's water and sewer services.

The financial statements of the City of Whitewright are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements. The following is a summary of the more significant policies:

**A. Reporting Entity**

In evaluating how to define the City for financial statement purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Generally Accepted Accounting Principles and Government Accounting Standards Board Statement No. 14. The basic, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability to exercise oversight responsibility, includes, but is not limited to: the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based on the criteria stated above, the Whitewright Water and Sewer System, Whitewright Public Library, and Whitewright Volunteer Fire Department are related organizations that are included in the reporting entity. The City exercises material financial control or managerial influence and is accountable for fiscal matters of these organizations. For these reasons, it has been concluded that these organizations are part of the City's reporting entity.

Based on the criteria stated above, the Whitewright Economic Development Corporation and the Whitewright Community Development Corporation are component units of the City and the financial statements of each are discretely presented with the financial statements of the City.

The financial statements include government-wide statements prepared on an accrual basis of accounting and fund financial statements that present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

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

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

### **B. Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts, which are comprised of fund's assets, liabilities, fund equity, revenues and expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes and functions for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two broad fund categories as follows:

#### **GOVERNMENTAL FUND TYPES**

The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

#### **ENTERPRISE FUND TYPES**

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to recover costs (expenses, including depreciation) of providing goods or services to the general public through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability, or other purposes. The Water and Sewer Fund is accounted for under this fund type.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued, unless those pronouncements conflict with or contradict GASB pronouncements.

### **C. Property, Plant and Equipment**

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. Accumulated depreciation has been provided on such property, plant and equipment. Depreciation expense is allocated in the general fund by function and is included as expense on the statement of activities.

Long-term liabilities expected to be financed from governmental funds are shown on the statement of net assets, rather than governmental funds. Principal payments for long-term liabilities are expensed on the fund financial statements, but this expense is removed for the government-wide statement of activities.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All property, plant and equipment are reported at historical cost or estimated historical cost if actual historical cost is not available. Property, plant and equipment acquired through donation are recorded at estimated fair value on the date of donation. Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of the depreciable assets to operations over the estimated service life on the straight-line basis. The service lives by asset classification are follows:

Furniture, Fixtures and Equipment	5-10 years
Buildings and Improvements	12-40 years
Public Infrastructure	20 years
Water and Sewer Systems	20-50 years
Water and Sewer Improvements	50 years

### **D. Basis of Accounting**

#### **Government-Wide Financial Statements**

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

#### **Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as current assets. Gross receipts and sales taxes are considered measurable and recognizable when in the control of the intermediary collecting government.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned; expenses are recognized when incurred. Unbilled utility service receivables related to water and wastewater are recorded at year-end.

### **E. Budget and Budgetary Accounting**

The official City budget was prepared for adoption for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

### **F. Revenue Recognition - Property Taxes**

Property taxes are levied on October 1<sup>st</sup> and are due and payable at that time. All unpaid taxes levied October 1<sup>st</sup> become delinquent February 1<sup>st</sup> of the following year. Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Property tax revenues are recognized when they become available. Available includes those property taxes receivable, which are expected to be collected within sixty days after year-end. The City has established an allowance for doubtful accounts for delinquent taxes to the extent that their collection is improbable.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **G. Whitewright Community Development Corporation – 4B**

The Whitewright Community Development Corporation (a non-profit corporation) was established October 3, 1997 exclusively for the public purposes authorized in the Development Corporation Act and may issue bonds on behalf of the City. Specifically, the Corporation is authorized to study and fund all permissible projects prescribed in the Development Corporation Act and for the promotion and development of new or expanded business promotion and development of new or expanded business enterprises, Main Street (downtown Whitewright), parks and any other purpose authorized by the Development Corporation Act. The Corporation is managed by a board of directors that is composed of seven persons appointed by the City Council of the City of Whitewright, Texas. The corporation is funded by a one-half percent increase in the city sales tax rate.

### **H. Whitewright Economic Development Corporation – 4A**

The Whitewright Economic Development Corporation (a non-profit corporation) was established October 3, 1997 for the exclusive purpose of benefiting and accomplishing public purposes of the City of Whitewright, Texas, by promoting, assisting, and enhancing economic development activities for the City as provided by the Development Corporation Act. The Corporation is managed by a board of directors that is composed of five persons appointed by the City Council of the City of Whitewright, Texas. The corporation is funded by a one-half percent increase in the city sales tax rate.

