CITY OF SANDY OAKS, TEXAS

ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2016

CITY OF SANDY OAKS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Sandy Oaks, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Sandy Oaks, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The City has not adopted an anti-fraud policy, identity theft policy, percentage of uncollectible methodology ordinance, fixed asset methodology ordinance, or a computer policy. The City has not included land or infrastructure capital assets into the financial statements. The City has not sufficiently provided the requisite subsequent events information. Accounting principles and auditing standards generally accepted in the United States of America require that an entity incorporate the above items into their annual audit and their annual financial report. The amounts by which these departures would affect the assets, net position, results of operations, and cash flows has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Sandy Oaks, Texas, as of September 30, 2016 and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–8 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.

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
August 7, 2018

Management's Discussion and Analysis

Financial Highlights

- The assets of the City of Sandy Oaks, Texas exceeded its liabilities at the close of the most recent fiscal year by $291,251 (net position). Of this amount, $229,633 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net position increased by $231,051. The primary reason for this increase was an increase in property taxes and sales taxes of $227,672 and $45,008, respectively, and careful budget management.

- As of the close of the current fiscal year, the City of Sandy Oaks, Texas' governmental funds reported combined ending fund balances of $209,232, an increase of $149,032 in comparison with the prior year. Approximately 100% of this total amount, $209,232, is available for spending at the government's discretion (unassigned fund balance).

- At the end of the current fiscal year, unassigned fund balance for the general fund was $209,232, or 95 percent of total general fund expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City of Sandy Oaks, Texas' basic financial statements. The City of Sandy Oaks, Texas' basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City of Sandy Oaks, Texas' finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Sandy Oaks, Texas that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sandy Oaks, Texas include general administration.

The government-wide financial statements include only the City of Sandy Oaks, Texas (known as the primary government).

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sandy Oaks, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sandy Oaks, Texas can be divided into one category: governmental funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Sandy Oaks, Texas maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund.

The City of Sandy Oaks, Texas adopts an annual appropriated budget for its general fund.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-25 of this report.

Government-Wide Financial Analysis:

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Sandy Oaks, Texas, assets exceeded liabilities by $291,251 at the close of the most recent fiscal year.

CITY OF SANDY OAKS, TEXAS
NET POSITION

	Governmental Activities		Total	
	2016	2015	2016	2015
Current and Other Assets	$255,628	$67,291	$255,628	$67,291
Capital Assets:	61,618		61,618	
Total Assets	317,246	67,291	317,246	67,291
Other Liabilities	25,995	7,091	25,995	7,091
Total Liabilities	25,995	7,091	25,995	7,091
Invested in Capital Assets, Net of Related Debt	61,618		61,618	
Unrestricted	229,633	60,200	229,633	60,200
Total Net Position	$291,251	$60,200	$291,251	$60,200

The remaining balance of unrestricted net position ($291,251) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Sandy Oaks, Texas reported a positive balance in the governmental activities. For the prior fiscal year, the City of Sandy Oaks, Texas did not exist.

The government's net position increased by $231,051 during the current fiscal year. The primary reason for this increase was an increase in property taxes and sales taxes of $227,672 and $45,008, respectively, and careful budget management.

Governmental activities:

Governmental activities increased the City of Sandy Oaks, Texas' net position by $231,051, thereby accounting for 100 percent of the total increase in the net position of the City of Sandy Oaks, Texas. The primary reason for this increase was an increase in property taxes and sales taxes of $227,672 and $45,008, respectively, and careful budget management.

