

City of Overton, Texas
Financial Statements
Together With Independent Auditor's Report
September 30, 2008

**CITY OF OVERTON, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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Celebrating 20 Years!

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Overton, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Overton, Texas (City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

6855 OAK HILL BOULEVARD • TYLER, TEXAS 75703 • TEL 903 534 8811 • FAX 903 534 8891 • WWW.PW-TX.COM

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 13 and 20 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Management's Discussion and Analysis section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Management's Discussion and Analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Certified Public Accountants
Tyler, Texas

November 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-2 (below) summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents of each of the statements.

<p align="center">FIGURE A-2 MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</p>			
<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: Water and Sewer Utilities
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The Government-Wide Financial Statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business.

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-Wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees and fines (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 include general government, public safety, highway and streets, public works, social services, parks and recreation, and debt service. The business-type activities of the City are comprised of a water and sewer utility fund.

The Government-Wide Financial Statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation and municipal development district for which the City is financially accountable. Financial information for the component units are reported separately from the financial information presented for the primary government itself.

The Government-Wide Financial Statements can be found on pages 14-15 of this report.

Fund Financial Statements

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

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

The City has the following kinds of funds:

- **Governmental Funds**—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, we provide additional information at the bottom of the Governmental Fund Statements, or on the subsequent page, that explains the relationship (or differences) between them.

The City maintains eight (8) individual governmental funds. 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 and the Debt Service Fund, each of which is considered to be a major fund. A budgetary comparison schedule has been provided for the General Fund on page 20 to demonstrate compliance with the annual appropriated budget. Data from the other six (6) governmental funds are combined into a single, aggregated presentation.

The basic Governmental Fund Financial Statements can be found on pages 16-19 of this report.

- Proprietary Funds—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the Government-Wide Statements, provide both long-term and short-term financial information.

The City uses an enterprise fund to account for its Water and Sewer utility.

Proprietary Funds provide the same type of information as the Government-Wide Financial Statements, only in more detail.

The basic Proprietary Fund Financial Statements can be found on pages 21-23 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 24-43 of this report.

Single Audit

The City expended less than \$500,000 in federal financial assistance during the year ended September 30, 2008. As a result, a single audit in accordance with Office of Management and Budget (OMB) Circular A-133 was not required.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Overton, governmental and proprietary type fund, assets exceeded liabilities by \$6,665 as of September 30, 2008.

A deficit portion of the City's net assets, \$(407,916), reflects its investments in capital assets (e.g., land, machinery and equipment, and its water and wastewater distribution system), less any related debt used to acquire those assets that are still outstanding. Currently this is a deficit balance due to capital projects not yet under construction. The City uses the capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets totaling, \$203,689, are restricted for debt service and capital projects.

Unrestricted net assets were \$210,892. This amount represents resources available to meet the City's ongoing obligations to citizens and creditors less amounts needed to pay current year liabilities related to bonded debt.

**TABLE A-1
CITY OF OVERTON
NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 463,488	\$ 307,034	\$ 283,222	\$ 536,115	\$ 746,710	\$ 843,149
Capital Assets	1,134,326	1,191,125	2,178,815	2,325,353	3,313,141	3,516,478
Total Assets	\$ 1,597,814	\$ 1,498,159	\$ 2,462,037	\$ 2,861,468	\$ 4,059,851	\$ 4,359,627
Non-Current Liabilities	\$ 1,823,454	\$ 1,522,495	\$ 1,889,985	\$ 2,182,817	\$ 3,713,439	\$ 3,705,312
Other Liabilities	64,216	111,617	275,531	442,354	339,747	553,971
Total Liabilities	\$ 1,887,670	\$ 1,634,112	\$ 2,165,516	\$ 2,625,171	\$ 4,053,186	\$ 4,259,283
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ (690,914)	\$ (369,674)	\$ 292,991	\$ 72,179	\$ (397,923)	\$ (297,495)
Restricted	173,757	128,903	29,932	169,884	203,689	298,787
Unrestricted	227,301	104,818	(26,402)	(5,765)	200,899	99,053
Total Net Assets	\$ (289,856)	\$ (135,953)	\$ 296,521	\$ 236,298	\$ 6,665	\$ 100,345

As of September 30, 2008, the City is able to report positive balances in unrestricted net assets, both for the government as a whole, as well as for the governmental type activities. In the prior fiscal year, the City reported a positive balance in unrestricted net assets for the government as a whole, as well as for the governmental type activities, primarily due to uncompleted construction projects. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2008 primarily due to annual consumption and depreciation of tangible assets.