### **I. Interfund Receivables and Payables**

These amounts are recorded as "Amounts Due To" and "Amounts Due From" other funds appropriately. The General Fund owed the Water Fund \$48,362 at September 30, 2008 for various operating expenses.

### **J. Restricted Net Assets**

The City reserves a portion of each fund's equity balance, which represents assets not available for general operating use. For the year ended September 30, 2008 the General Fund's reserved portion of fund balance was \$7,518 for the fire department and \$41,610 for the library. The Water Fund's reserved portion of net assets totaled \$87,041. This amount represents funds held at GTUA to be used exclusively for water and sewer system capital projects and repayment of contractual obligations.

## NOTE 2 – PROPRIETARY FUNDS PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment of the proprietary funds at September 30, 2008:

	Oct. 1, 2007	Additions	Deductions	Sept. 30, 2008
Sewer System	\$ 1,117,679	\$ 33,966	\$ -	\$ 1,151,645
Sewer System Improvements	1,120,145	-	-	1,120,145
Furniture and Equipment	106,431	-	-	106,431
Water Tower	404,037	-	-	404,037
Total Assets	2,748,292		-	2,782,258
Accumulated Depreciation	(960,029)	(57,182)	-	(1,017,211)
Total Net Assets	\$ 1,788,263	\$ (23,216)	\$ -	\$ 1,765,047

## NOTE 3 – ASSETS OF GOVERNMENTAL TYPE ACTIVITIES

The following is a summary of changes in capital assets for governmental activities for the year ended September 30, 2008:

	Oct. 1, 2007	Additions	Deductions	Sept. 30, 2008
Land	\$ 105,602	\$ -	\$ -	\$ 105,602
Buildings	653,420	11,292	-	664,712
Furniture and Equipment	808,008	30,423	-	838,431
Infrastructure	44,817	241,851	-	286,668
Total Assets	1,611,847	283,566		1,895,413
Accumulated Depreciation	(1,106,072)	(59,759)		(1,165,831)
Total Net Assets	\$ 505,775	\$ 223,807	\$ -	\$ 729,582

## NOTE 4 – DELINQUENT PROPERTY TAX

Delinquent property taxes at September 30, 2008, are as follows:

Tax Year	Amount
2006 and Prior	\$ 27,496
2007	13,285
Subtotal	40,781
Less Allowance for Doubtful Accounts	(2,039)
Delinquent Property Taxes	\$ 38,742

## NOTE 5 – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Office of John Ramsey, Grayson County Tax Assessor/Collector. For the year ended September 30, 2008 the tax rate was \$.54987 per \$100 assessed valuation.

## NOTE 6 - INSURANCE COVERAGE

The Texas Municipal League Inter-Governmental Risk Pool provides insurance coverage for the City. For the period October 1, 2007 to September 30, 2008 the City maintained insurance coverage as follows:

### Type of Coverage

General Liability	Errors & Omissions Liability	Law Enforcement Liability
Automobile Liability	Real & Personal Property	
Auto Physical Damage	Mobile Equipment	

## NOTE 7 - CASH AND INVESTMENTS

As of September 30, 2008, the City maintains all bank accounts at Independent Bank. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC. At September 30, 2008, the City's deposits in its depository bank totaled \$403,802 with \$100,000 insured by the Federal Deposit Insurance Corporation. \$592,023 of securities has been pledged by the depository bank to collateralize all remaining deposits. For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

### Reconciliation of Balance Sheet Cash:

Primary Government Cash on Balance Sheet	\$ 355,275
Restricted Cash and Investments on Balance Sheet	136,169
(Less) Cash held by GTUA	(87,041)
(Less) Petty Cash on Balance Sheet	(601)
Deposits with Financial Institutions:	<u>\$ 403,802</u>

## NOTE 8 - RETIREMENT PLAN

### Plan Description

The City provides pension benefits for full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually, and these can be obtained by request at the following address: TMRS, P.O. Box 149153, Austin, Texas 78714-9153

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the Plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.



