

City of Whitewright, Texas

Report of Audit

Fiscal Year Ended September 30, 2012

CITY OF WHITEWRIGHT, TEXAS  
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September 30, 2012

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Unqualified Opinion on Basic Financial Statements Accompanied by  
Required Supplementary Information

Independent Auditors' Report

Honorable Mayor and City Council  
City of Whitewright, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the City of Whitewright, Texas (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

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 and each major fund of the City of Whitewright, Texas, as of September 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and the Texas Municipal Retirement System Schedule of Funding Progress, 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.

Honorable Mayor and City Council  
City of Whitewright, Texas  
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Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*McClanahan and Holmes, LLP*

Certified Public Accountants

Bonham, Texas  
July 10, 2013

CITY OF WHITEWRIGHT, TEXAS  
Statement of Net Assets  
September 30, 2012

|   | Primary Government      |                          |              | Component Units                  |                                   |
|---|-------------------------|--------------------------|--------------|----------------------------------|-----------------------------------|
|   | Governmental Activities | Business-Type Activities | Total        | Economic Development Corporation | Community Development Corporation |
| <u>ASSETS</u>                                   |                         |                          |              |                                  |                                   |
| Cash and Cash Equivalents                       | \$ 129,930              | \$ 251,770               | \$ 381,700   | \$ 141,877                       | \$ 57,219                         |
| Current Investments                             | 52,460                  | 54,381                   | 106,841      | -                                | -                                 |
| Prepaid Assets                                  | 5,317                   | -                        | 5,317        | 1,759                            | -                                 |
| Property Taxes Receivable, net                  | 40,428                  | -                        | 40,428       | -                                | -                                 |
| Sales Taxes Receivable, net                     | 20,650                  | -                        | 20,650       | 10,325                           | 10,325                            |
| Other Receivables, net                          | 108,471                 | 64,406                   | 172,877      | 137,248                          | -                                 |
| Internal Balances                               | 36,339                  | (36,339)                 | -            | -                                | -                                 |
| Restricted Assets:                              |                         |                          |              |                                  |                                   |
| Cash - Fire Department                          | 31,252                  | -                        | 31,252       | -                                | -                                 |
| Cash - Library                                  | 4,361                   | -                        | 4,361        | -                                | -                                 |
| Cash - Debt Service                             | 5,137                   | -                        | 5,137        | -                                | -                                 |
| Deposits Held in Trust by GTUA                  | -                       | 76,935                   | 76,935       | -                                | -                                 |
| Bond Issuance Costs                             | -                       | 2,351                    | 2,351        | -                                | -                                 |
| Capital Assets Not Being Depreciated:           |                         |                          |              |                                  |                                   |
| Land  | 156,737                 | -                        | 156,737      | -                                | -                                 |
| Construction in Progress                        | 33,606                  | -                        | 33,606       | -                                | -                                 |
| Capital Assets Net of Accumulated Depreciation: |                         |                          |              |                                  |                                   |
| Land Improvements                               | 51,084                  | -                        | 51,084       | -                                | -                                 |
| Buildings and Improvements                      | 175,771                 | -                        | 175,771      | 193,502                          | 5,827                             |
| Furniture, Equipment & Machinery                | 656,035                 | 63,595                   | 719,630      | -                                | -                                 |
| Public Infrastructure                           | 354,331                 | 1,683,116                | 2,037,447    | -                                | -                                 |
| Total Assets                                    | 1,861,909               | 2,160,215                | 4,022,124    | 484,711                          | 73,371                            |
| <u>LIABILITIES</u>                              |                         |                          |              |                                  |                                   |
| Accounts Payable                                | 20,321                  | 16,716                   | 37,037       | 1,059                            | 3,383                             |
| Wages Payable                                   | 20,781                  | 3,834                    | 24,615       | -                                | -                                 |
| Customer Deposits Payable                       | -                       | 73,065                   | 73,065       | -                                | -                                 |
| Accrued Interest Payable                        | -                       | 1,947                    | 1,947        | -                                | -                                 |
| Non-Current Liabilities:                        |                         |                          |              |                                  |                                   |
| Portion Due or Payable Within One Year          | 19,067                  | 30,104                   | 49,171       | 24,939                           | -                                 |
| Portion Due or Payable After One Year           | 18,372                  | 217,127                  | 235,499      | 85,378                           | -                                 |
| Total Liabilities                               | 78,541                  | 342,793                  | 421,334      | 111,376                          | 3,383                             |
| <u>NET ASSETS</u>                               |                         |                          |              |                                  |                                   |
| Invested in Capital Assets, Net of Related Debt | 1,390,125               | 1,499,480                | 2,889,605    | 83,185                           | 5,827                             |
| Restricted for:                                 |                         |                          |              |                                  |                                   |
| Fiscal Agent                                    | -                       | 76,935                   | 76,935       | -                                | -                                 |
| Fire Department                                 | 31,252                  | -                        | 31,252       | -                                | -                                 |
| Library   | 4,361                   | -                        | 4,361        | -                                | -                                 |
| Debt Service                                    | 5,137                   | -                        | 5,137        | -                                | -                                 |
| Unrestricted                                    | 352,493                 | 241,007                  | 593,500      | 290,150                          | 64,161                            |
| Total Net Assets                                | \$ 1,783,368            | \$ 1,817,422             | \$ 3,600,790 | \$ 373,335                       | \$ 69,988                         |

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

CITY OF WHITEWRIGHT, TEXAS  
Statement of Activities  
Year Ended September 30, 2012