Analysis of the City's Operations - Overall the City had a decrease in net assets of \$93,680.

Governmental Activities:

Governmental activities decreased net assets by \$153,903. The key element in this decrease is:

- An increase in total liabilities

Business-type Activities:

Business-type activities increased net assets by \$60,223. The key element in this increase is:

- Reclassification of fund type related to the 400k Construction Fund

The following table A-2 provides a summary of the City's operations for the year ended September 30, 2008, with comparative totals for the year ended September 30, 2007.

**TABLE A-2
CITY OF OVERTON
CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Operating Revenues:						
Charges for Services	\$ 216,282	\$ 82,547	\$ 1,068,390	\$ 1,085,483	\$ 1,284,672	\$ 1,168,030
Operating Grants & Contributions	17,325	126,749	-	-	17,325	126,749
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues:						
Property Taxes	397,598	382,879	-	-	397,598	382,879
Sales & Franchise Taxes	370,087	250,051	-	-	370,087	250,051
Other	39,544	75,108	2,976	2,690	42,520	77,798
Total Revenues	1,040,836	917,334	1,071,366	1,088,173	2,112,202	2,005,507
Functions/Programs:						
General Government	390,603	360,421	-	-	390,603	360,421
Public Safety	375,878	345,639	-	-	375,878	345,639
Highways and Streets	1,947	133,542	-	-	1,947	133,542
Public Works	37,200	136,860	-	-	37,200	136,860
Social Services	15,740	16,734	-	-	15,740	16,734
Parks and Recreation	105,637	-	-	-	105,637	-
Debt Service	105,996	75,907	-	109,339	105,996	185,246
Water & Sewer	-	-	1,077,657	874,103	1,077,657	874,103
Total Expenses	1,033,001	1,069,103	1,077,657	983,442	2,110,658	2,052,545
Increase in Net Assets Before	7,835	(151,769)	(6,291)	104,731	1,544	(47,038)
Net Transfers	1,554	231,600	(94,480)	(231,600)	(92,926)	-
Net Change in Net Assets	9,389	79,831	(100,771)	(126,869)	(91,382)	(47,038)
Net Assets – Beginning of Year, as previously reported	(135,953)	(1,301,974)	236,298	363,167	100,345	(938,807)
Reclassification of Fund Type	(160,994)	-	160,994	-	-	-
Restatement of Fund Type	(2,298)	-	-	-	(2,298)	-
Prior Period Adjustments	-	1,086,190	-	-	-	1,086,190
Net Assets – End of Year, as restated	\$ (289,856)	\$ (135,953)	\$ 296,521	\$ 236,298	\$ 6,665	\$ 100,345