## NOTE 8 - RETIREMENT PLAN (CONTINUED)

The Plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit Rate:	5%
Matching Ratio (City to Employee):	1 to 1.5
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 25 years of service

### Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2007 valuation is effective for rates beginning January 2009).

### **Schedule of Actuarial Liabilities and Funding Progress**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial Valuation Date	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2005</u>
Actuarial Value of Assets	\$ 481,935	\$ 439,521	\$ 504,602
Actuarial Accrued Liability	462,698	483,266	547,112
Unfunded Actuarial Accrued Liability	(19,237)	(43,745)	(42,510)
Percentage funded	104.2%	90.95%	92.2%
Annual Covered Payroll	476,444	318,598	362,772
Ratio of Unfunded to Annual Covered Payroll	(4.0%)	13.73%	11.7%
Net Pension Obligation at Beginning of Period	-	-	-
Annual Required Contribution (ARC)	24,335	19,433	18,309
Contributions Made	18,075	17,247	19,071
NPO at the End of the Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year ended September 30, 2008:

### Governmental Activities

	Balance 10/1/2007	Additions	Retirements	Balance 9/30/2008	Amounts Due in One Year
Notes Payable	\$35,000	-	(\$10,000)	\$25,000	\$25,000
Leases Payable	20,994	-	(7,236)	13,758	6,987
Totals	\$55,994	-	(\$17,236)	\$38,758	\$31,987

### Business-Type Activities (Water Fund)

	Balance 10/1/2007	Additions	Retirements	Balance 9/30/2008	Amounts Due in One Year
Contractual Obligations	\$620,000	-	(\$85,000)	\$535,000	\$90,000
Leases Payable	4,768	-	(4,768)	-	-
Totals	\$624,768	-	(\$89,768)	\$535,000	\$90,000

## NOTE 10 – PROPRIETARY FUND LONG-TERM CONTRACTUAL OBLIGATIONS

The City entered into four separate long-term water supply and sewer service contracts with Greater Texoma Utility Authority (GTUA) on June 20, 1990, September 16, 1996, December 20, 1999 and September 17, 2004. The City has an obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, and pay the administrative and overhead expenses by GTUA in connection with the bonds.

Under the terms of the contracts, the City's obligation to make payments to GTUA terminates when all GTUA bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding. The structure of the transaction has the qualities of a capital lease therefore the amounts are included in long-term liabilities and capital assets with the associated accumulated depreciation.

The original principal obligation of the series 1991 contract was \$ 920,000, with interest rates of 5.50%. As of September 30, 2008, the principal balance of the obligation was \$215,000. The City's obligation to GTUA under the 1991 contract expires with the retirement of the GTUA bonds in the fiscal year ending September 30, 2010.

The original principal obligation of the 1996 contract was \$180,000, with interest rates varying between 4.45% and 6.45%. As of September 30, 2008, the principal balance of the obligation was \$110,000. The City's obligation to GTUA under the 1996 contract expires with the retirement of the GTUA bonds in the fiscal year ending September 30, 2016.

The original principal obligation of the 2000 contract was \$150,000, with interest rates varying between 3.3% and 5.3%. As of September 30, 2008, the principal balance of the obligation was \$115,000. The City's obligation to GTUA under the 2000 contract expires with the retirement of the GTUA bonds in the fiscal year ending September 30, 2020.

**NOTE 10 – PROPRIETARY FUND LONG-TERM CONTRACTUAL OBLIGATIONS (CONTINUED)**

The original principal obligation of the 2004 contract was \$110,000, with interest rates varying between 2.79% to 5.64%. As of September 30, 2008, principal balance of the obligation was \$95,000. The City's obligation to GTUA under the 2004 contract expires with the retirement of the GTUA bonds in the fiscal year ending September 30, 2025.