| Functions/Programs                | Program Revenues    |                         |  |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |                  |  |
|-----------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|------------------|--|
|                                   | Expenses            | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Primary Government                                 |                             | Component Units  |  |
|                                   |                     |                         |  |  | Governmental<br>Activities                         | Business-Type<br>Activities | Total            | Economic<br>Development<br>Corporation |
| Primary Government:               |                     |                         |  |  |  |                             |                  |  |
| Governmental Activities:          |                     |                         |  |  |  |                             |                  |  |
| General Government                | \$ 624,657          | \$ 157,367              | \$ 1,000                                 | \$ 25,000                              | \$ (441,290)                                       | \$ -                        | \$ (441,290)     |  |
| Emergency Medical Service         | 352,065             | 308,392                 | -  | -                                      | (43,673)   | -                           | (43,673)         |  |
| Police and Court                  | 313,030             | 61,860                  | -  | -                                      | (251,170)  | -                           | (251,170)        |  |
| Fire Protection                   | 58,000              | 40,483                  | -  | -                                      | (17,517)   | -                           | (17,517)         |  |
| Library                           | 22,763              | 32,969                  | -  | -                                      | 10,206   | -                           | 10,206           |  |
| Interest on Long Term Debt        | 2,019               | -                       | -  | -                                      | (2,019)  | -                           | (2,019)          |  |
| Total Governmental Activities     | <u>1,372,534</u>    | <u>601,071</u>          | <u>1,000</u>                             | <u>25,000</u>                          | <u>(745,463)</u>                                   | <u>-</u>                    | <u>(745,463)</u> |  |
| Business-Type Activities:         |                     |                         |  |  |  |                             |                  |  |
| Water and Sewer - Debt Service    | 17,132              | -                       | -  | -                                      | -  | (17,132)                    | (17,132)         |  |
| Water and Sewer - Operating       | 465,296             | 639,141                 | -  | -                                      | -  | 173,845                     | 173,845          |  |
| Total Business-Type Activities    | <u>482,428</u>      | <u>639,141</u>          | <u>-</u>                                 | <u>-</u>                               | <u>-</u>   | <u>156,713</u>              | <u>156,713</u>   |  |
| Total Primary Government          | <u>\$ 1,854,962</u> | <u>\$ 1,240,212</u>     | <u>\$ 1,000</u>                          | <u>\$ 25,000</u>                       | <u>(745,463)</u>                                   | <u>156,713</u>              | <u>(588,750)</u> |  |
| Component Units:                  |                     |                         |  |  |  |                             |                  |  |
| Economic Development Corporation  | \$ 101,762          | \$ -                    | \$ -                                     | \$ -                                   |  |                             | \$ (101,762)     | \$ -                                   |
| Community Development Corporation | <u>73,017</u>       | <u>-</u>                | <u>-</u>                                 | <u>-</u>                               |  |                             | <u>(73,017)</u>  | <u>(73,017)</u>                        |
| Total Component Units             | <u>\$ 174,779</u>   | <u>\$ -</u>             | <u>\$ -</u>                              | <u>\$ -</u>                            |  |                             | <u>(101,762)</u> | <u>(73,017)</u>                        |
| General Revenues:                 |                     |                         |  |  |  |                             |                  |  |
| Taxes:                            |                     |                         |  |  |  |                             |                  |  |
| Property Taxes                    |                     |                         |  |  |  |                             |                  |  |
| General Sales and Use Taxes       |                     |                         |  |  |  |                             |                  |  |
| Franchise Taxes                   |                     |                         |  |  |  |                             |                  |  |
| Investment Earnings               |                     |                         |  |  |  |                             |                  |  |
| Miscellaneous                     |                     |                         |  |  |  |                             |                  |  |
| Transfers                         |                     |                         |  |  |  |                             |                  |  |
| Total General Revenues            |                     |                         |  |  |  |                             |                  |  |
| Changes in Net Assets             |                     |                         |  |  |  |                             |                  |  |
| Net Assets - Beginning            |                     |                         |  |  |  |                             |                  |  |
| Prior Period Adjustment           |                     |                         |  |  |  |                             |                  |  |
| Net Assets - Ending               |                     |                         |  |  |  |                             |                  |  |

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

CITY OF WHITEWRIGHT, TEXAS  
Governmental Fund  
Balance Sheet  
September 30, 2012

|  | General<br>Fund     |
|--|---------------------|
| <u>ASSETS</u>  |                     |
| Current Assets:  |                     |
| Cash and Cash Equivalents  | \$ 129,930          |
| Investments  | 52,460              |
| Prepaid Assets   | 5,317               |
| Due from Other Funds   | 36,339              |
| Receivables, net   |                     |
| Property Taxes   | 40,428              |
| Other  | 129,121             |
| Total Current Assets   | <u>393,595</u>      |
| Restricted Assets:   |                     |
| Cash - Fire Department   | 31,252              |
| Cash - Library   | 4,361               |
| Cash - Debt Service  | 5,137               |
| Total Restricted Assets  | <u>40,750</u>       |
| Total Assets   | <u>\$ 434,345</u>   |
| <u>LIABILITIES AND FUND BALANCES</u>   |                     |
| Current Liabilities:   |                     |
| Wages Payable  | \$ 20,781           |
| Accounts Payable   | 20,321              |
| Deferred Revenue   | 38,450              |
| Total Current Liabilities  | <u>79,552</u>       |
| Fund Balances:   |                     |
| Restricted For:  |                     |
| Fire Department  | 31,252              |
| Library  | 9,678               |
| Debt Service   | 5,137               |
| Unassigned   | 308,726             |
| Total Fund Balances  | <u>354,793</u>      |
| Total Liabilities and Fund Balances  | <u>\$ 434,345</u>   |
| Fund Balance(s) of Governmental Funds  | \$ 354,793          |
| Amounts reported for governmental activities on 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. The cost of the assets is \$3,144,958 and the accumulated depreciation is \$1,717,394. |                     |
|  | 1,427,564           |
| Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in Governmental Funds.  |                     |
|  | (37,439)            |
| 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.   |                     |
|  | <u>38,450</u>       |
| Net Assets of Governmental Activities  | <u>\$ 1,783,368</u> |

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

CITY OF WHITEWRIGHT, TEXAS  
Governmental Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended September 30, 2012

|  | General<br>Fund          |
|--|--------------------------|
| Revenues   |                          |
| Taxes:   |                          |
| Property   | \$ 393,761               |
| General Sales and Use                                | 153,502                  |
| Franchise  | 57,899                   |
| Emergency Medical Service                            | 308,392                  |
| Solid Waste Disposal                                 | 146,857                  |
| Police Department and Court                          | 61,860                   |
| Fire Department                                      | 40,483                   |
| Capital Contributions                                | 25,000                   |
| Other Revenue  | 31,681                   |
| Permits and Fees                                     | 10,510                   |
| Library  | 32,969                   |
| Grants   | 1,000                    |
| Interest Revenue                                     | 2,691                    |
| Total Revenues                                       | <u>1,266,605</u>         |
| Expenditures   |                          |
| Current:   |                          |
| General Government                                   | 530,652                  |
| Emergency Medical Service                            | 336,386                  |
| Police Department and Court                          | 301,355                  |
| Fire Department                                      | 36,276                   |
| Library  | 7,412                    |
| Debt Service:  |                          |
| Principal Retirement                                 | 25,708                   |
| Interest and Fiscal Charges                          | 2,019                    |
| Capital Outlay                                       | 75,596                   |
| Total Expenditures                                   | <u>1,315,404</u>         |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>(48,799)</u>          |
| Other Financing Sources (Uses)                       |                          |
| Operating Transfers In (Out)                         | (9,386)                  |
| Capital Financing                                    | 17,509                   |
| Total Other Financing Sources (Uses)                 | <u>8,123</u>             |
| Net Changes in Fund Balances                         | (40,676)                 |
| Fund Balances - Beginning of Year                    | <u>395,469</u>           |
| Fund Balances - End of Year                          | <u><u>\$ 354,793</u></u> |