CITY OF SANDY OAKS, TEXAS
CHANGE IN NET POSITION

	Governmental Activities		Total	
	2016	2015	2016	2015
Revenues:				
Program Revenues:				
Capital Grants and Contributions	$11,500		$11,500	
General Revenues:				
Property Taxes	227,672		227,672	
Sales Taxes	46,855	1,847	46,855	1,847
Franchise Taxes	102,702	95,528	102,702	95,528
Miscellaneous	11,952		11,952	
Total Revenue	400,681	97,375	400,681	97,375
Expenses:				
General Administration	92,337	37,175	92,337	37,175
Public Safety	42,564		42,564	
Public Transportation	30,925		30,925	
Culture and Recreation	3,804		3,804	
Total Expenses	169,630	37,175	92,337	37,175
Increase in Net Position Before	231,051	60,200	308,344	60,200
Transfers and Special Items				
Transfers				
Increase in Net Position	231,051	60,200	231,051	60,200
Net Position at 09/30/2015	60,200		60,200	
Net Position at 09/30/2016	$291,251	$60,200	$291,251	$60,200

Functions/Programs	Expenses	Program Revenues Charges for Services	Capital Grants and Contributions
Primary Government			
Government Activities:			
General Administration	$92,337		$11,500
Public Safety	42,564		
Public Transportation	30,925		
Culture and Recreation	3,804		
Total Government Activities	$169,630	$0	$11,500

Revenues by Source - Governmental Activities

	REVENUES	%
Capital Grants and Contributions	$11,500	3%
Property Taxes	227,672	57%
Sales Taxes	46,855	12%
Franchise Taxes	102,702	26%
Miscellaneous	11,952	3%
	$400,681	100%

Financial Analysis of the Government's Funds:

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

Governmental funds:

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

As of the end of the current fiscal year, the City of Sandy Oaks, Texas' governmental funds reported combined ending fund balances of $209,232, an increase of $149,032 in comparison with the prior year. Approximately 100 percent of this total amount ($209,232) constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Sandy Oaks, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was $209,232, while total fund balance reached $209,232. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 95 percent of total general fund expenditures, while total fund balance represents 95 percent of that same amount.

The fund balance of the City of Sandy Oaks, Texas' general fund increased by $149,032 during the current fiscal year. The primary reason for this increase was an increase in property taxes and sales taxes of $207,271 and $45,008, respectively, and careful budget management.

General Fund Budgetary Highlights

There were no differences in overall expenditures between the original budget and the final amended budget for the general fund. The general fund had a positive budget variance of $62,052 whereby actual expenditures of $219,748 were less than the budgeted expenditures of $281,800.

Capital Asset and Debt Administration

Capital Assets:

The City of Sandy Oaks, Texas' investment in capital assets for its governmental activities as of September 30, 2016, amounts to $61,618 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, machinery and equipment, and streets.

CITY OF SANDY OAKS, TEXAS
CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Total	
	2016	2015	2016	2015
Land				
Construction in Progress				
Building and Improvements	2,850		2,850	
Machinery and Equipment	9,200		9,200	
Infrastructure	49,568		49,568	
Total	$61,618	$0	$61,618	$0

Additional information on the City of Sandy Oaks, Texas' capital assets can be found in note IV.C on page 23 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Sandy Oaks, Texas had no bonded debt.

Economic Factors:

None

Requests for Information

This financial report is designed to provide a general overview of the City of Sandy Oaks, Texas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Mayor, P.O. Box 828, Sandy Oaks, Texas, 78112.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SANDY OAKS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government	
	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	$212,752	$212,752
Receivables (Net of Allowance for Uncollectibles)	42,876	42,876
Capital Assets Not Being Depreciated:		
Land		
Total Capital Assets Being Depreciated, Net		
Building and Improvements	2,850	2,850
Machinery and Equipment	9,200	9,200
Infrastructure	49,568	49,568
Total Assets	$317,246	$317,246
LIABILITIES:		
Accounts Payable	$25,995	$25,995
Total Liabilities	25,995	25,995
NET POSITION		
Invested in Capital Assets, Net of Related Debt	61,618	61,618
Unrestricted	229,633	229,633
Total Net Position	$291,251	$291,251

The accompanying notes are an integral part of this statement.