The debt service requirements for principal and interest of these business-type bonds at September 30, 2008 are as follows:

Fiscal Year Ending	Principal	Interest	Totals
2009	\$ 90,000	\$ 26,918	\$ 116,918
2010	90,000	22,055	112,055
2011	95,000	17,030	112,030
2012	20,000	13,907	33,907
2013	20,000	12,829	32,829
2014-2018	120,000	43,608	163,608
2019-2023	80,000	14,239	94,239
2024-2025	20,000	1,682	21,682
Totals	<u>\$ 535,000</u>	<u>\$ 152,268</u>	<u>\$ 687,268</u>

**NOTE 11 – CAPITAL LEASE PAYABLES**

On October 5, 2006, the City of Whitewright entered a four year lease-purchase agreement with Ford Motor Credit Company to purchase a 2006 Crown Victoria Police Car. The purchase price was \$28,994. The remainder of the lease will be paid on October 5<sup>th</sup> of each year shown below:

Fiscal Year Ending	Principal	Interest	Total
2009	\$ 6,987	\$ 1,012	\$ 7,999
2010	6,771	523	7,294
Totals	<u>\$ 13,758</u>	<u>\$ 1,535</u>	<u>\$ 15,293</u>

The proprietary fund had a 24 month lease for phase separator dewatering equipment. The purchase price of the equipment is \$33,025, which is included in capital assets of the proprietary fund. The balance of the lease in the amount of \$4,748 was paid off during the year ended September 30, 2008.

**NOTE 12 – NOTE PAYABLE AND RECEIVABLE OF COMPONENT UNIT**

During the year ended September 30, 2005, the Economic Development Corporation (EDC) purchased land and constructed a building. As a result, the EDC entered a note agreement with Independent Bank in the amount of \$112,000 with an interest rate of 5.5% from May 13, 2005 to May 13, 2008. For the period from May 13, 2008 to May 13, 2015 the interest rate will be the sum of the current index per annum at that time. At September 30, 2008, the outstanding principal balance of the long-term debt is \$81,277.

**NOTE 12 – NOTE PAYABLE AND RECEIVABLE OF COMPONENT UNIT (CONTINUED)**

The following is a schedule of future principal maturities of the note payable at September 30, 2008:

Fiscal Year Ending	Principal	Interest	Totals
2009	\$ 10,378	\$ 4,210	\$ 14,588
2010	10,964	3,625	14,589
2011	11,583	3,006	14,589
2012	12,229	2,360	14,589
2013	12,926	1,663	14,589
Thereafter	23,197	1,132	24,329
Totals	\$ 81,277	\$ 15,996	\$ 97,273

On February 18, 2005, the EDC sold the land and building to Premier Molding, Inc. The EDC is financing the note. The land was sold for \$30,000 at 0% interest, payable May 1, 2010. The building sold for \$140,000 with an annual interest rate of 5.5% and monthly payments of \$1,519 payable May 1, 2005 through May 1, 2015. Premier Molding, Inc. made principal payments in the amount of \$12,317 for the year ended September 30, 2008.

The following is a schedule of the future receivables for the note receivable at September 30, 2008.

Fiscal Year Ending	Principal	Interest	Totals
2009	\$ 13,029	\$ 5,204	\$ 18,233
2010	43,764	4,883	48,647
2011	14,540	3,692	18,232
2012	15,352	2,880	18,232
2013	16,226	2,006	18,232
Thereafter	27,634	1,284	28,918
Totals	\$ 130,545	\$ 19,949	\$ 150,494

**NOTE 13 – PRIOR PERIOD ADJUSTMENTS**

For the period ended September 30, 2008, a prior period adjustment was made as a result in a change in the application of an accounting principle for sales taxes. This change resulted in a prior period adjustment in the amount of \$23,057 for the General Fund, \$11,528 for the Community Development Corporation and \$11,528 for the Economic Development Corporation.

In the Water Fund, a prior period adjustment in the amount of \$37,775 was made to account for expenses relating to prior years.