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



CITY OF WHITEWRIGHT, TEXAS  
Governmental Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended September 30, 2012

|  |                     |
|--|---------------------|
| Net Changes in Fund Balances - Total Governmental Funds (Statement 4)  | \$ (40,676)         |
| 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 as depreciation expense. This is the amount by which depreciation (\$158,434) exceeded capital outlays (\$75,596) in the current year.   | (82,838)            |
| The issuance of long-term debt provides current financial resources to Governmental Funds while the repayment of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 8,199               |
| 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 increase net assets.  | <u>(8,549)</u>      |
| Change in Net Assets - Governmental Activities   | <u>\$ (123,864)</u> |

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

CITY OF WHITEWRIGHT, TEXAS  
 Proprietary Fund  
 Statement of Net Assets  
 September 30, 2012

| <u>ASSETS</u>  | <u>Proprietary<br/>Fund</u> |
|--|-----------------------------|
| Current Assets   |                             |
| Cash and Cash Equivalents                                  | \$ 251,770                  |
| Investments  | 54,381                      |
| Accounts Receivables (Net of Allowance for Uncollectibles) | 64,406                      |
| Total Current Assets                                       | <u>370,557</u>              |
| Restricted Assets  |                             |
| Deposit Held by GTUA                                       | <u>76,935</u>               |
| Noncurrent Assets  |                             |
| Bond Issuance Costs  | 2,351                       |
| Capital Assets, Net of Accumulated Depreciation            | 1,746,711                   |
| Total Noncurrent Assets                                    | <u>1,749,062</u>            |
| Total Assets   | <u>2,196,554</u>            |
| <br><u>LIABILITIES</u>                                     |                             |
| Current Liabilities  |                             |
| Accounts Payable   | 16,716                      |
| Wages Payable  | 3,834                       |
| Due to Other funds   | 36,339                      |
| Notes Payable  | 12,180                      |
| Bonds Payable  | 5,000                       |
| Time Warrant Payable                                       | 12,924                      |
| Accrued Interest Payable                                   | 1,947                       |
| Customer Deposits Payable                                  | 73,065                      |
| Total Current Liabilities                                  | <u>162,005</u>              |
| Noncurrent Liabilities                                     |                             |
| Bonds Payable (Net of Unamortized Bond Issue Costs)        | 75,000                      |
| Note Payable   | 2,093                       |
| Time Warrant Payable                                       | 140,034                     |
| Total Noncurrent Liabilities                               | <u>217,127</u>              |
| Total Liabilities  | <u>379,132</u>              |
| <br><u>NET ASSETS</u>                                      |                             |
| Invested in Capital Assets, Net of Related Debt            | 1,499,480                   |
| Restricted Deposits  | 76,935                      |
| Unrestricted   | <u>241,007</u>              |
| Total Net Assets   | <u>\$ 1,817,422</u>         |

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

CITY OF WHITEWRIGHT, TEXAS  
 Proprietary Fund  
 Statement of Revenues, Expenses, and Changes in Fund Net Assets  
 Year Ended September 30, 2012

|   | Proprietary<br>Fund        |
|---|----------------------------|
| Operating Revenues                        |                            |
| Charges for Sales and Services            |                            |
| Water                                     | \$ 357,247                 |
| Sewer                                     | 240,204                    |
| Other Services and Fees                   | <u>41,690</u>              |
| Total Operating Revenues                  | <u>639,141</u>             |
| Operating Expenses                        |                            |
| Salaries                                  | 121,652                    |
| Utilities                                 | 81,048                     |
| Depreciation                              | 68,566                     |
| Sanitation Plant Expense                  | 39,772                     |
| Other Operating Expenses                  | 68,548                     |
| Employee Benefits                         | 21,343                     |
| Maintenance and Repairs                   | 17,323                     |
| Water Expense                             | 11,577                     |
| Supplies                                  | <u>35,467</u>              |
| Total Operating Expenses                  | <u>465,296</u>             |
| Operating Income (Loss)                   | <u>173,845</u>             |
| Non-Operating Revenues (Expenses)         |                            |
| Interest Income                           | 253                        |
| Interest Expense                          | (11,650)                   |
| Amortization of Bond Expense              | <u>(5,482)</u>             |
| Total Non-Operating Revenues (Expenses)   | <u>(16,879)</u>            |
| Income before Contributions and Transfers | 156,966                    |
| Transfers In                              | <u>9,386</u>               |
| Changes in Fund Net Assets                | 166,352                    |
| Net Assets - Beginning of Year            | <u>1,651,070</u>           |
| Net Assets - End of Year                  | <u><u>\$ 1,817,422</u></u> |

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

CITY OF WHITEWRIGHT, TEXAS  
 Proprietary Fund  
 Statement of Cash Flows  
 Year Ended September 30, 2012

|   | Proprietary<br>Fund      |
|---|--------------------------|
| Cash Flows from Operating Activities  |                          |
| Cash Received from Customers  | \$ 652,223               |
| Cash Payments to Employees  | (143,343)                |
| Cash Payments to Suppliers for Goods and Services                                   | (269,513)                |
| Net Cash from Operating Activities  | <u>239,367</u>           |
| Cash Flows from Noncapital Financing Activities                                     |                          |
| Transfers (to) from Other Funds   | <u>9,386</u>             |
| Net Cash from Noncapital Financing Activities                                       | <u>9,386</u>             |
| Cash Flows from Capital and Related Financing Activities                            |                          |
| Cash from Borrowing   | 154,004                  |
| Cash from Restricted Account held by GTUA   | 2,461                    |
| Interest Paid and Fees to Agent   | (17,220)                 |
| Acquisition and Construction of Capital Assets                                      | (66,529)                 |
| Principal Paid on Capital Debt  | <u>(200,720)</u>         |
| Net Cash Flows from Capital and Related Financing Activities                        | <u>(128,004)</u>         |
| Cash Flows from Investing Activities  |                          |
| Interest Received   | <u>51</u>                |
| Net Cash from Investing Activities  | <u>51</u>                |
| Net Increase in Cash and Cash Equivalents   | 120,800                  |
| Cash and Cash Equivalents, September 30, 2011                                       | <u>130,970</u>           |
| Cash and Cash Equivalents, September 30, 2012                                       | <u><u>\$ 251,770</u></u> |
| Reconciliation of Operating Income to Net Cash from Operating Activities            |                          |
| Operating Income  | \$ 173,845               |
| Adjustments to Reconcile Operating Income to Net Cash<br>from Operating Activities: |                          |
| Depreciation  | 68,566                   |
| Increase in Accounts Receivable   | (618)                    |
| Decrease in Accounts Payable  | (15,778)                 |
| Increase in Customer Deposits Payable   | 13,700                   |
| Decrease in Wages Payable   | <u>(348)</u>             |
| Net Cash from Operating Activities (above)  | <u><u>\$ 239,367</u></u> |
| Noncash Capital and Financing Activities:   |                          |
| Amortization of Bond Expense  | \$ 5,132                 |