CITY OF SANDY OAKS, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

		Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Total
Primary Government					
Government Activities:					
General Administration	$92,337	$0	$11,500	($80,837)	($80,837)
Public Safety	42,564			(42,564)	(42,564)
Public Transportation	30,925			(30,925)	(30,925)
Culture and Recreation	3,804			(3,804)	(3,804)
Total Government Activities	169,630	0	11,500	(158,130)	(158,130)
Total Primary Government	$169,630	$0	$11,500	(158,130)	(158,130)
General Revenues					
Taxes					
Property				227,672	227,672
Sales				46,855	46,855
Franchise				102,702	102,702
Miscellaneous				11,952	11,952
Total General Revenues				389,181	161,509
Change in Net Position				231,051	231,051
Net Position - Beginning				60,200	60,200
Net Position - Ending				$291,251	$291,251

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF SANDY OAKS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	$212,752	$212,752
Receivables (Net of Allowance for Uncollectibles)	42,876	42,876
Total Assets	$255,628	$255,628
LIABILITIES AND FUND BALANCES:		
Liabilities		
Accounts Payable	$25,995	$25,995
Total Liabilities	25,995	25,995
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Taxes	20,401	20,401
Fund Balances:		
Unassigned	209,232	209,232
Total Fund Balance	209,232	209,232
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$255,628	$255,628

The accompanying notes are an integral part of this statement.

CITY OF SANDY OAKS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds Balance Sheet	
Amounts reported for governmental activities in the statement of net position ("SNA") are different because:	$209,232
Capital assets used in governmental activities are not reported in the funds.	61,618
Certain property tax revenues are deferred in the funds.	20,401
Net Position of Governmental Activities - Statement of Net Position	$291,251

The accompanying notes are an integral part of this statement.

CITY OF SANDY OAKS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Total Governmental Funds
REVENUES		
Taxes		
Property	$207,271	$207,271
Sales	46,855	46,855
Franchise	102,702	102,702
Interest	0	0
Miscellaneous	11,952	11,952
Total Revenues	368,780	368,780
EXPENDITURES		
Current:		
General Administration	92,887	92,887
Public Safety	42,564	42,564
Public Transportation	80,493	80,493
Culture and Recreation	3,804	3,804
Total Expenditures	219,748	219,748
Excess (Deficiency) of Revenues Over (Under) Expenditures	149,032	149,032
OTHER FINANCING SOURCES (USES):		
Operating Transfers In	0	0
Total Other Financing Sources (Uses)	0	0
Net Changes in Fund Balances	149,032	149,032
Fund Balances - Beginning	60,200	60,200
Fund Balances - Ending	$209,232	$209,232

The accompanying notes are an integral part of this statement.

CITY OF SANDY OAKS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2016

Net Changes in Fund Balances - Total Governmental Funds	$149,032
Amounts reported for governmental activities in the statement of net position ("SNA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	61,618
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	20,401
Change in Net Position of Governmental Activities - Statement of Activities	$231,051

The accompanying notes are an integral part of this statement.

CITY OF SANDY OAKS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Taxes				
Property	$225,000	$225,000	$207,271	($17,729)
Sales	57,300	57,300	46,855	(10,445)
Franchise	92,000	92,000	102,702	10,702
Interest	500	500	0	(500)
Miscellaneous	0	0	11,952	11,952
Total Revenues	374,800	374,800	368,780	(6,020)
EXPENDITURES				
Current:				
General Administration				
Code Compliance				0
General administration	116,800	101,050	92,887	8,163
Health Inspections				0
Public Safety				
Animal Control	10,000	10,000	3,118	6,882
City Marshall	70,000	44,500	4,787	39,713
Municipal Court	50,000	40,000	34,659	5,341
Public Transportation				
Streets	35,000	82,500	80,493	2,007
Culture and Recreation				
Park	0	3,750	3,804	(54)
Total Expenditures	281,800	281,800	219,748	62,052
Excess (Deficiency) of Revenues Over (Under) Expenditures	93,000	93,000	149,032	56,032
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	93,000	93,000	149,032	56,032
Fund Balances - Beginning	60,200	60,200	60,200	
Fund Balances - Ending	$153,200	$153,200	$209,232	$56,032