City of Whitewright, Texas  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
<b>REVENUES</b>				
Property Taxes	\$ 293,000	\$ 293,000	\$ 294,850	\$ 1,850
Emergency Medical Service	264,500	264,500	322,719	58,219
Solid Waste Disposal	132,000	132,000	134,733	2,733
General Sales and Use Taxes	216,000	216,000	202,183	(13,817)
Police Department and Court	88,550	88,550	77,384	(11,166)
Franchise Taxes	50,000	50,000	56,058	6,058
Fire Department	-	-	38,607	38,607
Library	-	-	33,826	33,826
Permits and Fees	20,100	20,100	10,462	(9,638)
Grants	6,500	6,500	159,676	153,176
Other Revenue	12,650	12,650	43,311	30,661
Interest Revenue	500	500	3,132	2,632
Total Revenues	1,083,800	1,083,800	1,376,941	293,141
<b>EXPENDITURES</b>				
General Government	681,758	681,758	582,601	99,157
Emergency medical service	291,450	291,450	305,468	(14,018)
Police department and court	247,100	247,100	217,378	29,722
Library	-	-	12,524	(12,524)
Fire department	-	-	32,562	(32,562)
Debt service	-	-	19,257	(19,257)
Capital Outlay	-	-	283,566	(283,566)
Total Expenditures	1,220,308	1,220,308	1,453,356	(233,048)
Excess (Deficiency) of Revenues over Expenditures	(136,508)	(136,508)	(76,415)	60,093
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Leases	-	-	-	-
Transfers In (Out)	-	-	-	-
Total Other financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(136,508)	(136,508)	(76,415)	60,093
Fund Balance - October 1 (Beginning)	366,873	366,873	366,873	-
Prior Period Adjustment	-	-	23,057	(23,057)
Fund Balance - September 30 (Ending)	\$ 230,365	\$ 230,365	\$ 313,515	\$ 37,036

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

## INTERNAL CONTROLS SECTION

# GREGG & COMPANY

MEMBER  
TEXAS SOCIETY OF CPAs

CERTIFIED PUBLIC ACCOUNTANTS  
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MEMBER  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA*

To the City Council  
City of Whitewright, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitewright, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City of Whitewright, Texas's financial statements and have issued our report thereon dated January 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered the City of Whitewright, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Whitewright, Texas' 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Whitewright, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Whitewright's financial statements that is more than inconsequential will not be prevented or detected by the City of Whitewright, Texas' internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- Numerous significant proposed adjustments to the financial records were necessary to record the accounts and transactions in a manner consistent with generally accepted accounting principles.
- The Statement on Auditing Standards no. 112 requires that we document the City does not have the capability to prepare financial statements and the related notes.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Whitewright's internal controls. We believe the significant deficiencies described above constitute material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We noted certain matters that we reported to management of the City of Whitewright, Texas, in a letter dated January 20, 2009.

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

*Gregg & Company CPAs*

Tom Bean, Texas  
January 20, 2009



# GREGG & COMPANY

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MEMBER  
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January 20, 2009

To the City Council  
City of Whitewright, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining information of the City of Whitewright, Texas, as of and for the year ended September 30, 2008, and have issued our report thereon dated January 20, 2009. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 6, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control structure of the City of Whitewright. Such considerations were solely for the purpose of determining audit procedures and not to provide any assurance concerning such internal control.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

## Significant Auditing Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Whitewright are described in note 1 to the financial statements. No new accounting policies were adopted but the application of the existing policies was changed during fiscal year 2008. We noted no transactions entered into by the City of Whitewright, during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred, except for the prior period adjustments described in note 13.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant or sensitive accounting estimates affecting the financial statements during fiscal year 2008.

The disclosures in the financial statements are neutral, consistent, and clear. There were no financial statement disclosures that are particularly sensitive because of their significance to financial statement users.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures should be corrected by management once they are approved by the City Council. These material misstatements are the list of proposed audit adjustments at September 30, 2008.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 20, 2009.

#### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitewright, Texas as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- Numerous significant proposed adjustments to the financial records were necessary to record the accounts and transactions in a manner consistent with generally accepted accounting principles.
- The Statement on Auditing Standards no. 112 requires that we document the City does not have the capability to prepare financial statements and the related notes.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe the significant deficiencies described above constitute material weaknesses.

Also, we noted certain matters that related to internal control that we reported to management of the City in a separate letter dated January 20, 2009.

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

Sincerely,

A handwritten signature in black ink that reads "Gregg & Company CPAs". The signature is written in a cursive, flowing style.