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

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
September 30, 2012

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. A Proprietary Fund is used to account for the operations of the City's water and sewer services.

The City complies with accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund and similar component units, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For business-type activities and enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. The Reporting Entity

The financial statements present the government and its component units, entities for which the government is considered to be financially accountable. 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 of significantly influence operations and accountability for fiscal matters.

Based on the criteria stated above, the 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 matter of these organizations. For these reasons, it has been concluded that these organizations are part of the City's reporting entity.

The City has two component units, the Whitewright Economic Development Corporation (EDC) and the Whitewright Community Development Corporation (CDC), which are funded by a 4B and 4A sales tax, respectively, approved by the City Council. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-Wide Statements

The statement of net assets and statement of activities display information on all of the non-fiduciary activities of the primary government. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from the statements. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid in financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made. The City has presented the following major governmental fund:

General Fund - 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.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or 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 City's one enterprise fund is the Water and Sewer Fund which is used to account for the provision of water and sewer services to the City's residents.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported 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. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance on these assets are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and useful life in excess of 1 year. Depreciation on capital assets has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

|   |             |
|---|-------------|
| Buildings                                   | 40 Years    |
| Furniture, Fixtures, Equipment and Vehicles | 5-15 Years  |
| Water and Sewer Systems                     | 20-50 Years |
| Water and Sewer Improvements                | 50 Years    |
| Infrastructure                              | 20-35 Years |
| Land Improvements                           | 20 Years    |

D. Basis of Accounting

The City of Whitewright prepares its financial statements on 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 that presents information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

E. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is recorded as "Amounts Due To" and "Amounts Due From" other funds appropriately. The Proprietary Fund owes the General Fund \$36,339 at September 30, 2012, for various operating expenses.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash includes all cash on hand, demand deposits, time deposits, and other highly liquid investments with a maturity of three months or less when purchased.

G. Property Taxes

Ad valorem taxes are levied on 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 year in which imposed. 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 recognized when they become available. Available includes those property taxes receivable, which are expected to be collected within sixty days after year end.

H. Bad Debts

The City uses the allowance method of recording wastewater, ambulance, court fines, and forfeiture bad debts. The City has established an allowance for doubtful accounts for delinquent taxes to the extent that their collection is improbable.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in the government-wide fund financial statements.

J. Long-Term Debt

All long-term debts arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists of notes payable. Long-term debt arising from cash transactions for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.



CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

The City restricts a portion of each fund's equity balance, which represents assets not available for general operating use. For the year ended September 30, 2012, the General Fund's restricted portion of net assets was \$31,252 for the fire department, \$4,361 for the library, and \$5,137 for debt service. The Water Fund's restricted portion of net assets totaled \$76,935. This amount represents funds held at GTUA to be used exclusively for water and sewer system capital projects and repayment of contractual obligations.

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

M. Fund Balance

Beginning with fiscal year 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2012, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purpose. Under the City's policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

N. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

O. Inventory

Inventories of governmental funds are reported as expenditures when purchased.

P. Whitewright Community Development Corporation – 4B

The Whitewright Community Development Corporation (CDC) (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 CDC 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 CDC 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 CDC is funded by a one-half percent increase in the city sales tax rate.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Q. Whitewright Economic Development Corporation – 4A

The Whitewright Economic Development Corporation (EDC) (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 EDC is managed by a board of directors that is composed of five persons appointed by the City Council of Whitewright, Texas. The EDC is funded by a one-half percent increase in the city sales tax rate.

Note 2: Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered to be material to the financial statements:

For the year ended September 30, 2012, the City's expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

| <u>Object Category</u> | <u>Expenditures Exceeding</u> |        |
|------------------------|-------------------------------|--------|
|                        | <u>Appropriations</u>         |        |
| Capital Outlay         | \$                            | 74,596 |
| Debt Service           |                               | 25,708 |

The over-expenditures were funded by available fund balance.

Note 3: Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Deposited funds may be invested in certificates of deposit in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law. The City Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of the City Council. As of September 30, 2012, the City was not exposed to custodial credit risk since deposits are insured or collateralized with securities pledged held in the name of the City in the amount of \$782,009. The bank balances were \$490,349.

Certificates of Deposit in the amount of \$74,841 are considered deposits for this footnote but are classified as investments on the face of the financial statements.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 4: Receivables

Government-wide receivables as of September 30, 2012, including the applicable allowances for uncollectible accounts, are as follows:

|                               | General<br>Fund   | Proprietary<br>Fund<br>Wastewater | Component<br>Units | Total             | Amounts Not<br>Expected to be<br>Collected During<br>The Subsequent Year |
|-------------------------------|-------------------|-----------------------------------|--------------------|-------------------|--|
| Receivables:                  |                   |                                   |                    |                   |  |
| Ad Valorem Taxes              | \$ 42,556         | \$ -                              | \$ -               | \$ 42,556         | \$ 27,870  |
| Sales Taxes                   | 20,650            | -                                 | 20,650             | 41,300            | -  |
| Fines and Forfeitures-Court   | 82,230            | -                                 | -                  | 82,230            | -  |
| Ambulance Services            | 79,767            | -                                 | -                  | 79,767            | -  |
| Other                         | 12,681            | 23                                | 137,248            | 149,952           | -  |
| Accounts                      | <u>19,519</u>     | <u>80,349</u>                     | <u>-</u>           | <u>99,868</u>     | <u>-</u>   |
| Gross Receivables             | 257,403           | 80,372                            | 157,898            | 495,673           | 27,870   |
| Less: Uncollectible Allowance | <u>( 87,854)</u>  | <u>( 15,966)</u>                  | <u>-</u>           | <u>( 103,820)</u> | <u>-</u>   |
| Net Total Receivables         | <u>\$ 169,549</u> | <u>\$ 64,406</u>                  | <u>\$ 157,898</u>  | <u>\$ 391,853</u> | <u>\$ 27,870</u>   |

The Component Unit receivable of \$137,248 is comprised of the following:

\$140,000 note from Royal Case was entered into on February 18, 2005.