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

1. Summary of Significant Accounting Policies

A. Reporting Entity/ Basis of Accounting/Measurement Focus

The City of Sandy Oaks, Texas, was incorporated by an election on May 14, 2014. The City operates under a Type A General-Law Municipality of government and provides the following services: public safety (animal, municipal court, and law enforcement), public transportation (streets), and general administrative services. The accounting policies of the City of Sandy Oaks, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

B. Government-Wide and Fund Financial Statements

The City's government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated. 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.

C. Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. (The City's deferred outflows of resources and deferred inflows of resources are noncurrent.) The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, and franchise taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds: The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and investments

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

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as fair value of the pool shares.

2. Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2016, and 10 percent of delinquent outstanding property taxes at September 30, 2016.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and Prepaid Items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2016.

There were no prepaid items at September 30, 2016.

4. Fund Balances – Governmental Funds

As of September 30, 2016, fund balances of the governmental funds are classified as follows:

Committed — amounts that can be used only for specific purposes determined by a formal action of City Council. 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 City Council.

Unassigned — all other spendable amounts.

As of September 30, 2016, fund balances are composed of the following:

Fund Balances:	
Unassigned	$209,232
Total Fund Balance	$209,232

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 City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2016, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 10 to 25 percent of the subsequent year's budgeted General Fund expenditures.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Significant construction activities during the year were street construction.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-40
Improvements other than Buildings	10-40
Infrastructure	20-50
Vehicles	5
Machinery, Equipment, and Office Furniture	5-10

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $61,618 difference are as follows:

Capital Assets Not Being Depreciated	$0
Capital Assets Being Depreciated	65,080
Accumulated Depreciation	(3,462)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	$61,618

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $61,618 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	$0
Capital Outlay - Additions - Being Depreciated	65,080
Capital Outlay - Deletions - Net	0
Depreciation Expense	(3,462)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	$61,618

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Mayor has been authorized by the council to prepare the budget. She is assisted by the City Secretary. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the Mayor. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Secretary is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2016.

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2016, excess of expenditures over appropriations did not occur in the general fund. The general fund had a positive budget variance of $62,052 whereby actual expenditures of $219,748 were less than the budgeted expenditures of $281,800.

C. Deficit Fund Equity

The City had no deficit fund balances as of September 30, 2016.

III. Detailed Notes on All Funds

A. Deposits and Investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is not in compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

The City has adopted a deposit and investment policy.

a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City was not exposed to custodial credit risk for its deposits of $225,200 were sufficiently covered by FDIC insurance of $250,000. The book balance of cash was $212,752.

The City had no investments at September 30, 2016.

B. Receivables

Receivables as of year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Total
Receivables		
Property Taxes	$20,780	$20,780
Franchise Taxes	22,180	22,180
Gross Receivables	42,960	42,960
Less: Allowance for Uncollectibles	84	84
Net Total Receivables	$42,876	$42,876

C. Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

Governmental Activities: Capital assets not being depreciated:	Beginning Balances	Increases	Decreases	Ending Balances
Land	$0			$0
Construction In Progress	0			0
Total capital assets not being depreciated:	0	0	0	0
Capital assets being depreciated:				
Building and Improvements	0	3,000		3,000
Machinery, Equipment and Vehicles	0	11,500		11,500
Infrastructure	0	50,580		50,580
Total capital assets being depreciated:	0	65,080	0	65,080
Less: Accumulated Depreciation for:				
Building and Improvements	0	150		150
Machinery, Equipment and Vehicles	0	2,300		2,300
Infrastructure	0	1,012		1,012
Total Accumulated Depreciation	0	3,462	0	3,462
Total Capital Assets Depreciated, Net	0	61,618	0	61,618
Business-type Activities capital assets, Net	$0	$61,618	$0	$61,618

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

Governmental Activities	
General Administration	$2,450
Public Transportation	1,012
Total Depreciation Expense - Governmental Activities	$3,462

Construction Commitments

Significant construction activities during the year were street construction.