Gregg & Company CPAs

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January 20, 2009

To the Whitewright City Council:

Subject: Management Recommendation Letter

In planning and performing our audit of the financial statements of the City of Whitewright for the year ended September 30, 2008, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the audited financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of various matters that are an opportunity to strengthen internal controls and operating efficiency. As discussed with the Mayor of the City, we are making these recommendations not only because of new American Institute of CPA's professional standards, but also to assist the new Secretary in preparing for future audits.

1. Comment

We noted the City did not post the audit adjustments for the year ended September 30, 2007 to the general ledger. As a result, the opening balances were not correct on the general ledger.

Recommendation

We recommend the city record the proposed audit adjustments to the financial statements as of and for the year ended September 30, 2008 into the general ledger after the City Council has approved the audit.

2. Comment

We proposed numerous audit adjustments to the general ledger for the year ended September 30, 2008 in order to present the financial statements in accordance with generally accepted accounting principles. As the result of a change in auditing standards, the City is now required to review their records and post adjustments that were previously considered part of the audit.

Recommendation

We recommend that before next year's audit begins, the City should review the 2008 audit adjustments and post similar adjustments as needed to the general ledger at September 30, 2009. To assist in this process, the City may consider contracting with an outside accountant. In addition, the City may need to provide the accounting staff with additional training on how to record transactions in accordance with generally accepted accounting principles and on the use of the accounting software system.

3. Comment

We noted the City does not use the chart of accounts as recommended by the State Comptroller's Office.

Recommendation

We recommend the City review their chart of accounts and convert the general ledger account numbers to a standard format.

4. Comment

We noted the City has a separate fund for EMS, Police, EMS/MMDA, Property Taxes, Court, Main Street, and Streets. These funds are actually departments of the general fund. The use of separate funds requires the City's accounting staff to post entries to transfer accounts for transactions that are not actually transfers between funds, create numerous due to and due from accounts, and create various accounts called created by posting, in order to move cash between accounts and still balance the funds. During the audit, we reconciled these funds. We proposed audit adjustments to eliminate the balances and to properly state cash, revenue, and expenses at September 30, 2008.

Recommendation

We recommend that the City incorporate all of these departments into the general fund and utilize different general ledger account codes to distinguish the revenues and expenses of these departments as discussed in comment (3) above.

5. Comment

We noted the City maintains capital asset accounts for governmental activities (land, buildings, furniture & equipment, and infrastructure), accumulated depreciation, and the investment in general fixed assets in the general fund.

Recommendation

We recommend the City establish a separate fund for the general fixed assets account group and move the asset and related balances in these accounts out of the general fund and into the new fund.

6. Comment

We noted the City does not have capital outlay accounts for expenditures in the general fund that will be capitalized into the general fixed asset account group. The city records these capital expenditures in various expense accounts, such as repair and maintenance. We reviewed the general ledger expense accounts to determine proper recording of asset purchases. We proposed an audit adjustment to reclassify these amounts into a capital outlay account at September 30, 2008.

Recommendation

We recommend the city establish capital outlay expenditure accounts for each department in the general fund. Comment (3) above may assist with this process. All capital asset expenditures greater than \$5,000 should be budgeted for and expensed in the capital outlay accounts in the general fund.

7. Comment

We noted the City properly maintains capital asset accounts in the water fund. However, the City records capital asset purchases greater than \$5,000 in expense accounts rather than in the related asset account. Although this procedure is proper accounting for the general fund, it is inappropriate for the water/sewer fund. We proposed an audit adjustment to move these purchases out of the expense accounts and into the proper asset account at September 30, 2008.

Recommendation

We recommend the city record all capital asset purchases in the water/sewer fund greater than \$5,000 in the appropriate capital asset account.

8. Comment

We noted the City does not maintain depreciation schedules for its capital assets in the general fund, water fund, or component units. As part of the audit, depreciation schedules were prepared. We proposed an audit adjustment to record depreciation at September 30, 2008.

Recommendation

We recommend the city create and maintain depreciation schedules for the general fixed asset account group, water fund, and the component units.

9. Comment

We noted the City does not accrue accounts payable at year end in the general fund pr water/sewer fund. Generally accepted accounting principles require that an accrual be made for goods and services purchased before the end of the fiscal year but not paid for until after year end. We proposed an audit adjustment in both funds to record accounts payable at September 30, 2008.