The note is payable in monthly installments of \$1,519 including interest as of September 30, 2011 of 5.5%. The note is secured by a building and matures May 1, 2015.

\$ 45,185

\$60,000 note from Whitewright Furniture, Inc. was entered into on April 26, 2011 and assumed by Whitewright Hardware, LLC on June 21, 2011. The note is payable in monthly installments of \$862 including interest as of September 30, 2011 of 5.5%. The note is secured by inventory and equipment and matures April 26, 2018.

49,643

\$50,000 note from Crosslands Learning Center, LLC was entered into on May 25, 2011.

The note is payable in monthly installments of \$719 including interest as of September 30, 2011 of 5.5%. The note is secured by inventory and matures May 25, 2018.

42,420

Total

137,248

Less: Current Portion

30,412

Total Due After One Year

\$ 106,836

There is no accrued interest receivable on Notes Receivable at September 30, 2012.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 4: Receivables (Continued)

The following is a schedule of the future receivables for the notes receivable at September 30, 2012:

| Fiscal<br>Year<br>Ending | Principal         | Interest         | Totals            |
|--------------------------|-------------------|------------------|-------------------|
| 2013                     | \$ 30,413         | \$ 6,788         | \$ 37,201         |
| 2014                     | 32,128            | 5,073            | 37,201            |
| 2015                     | 27,886            | 3,302            | 31,188            |
| 2016                     | 16,813            | 2,155            | 18,968            |
| 2017                     | 17,761            | 1,207            | 18,968            |
| 2018                     | <u>12,247</u>     | <u>255</u>       | <u>12,502</u>     |
| Totals                   | <u>\$ 137,248</u> | <u>\$ 18,780</u> | <u>\$ 156,028</u> |

Note 5: Capital Assets

A summary of changes in fixed assets for the year ended September 30, 2012, follows:

|   | Balance<br>9/30/11 | Additions     | Retirements      | Balance<br>9/30/12 |
|---|--------------------|---------------|------------------|--------------------|
| Governmental Activities:                      |                    |               |                  |                    |
| Capital Assets, Not being<br>Depreciated:     |                    |               |                  |                    |
| Land  | \$ 156,737         | \$ -          | \$ -             | \$ 156,737         |
| Construction in Progress                      | <u>33,606</u>      | <u>-</u>      | <u>-</u>         | <u>33,606</u>      |
| Total Capital Assets Not<br>Being Depreciated | <u>190,343</u>     | <u>-</u>      | <u>-</u>         | <u>190,343</u>     |
| Capital Assets Being<br>Depreciated:          |                    |               |                  |                    |
| Land Improvements                             | 29,500             | 25,000        | -                | 54,500             |
| Buildings                                     | 718,365            | -             | -                | 718,365            |
| Infrastructure                                | 433,923            | -             | -                | 433,923            |
| Furniture and Equipment                       | <u>1,728,838</u>   | <u>50,596</u> | <u>( 31,607)</u> | <u>1,747,827</u>   |
| Total Capital Assets<br>Being Depreciated     | <u>2,910,626</u>   | <u>75,596</u> | <u>( 31,607)</u> | <u>2,954,615</u>   |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 5: Capital Assets (continued)

|  | Balance<br>9/30/11 | Additions   | Retirements | Balance<br>9/30/12 |
|--|--------------------|-------------|-------------|--------------------|
| Less Accumulated   |                    |             |             |                    |
| Depreciation for:  |                    |             |             |                    |
| Land Improvements  | ( 60)              | ( 3,356)    | -           | ( 3,416)           |
| Buildings  | ( 516,512)         | ( 26,082)   | -           | ( 542,594)         |
| Infrastructure   | ( 57,896)          | ( 21,696)   | -           | ( 79,592)          |
| Furniture and Equipment  | ( 1,016,099)       | ( 107,300)  | 31,607      | (1,091,792)        |
| Total Accumulated<br>Depreciation                                  | ( 1,590,567)       | ( 158,434)  | 31,607      | (1,717,394)        |
| Total Capital Assets Being<br>Depreciated, Net                     | 1,320,059          | ( 82,838)   | -           | 1,237,221          |
| Governmental Activities<br>Total Capital Assets, Net               | \$ 1,510,402       | \$( 82,838) | \$ -        | \$1,427,564        |
| Business-Type Activities:<br>Capital Assets, Being<br>Depreciated: |                    |             |             |                    |
| Sewer System   | \$ 1,203,418       | \$ 66,529   | \$ -        | \$ 1,269,947       |
| Sewer System Improvements  | 1,180,852          | -           | -           | 1,180,852          |
| Water Tower  | 404,037            | -           | -           | 404,037            |
| Furniture and Equipment  | 138,665            | -           | -           | 138,665            |
| Total Capital Assets<br>Being Depreciated                          | 2,926,972          | 66,529      | -           | 2,993,501          |
| Less Accumulated   |                    |             |             |                    |
| Depreciation for:  |                    |             |             |                    |
| Sewer System   | ( 380,171)         | ( 24,051)   | -           | ( 404,222)         |
| Sewer System Improvements  | ( 383,436)         | ( 23,617)   | -           | ( 407,053)         |
| Water Tower  | ( 352,364)         | ( 8,081)    | -           | ( 360,445)         |
| Furniture and Equipment  | ( 62,253)          | ( 12,817)   | -           | ( 75,070)          |
| Total Accumulated<br>Depreciation                                  | ( 1,178,224)       | ( 68,566)   | -           | ( 1,246,790)       |
| Capital Assets Being<br>Depreciated, Net                           | 1,748,748          | ( 2,037)    | -           | 1,746,711          |
| Business-Type Activities<br>Total Capital Assets, Net              | \$ 1,748,748       | \$( 2,037)  | \$ -        | \$ 1,746,711       |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 5: Capital Assets (continued)