IV. Other Information

A. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no instances where settlements exceeded insurance coverage in any of the three previous years.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

	Year ended 09/30/16	Year ended 09/30/15
Unpaid claims, beginning of fiscal year	$ -0-	$ -0-
Incurred claims (including IBNRs)		
Claim payments	-0-	-0-
Unpaid claims, end of fiscal year	$ -0-	$ -0-

1. General Liability Insurance

The City is insured for general and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred. The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $1,000,000 to $2,000,000 for each insurance event. The City anticipates no contingent losses. TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas. The City continues to carries commercial fidelity bonds for elected officials and for management.

2. Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

B. Related Party Transaction

Micki Ball (former mayor) & BJ Gillespie (Alderman Place 5) – the city acquired all assets and liabilities of the Waterwood Park Property Owners Association.

C. Subsequent Events

April 12,2018

1. Entered into a contract with Rehab Engineering, Inc to construct municipal building ramp not to exceed $8,622.60.

2. Accepted a bid for demolition of municipal swimming pool for Kieth Zars Pools - $9,800 total with 75% down.

May 10, 2018

1. Approved to retro fitted Fire Marshal vehicle at a cost of $16,142.61.

June 14

1. Approved a Phase II environment study not to exceed $18,878

2. Approved a Zoning Implementation not to exceed $14,500.00.

3. Approved to make Improvements to Parking lot at municipal court not to exceed $40,000.00.

D. 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 that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is not a defendant in any lawsuit at September 30, 2016.

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Please reply to Pleasanton address

To the City Council
City of Sandy Oaks, Texas

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Sandy Oaks, Texas as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Sandy Oaks, Texas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sandy Oaks, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sandy Oaks, Texas' internal control.

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

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

1. **Administrative**

We noted that the City does not have an anti-fraud policy, identity theft policy, percentage of uncollectible methodology, fixed asset methodology or a computer policy in place.

We noted that the City did not have copies of 4 invoices that we selected for testing.

We noted that the City did not have copies of cancelled checks that were selected for testing, dated January through May 2016.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

1. **Segregation of Duties/ Review and Initialing**

Segregation of Duties - due to the limited number of people working in the office, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible. The City should work to eliminate the lack of segregation of duties through a process of review and initialing.

This comment was listed on the prior year's report.

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

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
August 7, 2018

BEYER & CO.
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Please reply to Pleasanton address

Honorable Mayor
and City Council
City of Sandy Oaks, Texas

As a result of our observations concerning the accounting and financial aspects of the records of the City of Sandy Oaks, Texas during our audit for the year ended September 30, 2016, we noted certain immaterial matters and these matters are summarized below for your consideration. The following management points will be reviewed as part of next year's audit:

Administrative

Finding:

1. We noted that the City Secretary is being paid as a contract laborer.

Recommendation:

We recommend that the City pay the City Secretary as an employee.

Finding:

2. We noted that the City did not have a Certified Investment Officer during the fiscal year under audit, as per the Public Funds Investment Act.

Recommendation:

We recommend the City appoint an employee or council member to be its Investment Officer; and require said employee to attend certification classes as necessary to remain in compliance with the Public Funds Investment Act at all times.

Vendor List

Finding:

1. We noted that there were no addresses listed for several vendors on the vendor list.

Recommendation:

We recommend the City update its vendor list and make changes to it as they occur to ensure the list remains current at all times.

These comments and recommendations are made in a constructive spirit and in the best interest of the City of Sandy Oaks, Texas. We will be glad to review and discuss them in more detail with the City personnel at your request.

Sincerely,

Wayne R. Beyer

BEYER & CO.
Certified Public Accountants
August 7, 2018