Recommendation

We recommend the City hold the books and records of both funds open at year end to record invoices received after year end but that relate to goods and services purchased before the fiscal year end as account payable.

10. Comment

We noted the City had a liability account on the trial balance called Utility Billing Overpayment in the amount of \$43,459 at September 30, 2008. Upon further investigation of the general ledger it was determined that this balance resulted from the system putting overpayments from customers into the account but not reversing it when earned. We proposed an audit adjustment, including a prior period adjustment for amounts accrued in prior years, to reverse substantially all of the balance at September 30, 2008.

Recommendation

We recommend the City reverse the overpayment amounts when earned periodically during year.

11. Comment

We noted the City does not maintain a fund to account for long term liabilities of the governmental activities. We proposed an audit adjustment to record the activity in the long term liabilities of the governmental activities at September 30, 2008.

Recommendation

We recommend that the City implement and maintain a fund to account for the long term liabilities of the governmental activities.

12. Comment

We noted the City records payments for long term liabilities of the governmental activities in one general ledger expenditure account in the general fund. The payment for the liability should be allocated and recorded into a principal retirement and an interest expense account. We proposed an audit adjustment to properly record the payment of long term liabilities of the governmental activities at September 30, 2008.

Recommendation

We recommend that the City record the payments for long term liabilities of the governmental activities into a principal retirement and an interest expense account.

13. Comment

We noted the City maintains accounts for the long term debt in the water/sewer fund but records the payments as an expense instead of as a reduction of the related liabilities and in interest expense. We proposed an audit adjustment to the balances in the long term debt accounts of the water fund at September 30, 2008 to move the payments out of an expense account and record them as a reduction of the related liabilities for the principal portion and interest expense.

Recommendation

We recommend that the City record debt payments in the water fund as a reduction of the balances in the related long term debt accounts and as interest expense.



14. Comment

We noted the City recorded a donation for EMS radios as a credit to the same expense account where the expense to purchase the radios was recorded instead of as contribution revenue. As a result, the revenue was understated and the expense was understated. We proposed an audit adjustment to properly record the revenue and expense at September 30, 2008.

Recommendation

We recommend that the City refrain from recording unusual income as an expense.

15. Comment

We noted that the City does not record court receivables in the general ledger. We proposed an audit adjustment to properly record court receivables and the allowance for doubtful accounts at September 30, 2008.

Recommendation

We recommend the City record court receivables and the related allowance for doubtful accounts in the general ledger. Ideally an entry to adjust court receivables should be made at the time of the court judgment and when a payment is collected. However, an analysis of court receivables could be prepared on an annual basis with an adjustment being made at year end.

16. Comment

We noted the court records are not filed in a systematic manner in one central location.

Recommendation

We recommend the City develop and implement a systematic filing system and location for court records. This will facilitate court record keeping and the collection process.

17. Comment

We noted the City does not record ambulance receivables and the related allowance for doubtful accounts in the general ledger. We proposed an audit adjustment to properly record ambulance receivables and the allowance for doubtful accounts at September 30, 2008. Also, the ambulance receivable balance per the Intermedix reports is over a million dollars of which a substantial portion of the balance relates to services performed in 2006 and prior periods.

Recommendation

We recommend the City record ambulance receivables and the related allowance for doubtful accounts in the general ledger. Ideally an entry to adjust ambulance receivables should be made at the time the service is provided and when a payment is collected. However, an analysis of ambulance receivables could be prepared at least on an annual basis with an adjustment being made at year end. Also, the City may need to evaluate old ambulance receivables to determine whether they are collectible. If deemed uncollectible, the City Council should approve writing the receivable off as uncollectible.

This letter does not affect our report dated January 20, 2009 on the financial statements of the City of Whitewright. These recommendations should in no way be construed as derogatory. No matters that are required to be reported were noted. We will review the status of these comments during our next audit engagement. We have already discussed these matters with management and will be pleased to discuss it in further detail at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Gregg & Company CPAs". The script is cursive and fluid, with the "G" and "C" being particularly large and stylized.

Tom Bean, Texas