|   | <u>Balance<br/>9/30/11</u> | <u>Additions</u>    | <u>Retirements</u> | <u>Balance<br/>9/30/12</u> |
|---|----------------------------|---------------------|--------------------|----------------------------|
| Component Unit Activities:                  |                            |                     |                    |                            |
| Capital Assets, Not Being Depreciated:      |                            |                     |                    |                            |
| Land  | \$ -                       | \$ -                | \$ -               | \$ -                       |
| Construction in Progress                    | <u>-</u>                   | <u>-</u>            | <u>-</u>           | <u>-</u>                   |
| Total Capital Assets Not Being Depreciated  | <u>-</u>                   | <u>-</u>            | <u>-</u>           | <u>-</u>                   |
| Capital Assets Being Depreciated:           |                            |                     |                    |                            |
| Buildings                                   | 231,083                    | -                   | -                  | 231,083                    |
| Equipment                                   | <u>15,579</u>              | <u>-</u>            | <u>-</u>           | <u>15,579</u>              |
| Total Capital Assets Being Depreciated      | <u>246,662</u>             | <u>-</u>            | <u>-</u>           | <u>246,662</u>             |
| Less Accumulated Depreciation for:          |                            |                     |                    |                            |
| Buildings                                   | ( 26,027)                  | ( 11,554)           | -                  | ( 37,581)                  |
| Equipment                                   | <u>( 7,476)</u>            | <u>( 2,276)</u>     | <u>-</u>           | <u>( 9,752)</u>            |
| Total Accumulated Depreciation              | <u>( 33,503)</u>           | <u>( 13,830)</u>    | <u>-</u>           | <u>( 47,333)</u>           |
| Total Capital Assets Being Depreciated, Net | <u>213,159</u>             | <u>( 13,830)</u>    | <u>-</u>           | <u>199,329</u>             |
| Component Unit Activities Total Assets, Net | <u>\$ 213,159</u>          | <u>\$ ( 13,830)</u> | <u>\$ -</u>        | <u>\$ 199,329</u>          |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 5: Capital Assets (Continued)

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

|  |                   |
|--|-------------------|
| Governmental Activities:                           |                   |
| General Governmental                               | \$ 94,005         |
| Police and Court                                   | 11,675            |
| Fire Protection                                    | 21,724            |
| Emergency Medical Services                         | 15,679            |
| Library  | <u>15,351</u>     |
| Total Depreciation Expense-Governmental Activities | <u>\$ 158,434</u> |
| Business-Type Activities:                          |                   |
| Water and Sewer                                    | <u>\$ 68,566</u>  |
| Component Units Activities:                        |                   |
| Economic Development Corporation                   | \$ 11,554         |
| Community Development Corporation                  | <u>2,276</u>      |
|  | <u>\$ 13,830</u>  |

Note 6: Delinquent Property Tax

Delinquent property taxes at September 30, 2012, are as follows:

| <u>Tax Year</u>                      | <u>Amount</u>    |
|--------------------------------------|------------------|
| 2010 and prior                       | \$ 29,337        |
| 2011                                 | <u>13,219</u>    |
| Subtotal                             | 42,556           |
| Less allowance for doubtful accounts | <u>( 2,128)</u>  |
| Total Delinquent Property Taxes, net | <u>\$ 40,428</u> |

Note 7: 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, 2012, the tax rate was \$.728139 per \$100 assessed valuation.



CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 8: Long-Term Debt

A summary of the City's long-term debt transactions for the year ended September 30, 2012, follows:

|   | <u>Balance</u><br><u>10/1/11</u> | <u>Additions</u>  | <u>Deletions</u>    | <u>Balance</u><br><u>9/30/12</u> | <u>Due Within</u><br><u>One Year</u> |
|---|----------------------------------|-------------------|---------------------|----------------------------------|--------------------------------------|
| <u>Governmental-Type Activities</u>       |                                  |                   |                     |                                  |                                      |
| Notes Payable                             | \$ 45,638                        | \$ 17,509         | \$ ( 25,708)        | \$ 37,439                        | \$ 19,067                            |
| Total Governmental<br>Activities          | <u>\$ 45,638</u>                 | <u>\$ 17,509</u>  | <u>\$ ( 25,708)</u> | <u>\$ 37,439</u>                 | <u>\$ 19,067</u>                     |
| <u>Business-Type Activities</u>           |                                  |                   |                     |                                  |                                      |
| Notes Payable                             | \$ 293,947                       | \$ 154,004        | \$ (200,720)        | \$ 247,231                       | \$ 30,104                            |
| Total Business-<br>Type Activities        | <u>\$ 293,947</u>                | <u>\$ 154,004</u> | <u>\$ (200,720)</u> | <u>\$ 247,231</u>                | <u>\$ 30,104</u>                     |
| <u>Economic Development Corporation</u>   |                                  |                   |                     |                                  |                                      |
| Notes Payable                             | \$ 134,088                       | \$ -              | \$ 23,771           | \$ 110,317                       | \$ 24,939                            |
| Total Economic<br>Development Corporation | <u>\$ 134,088</u>                | <u>\$ -</u>       | <u>\$ 23,771</u>    | <u>\$ 110,317</u>                | <u>\$ 24,939</u>                     |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 8: Long-Term Debt (Continued)

Long-term debt is comprised of the following:

|   | <u>Government</u> | <u>Business-type</u> | <u>Component Units</u> |
|---|-------------------|----------------------|------------------------|
| \$110,000, Series 2004 GTUA Water Supply and Sewer Service Contract Obligation, due in annual installments of \$5,000 through 2025, interest from 2.79% to 5.64%.   | \$ -              | \$ 80,000            | \$ -                   |
| \$35,000 Note Payable issued November 16, 2010, due in monthly installments of \$1,053.21 through November 18, 2013, bearing an interest rate of 5.25%.   | -                 | 14,273               | -                      |
| \$154,004, Time Warrant issued August 16, 2012, due in monthly installments of \$1,548.26 through August 2022, bearing an interest rate of 3.85%.   | -                 | 152,958              | -                      |
| \$112,000, Note Payable issued May 13, 2005, due in monthly installments of \$1215.74 through May 2015, bearing an interest rate of 5.50% from May 13, 2005 to May 13, 2015, the interest rate will be the sum of the current index annum at that time. | -                 | -                    | 36,123                 |
| \$50,000 Note Payable issued April 27, 2011, due in monthly installments of \$683.56 through April 27, 2018, bearing an interest rate of 4.00%.   | -                 | -                    | 40,977                 |
| \$40,000 Note Payable issued May 25, 2011, due in monthly installments of \$546.87 through May 25, 2018, bearing an interest rate of 4.00%.   | -                 | -                    | 33,217                 |
| \$20,100 Note Payable, issued December 2, 2010, due in monthly installments of \$464.24 through November 18, 2014, bearing an interest rate of 5.25%.   | 11,384            | -                    | -                      |
| \$22,000 Note Payable, issued December 20, 2010, due in monthly installments of \$661.68 through December 18, 2013, bearing an interest rate of 5.25%.  | 9,587             | -                    | -                      |
| \$17,509 Note Payable, issued July 24, 2012 due in monthly installments of \$583.23 through March 18, 2015, bearing an interest rate of 4.75%.  | <u>16,468</u>     | <u>-</u>             | <u>-</u>               |
| Total Long-Term Debt  | <u>\$ 37,439</u>  | <u>\$ 247,231</u>    | <u>\$ 110,317</u>      |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 8: Long-Term Debt (Continued)

Annual requirements to retire debt obligations are as follows:

| Fiscal<br>Year<br><u>Due</u> | <u>Governmental Activities</u> |                 | Total Debt<br><u>Requirement</u> |
|------------------------------|--------------------------------|-----------------|----------------------------------|
|                              | <u>Principal</u>               | <u>Interest</u> |                                  |
| 2013                         | \$ 19,067                      | \$ 1,443        | \$ 20,510                        |
| 2014                         | 14,000                         | 555             | 14,555                           |
| 2015                         | <u>4,372</u>                   | <u>55</u>       | <u>4,427</u>                     |
|                              | <u>\$ 37,439</u>               | <u>\$ 2,053</u> | <u>\$ 39,492</u>                 |

| Fiscal<br>Year<br><u>Due</u> | <u>Business-Type Activities</u> |                  | Total Debt<br><u>Requirement</u> |
|------------------------------|---------------------------------|------------------|----------------------------------|
|                              | <u>Principal</u>                | <u>Interest</u>  |                                  |
| 2013                         | \$ 30,103                       | \$ 9,897         | \$ 40,000                        |
| 2014                         | 20,519                          | 8,721            | 29,240                           |
| 2015                         | 18,952                          | 7,945            | 26,897                           |
| 2016                         | 19,495                          | 7,160            | 26,655                           |
| 2017                         | 20,070                          | 6,338            | 26,408                           |
| 2018-2022                    | 108,092                         | 18,517           | 126,609                          |
| 2023-2025                    | <u>30,000</u>                   | <u>2,378</u>     | <u>32,378</u>                    |
|                              | <u>\$ 247,231</u>               | <u>\$ 60,956</u> | <u>\$ 308,187</u>                |

| Fiscal<br>Year<br><u>Due</u> | <u>Component Units Activities</u> |                  | Total Debt<br><u>Requirement</u> |
|------------------------------|-----------------------------------|------------------|----------------------------------|
|                              | <u>Principal</u>                  | <u>Interest</u>  |                                  |
| 2013                         | \$ 24,940                         | \$ 4,411         | \$ 29,351                        |
| 2014                         | 26,157                            | 3,194            | 29,351                           |
| 2015                         | 22,554                            | 1,949            | 24,503                           |
| 2016                         | 13,542                            | 1,220            | 14,762                           |
| 2017                         | 14,094                            | 668              | 14,762                           |
| 2018                         | <u>9,030</u>                      | <u>128</u>       | <u>9,158</u>                     |
|                              | <u>\$ 110,317</u>                 | <u>\$ 11,570</u> | <u>\$ 121,887</u>                |

Note 9: Number of Water and Sewer System Customers

At year end, 846 customers were connected to the water system and 838 to the sewer system.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 10: Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the system. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

|   | <u>Plan Year 2011</u>        | <u>Plan Year 2012</u>        |
|---|------------------------------|------------------------------|
| Employee Deposit Rate   | 5%                           | 5%                           |
| Matching Ratio (City to Employee)                                     | 1.5 to 1                     | 1.5 to 1                     |
| Years Required for Vesting  | 5                            | 5                            |
| Service Retirement Eligibility<br>(Expressed as Age/Years of Service) | 60/5,0/20                    | 60/5,0/20                    |
| Updated Service Credit  | 100% Repeating,<br>Transfers | 100% Repeating,<br>Transfers |
| Annuity Increase (to Retirees)  | 0% of CPI                    | 0% of CPI                    |

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 10: Pension Plan (Continued)

Contributions (continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

| <u>Fiscal<br/>Year<br/>Ended</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|----------------------------------|--|--|---------------------------------------|
| 9/30/10                          | \$ 15,722                                | 100%   | -                                     |
| 9/30/11                          | 21,118                                   | 100%   | -                                     |
| 9/30/12                          | 19,865                                   | 100%   | -                                     |

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

| <u>Valuation Date</u>                      | <u>12/31/2009</u>         | <u>12/31/2010</u>         | <u>12/31/2011</u>         |
|--|---------------------------|---------------------------|---------------------------|
| Actuarial Cost Method                      | Projected Unit Credit     | Projected Unit Credit     | Projected Unit Credit     |
| Amortization Method                        | Level Percent of Payroll  | Level Percent of Payroll  | Level Percent of Payroll  |
| GASB 25 Equivalent Single Amortized Period | 26.6 yrs; closed period   | 25 yrs; closed period     | 25.4 yrs; closed period   |
| Amortization Period for New Gains/Losses   | 25 years                  | 25 years                  | 25 years                  |
| Asset Valuation Method                     | 10-year Smoothed Market   | 10-year Smoothed Market   | 10-year Smoothed Market   |
| Actuarial Assumptions:                     |                           |                           |                           |
| Investment Rate of Return*                 | 7.5%                      | 7.0%                      | 7.0%                      |
| Projected Salary Increases*                | Varies by age and service | Varies by age and service | Varies by age and service |
| *Includes Inflation at                     | 3.00%                     | 3.00%                     | 3.00%                     |
| Cost of Living Adjustments                 | 0.0%                      | 0.0%                      | 0.0%                      |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 10: Pension Plan (continued)

Contributions (continued)

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability (AAL) | Funded<br>Ratio | Unfunded<br>AAL<br>(UAAL) | Covered<br>Payroll | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|---------------------------------|---|-----------------|---------------------------|--------------------|--|
| 12/31/11                    | \$ 822,564                      | \$ 811,961                              | 101.3%          | \$ ( 10,603)              | \$ 559,524         | ( 1.9)%  |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods or assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note 11: Transfers

The transfers were for operating purposes. Interfund transfers for the year ended September 30, 2012, consisted of the following amounts:

|   |                 |
|---|-----------------|
| Transfers to the Water and Sewer Fund from: |                 |
| General Fund                                | <u>\$ 9,386</u> |

Note 12: Contingent Liabilities

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

Note 13: Related Party

A city council member was paid by the Whitewright Economic Development Corporation during the year for services to repair a building.

CITY OF WHITEWRIGHT, TEXAS  
Notes to Financial Statements  
(Continued)  
September 30, 2012

Note 14: Subsequent Events

- A. Management has evaluated subsequent events through July 10, 2013, the date on which the financial statements were available to be issued.
- B. The City of Whitewright, the Whitewright Economic Development Corporation, and the Whitewright Community Development Corporation each paid \$7,883, for a total of \$23,650, for the installation of storm sirens in November 2012.
- C. The Whitewright Economic Development Corporation Board of Directors approved the installation of WiFi, to be used by the public for the downtown and trades day locations, in the amount of \$32,000 on October 22, 2012.
- D. The Whitewright Economic Development Corporation Board of Directors approved a loan in the amount of \$80,000 to a downtown merchant for equipment purchases on February 25, 2013.

CITY OF WHITEWRIGHT, TEXAS  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended September 30, 2012

|   | Original<br>Budget | Final<br>Budget   | Actual            | Variance<br>with<br>Final Budget |
|---|--------------------|-------------------|-------------------|----------------------------------|
| Revenue   |                    |                   |                   |                                  |
| Property Taxes  | \$ 330,000         | \$ 330,000        | \$ 393,761        | \$ 63,761                        |
| Emergency Medical Service   | 278,740            | 278,740           | 308,392           | 29,652                           |
| General Sales and Use Taxes   | 175,000            | 175,000           | 153,502           | (21,498)                         |
| Solid Waste Disposal  | 144,900            | 144,900           | 146,857           | 1,957                            |
| Police Department and Court   | 54,850             | 54,850            | 61,860            | 7,010                            |
| Franchise Taxes   | 60,000             | 60,000            | 57,899            | (2,101)                          |
| Fire Department   | 29,700             | 29,700            | 40,483            | 10,783                           |
| Capital Contributions   | 6,500              | 6,500             | 25,000            | 18,500                           |
| Other Revenue   | 21,750             | 21,750            | 31,681            | 9,931                            |
| Permits and Fees  | 8,500              | 8,500             | 10,510            | 2,010                            |
| Library   | 13,900             | 13,900            | 32,969            | 19,069                           |
| Grants  | -                  | -                 | 1,000             | 1,000                            |
| Interest Revenue  | -                  | -                 | 2,691             | 2,691                            |
| Total Revenue   | <u>1,123,840</u>   | <u>1,123,840</u>  | <u>1,266,605</u>  | <u>142,765</u>                   |
| Expenditures  |                    |                   |                   |                                  |
| General Government  | 566,250            | 566,250           | 530,652           | 35,598                           |
| Emergency Medical Services  | 359,500            | 359,500           | 336,386           | 23,114                           |
| Police & Court  | 288,100            | 288,100           | 301,355           | (13,255)                         |
| Library   | 11,500             | 11,500            | 7,412             | 4,088                            |
| Fire  | 30,700             | 30,700            | 36,276            | (5,576)                          |
| Debt Service  |                    |                   |                   |                                  |
| Principal Retirement  | -                  | -                 | 25,708            | (25,708)                         |
| Interest  | -                  | -                 | 2,019             | (2,019)                          |
| Capital Outlay  | 1,000              | 1,000             | 75,596            | (74,596)                         |
| Total Expenditures  | <u>1,257,050</u>   | <u>1,257,050</u>  | <u>1,315,404</u>  | <u>(58,354)</u>                  |
| Excess (Deficiency) of Revenues<br>Over Expenditures                              | <u>(133,210)</u>   | <u>(133,210)</u>  | <u>(48,799)</u>   | <u>84,411</u>                    |
| Other Financing Sources (Uses)  |                    |                   |                   |                                  |
| Operating Transfers In  | -                  | -                 | -                 | -                                |
| Operating Transfers Out   | -                  | -                 | (9,386)           | (9,386)                          |
| Capital Financing   | -                  | -                 | 17,509            | 17,509                           |
| Total Other Financing Sources (Uses)  | <u>-</u>           | <u>-</u>          | <u>8,123</u>      | <u>8,123</u>                     |
| Excess (Deficiency) of Revenues & Other<br>Sources Over Expenditures & Other Uses | <u>(133,210)</u>   | <u>(133,210)</u>  | <u>(40,676)</u>   | <u>92,534</u>                    |
| Fund Balances - October 1, 2011   | <u>395,469</u>     | <u>395,469</u>    | <u>395,469</u>    | <u>-</u>                         |
| Fund Balances - September 30, 2012  | <u>\$ 262,259</u>  | <u>\$ 262,259</u> | <u>\$ 354,793</u> | <u>\$ 92,534</u>                 |



CITY OF WHITEWRIGHT, TEXAS  
Texas Municipal Retirement System  
Schedule of Funding Progress  
September 30, 2012

Texas Municipal Retirement System  
Schedule of Funding in Progress:  
(unaudited)

| <u>Actuarial<br/>Valuation Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</u> | <u>Funded<br/>Ratio</u> | <u>Unfunded<br/>AAL (UAAL)</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percentage of<br/>Covered Payroll</u> |
|-------------------------------------|--|--|-------------------------|--------------------------------|----------------------------|--|
|                                     | (1)                                      | (2)  | (3)                     | (4)                            | (5)                        | (6)  |
|                                     |  |  | (1) / (2)               | (2) - (1)                      |                            | (4) / (5)  |
| 12/31/2009                          | \$ 467,717                               | \$ 498,795   | 93.8%                   | \$ 31,078                      | \$ 585,748                 | 5.3 %  |
| 12/31/2010                          | 750,826                                  | 731,531  | 102.6%                  | (19,295)                       | 573,062                    | (3.4) %  |
| 12/31/2011                          | 822,564                                  | 811,961  | 101.3%                  | (10,603)                       | 559,524                    | (1.9) %  |

CITY OF WHITEWRIGHT, TEXAS  
Notes to Required Supplementary Information  
September 30, 2012

Budgetary Data

Prior to September 1, the City Council submits a proposed budget for the ensuing fiscal year. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes, to be published, a notice of the budget hearing. After the budget hearing, the budget may be adopted by a favorable vote of the majority of the Council.

In accordance with state law, the City adopts an annual budget before September 30 for the subsequent year. The budget is prepared on the same basis of accounting as applied to the governmental funds in the basic financial statements.

GAAP requires that a budgetary comparison be presented for the general fund. The budgetary comparison must include the original budget and the final amended budget.