Chart A-1
City of Overton, Texas
Revenues for the Year Ended September 30, 2008

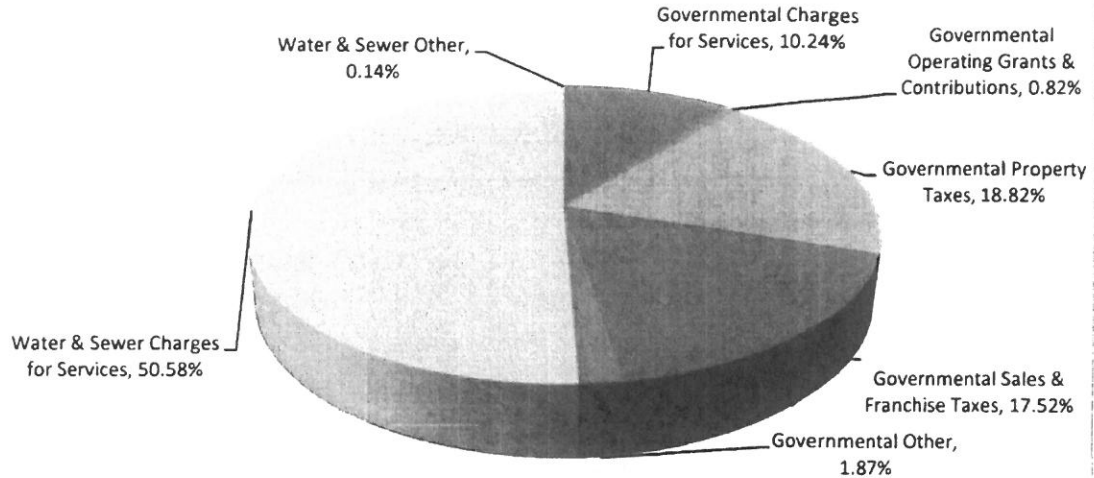
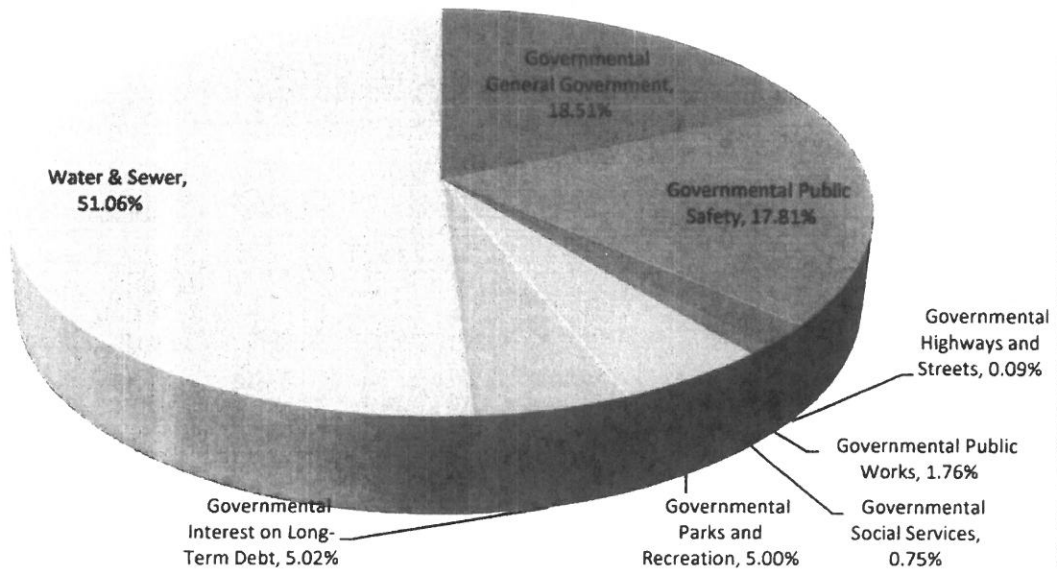


Chart A-2
City of Overton, Texas
Expenses for the Year Ended September 30, 2008



DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$3,713,439 comprised of certificates of obligation, compensated absences, loans and capital leases outstanding as shown in Table A-4. More detailed information about the City's debt is presented in Note II of the basic financial statements.

Table A-4
Outstanding Debt at Year-End
Bonds Payable

	Governmental Activities		Business - Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Certificates of Obligation	\$ 1,729,720	\$ 1,454,676	\$ 1,845,310	\$ 2,314,991	\$ 3,575,030	\$ 3,769,667
Loans Payable	30,118	35,135	40,514	47,260	70,632	82,395
Compensated Absences	20,577	17,265	4,161	1,499	24,738	18,764
Capital Leases	43,039	67,126	-	-	43,039	67,126
Total	\$ 1,823,454	\$ 1,574,202	\$ 1,889,985	\$ 2,363,750	\$ 3,713,439	\$ 3,937,952

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. In addition, it provides evidence of accountability for funds the City receives. If you have questions about this report or need any additional information, contact the City of Overton, Texas, Drawer D, Overton, Texas 75684.

CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
ASSETS					
Cash and cash equivalents	\$ 204,728	\$ 40,858	\$ 245,586	\$ 606,451	\$ 123,503
Receivables (net of allowances):					
Sales taxes	41,436	-	41,436	20,718	13,806
Property taxes	124,581	-	124,581	-	-
Franchise taxes	709	2,773	3,482	-	-
Accounts	42	97,684	97,726	250	-
Internal balances	78,788	(78,788)	-	-	-
Restricted cash and investments	-	133,876	133,876	-	-
Inventory	-	14,098	14,098	-	-
Bond issuance costs	13,204	72,721	85,925	-	-
Capital assets:					
Land	312,230	50,201	362,431	-	-
Infrastructure	3,475,000	-	3,475,000	-	-
Buildings	1,361,900	-	1,361,900	-	-
Machinery and equipment	530,349	-	530,349	-	-
Construction in progress	18,208	34,185	52,393	-	-
Water and sewer distribution	-	5,634,276	5,634,276	-	-
Less: accumulated depreciation	(4,563,361)	(3,539,847)	(8,103,208)	-	-
Total capital assets	1,134,326	2,178,815	3,313,141	-	-
Total Assets	1,597,814	2,462,037	4,059,851	627,419	137,309
LIABILITIES					
Accounts payable and accrued liabilities	64,216	170,351	234,567	-	-
Unearned revenue	-	1,236	1,236	-	-
Customer deposits	-	103,944	103,944	-	-
Noncurrent liabilities:					
Due within one year	79,614	161,405	241,019	-	-
Due in more than one year	1,743,840	1,728,580	3,472,420	-	-
Total Liabilities	1,887,670	2,165,516	4,053,186	-	-
NET ASSETS					
Investment in capital assets, net of related debt	(690,914)	292,991	(397,923)	-	-
Restricted:					
Debt services	-	29,932	29,932	-	-
Capital projects	173,757	-	173,757	-	-
Unrestricted	227,301	(26,402)	200,899	627,419	137,309
Total Net Assets	\$ (289,856)	\$ 296,521	\$ 6,665	\$ 627,419	\$ 137,309

CITY OF OVERTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Governmental activities:							
Administration	\$ 356,526	\$ 50,243	\$ 17,325	\$ (288,958)	\$ -	\$ (288,958)	\$ -
Judicial	34,077	120,075	-	85,998	-	85,998	-
Public Safety	375,878	-	-	(375,878)	-	(375,878)	-
Highways and streets	1,947	-	-	(1,947)	-	(1,947)	-
Public Works	37,200	-	-	(37,200)	-	(37,200)	-
Social Services	15,740	-	-	(15,740)	-	(15,740)	-
Parks and recreation	105,637	45,964	-	(59,673)	-	(59,673)	-
Debt service	105,996	-	-	(105,996)	-	(105,996)	-
Total governmental activities	1,033,001	216,282	17,325	(799,394)	-	(799,394)	-
Business-type activities:							
Water and sewer	1,077,657	1,068,390	-	-	(9,267)	(9,267)	-
Total business-type activities	1,077,657	1,068,390	-	-	(9,267)	(9,267)	-
Total primary government	\$ 2,110,658	\$ 1,284,672	\$ 17,325	(799,394)	(9,267)	(808,661)	-
Component Unit							
Economic Development Corporation	\$ 732	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (732)
Municipal Development District	43,244	-	-	-	-	-	(43,244)
Total component unit	\$ 43,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (732)
General revenues:							
Property taxes				397,598	-	397,598	-
Sales taxes				295,450	-	295,450	73,838
Franchise taxes				74,637	-	74,637	-
Investment earnings				4,434	780	5,214	330
Miscellaneous local and intermediate revenue				35,110	2,196	37,306	-
Transfers				1,554	(94,480)	(92,926)	-
Total general revenues and transfers				808,783	(91,504)	717,279	74,168
Change in net assets				9,389	(100,771)	(91,382)	30,924
Net assets - beginning of year, as previously reported				(135,953)	236,298	100,345	106,385
Reclassification of fund type				(160,994)	160,994	-	-
Restatement of fund type				(2,298)	-	(2,298)	-
Net assets - end of year, as restated				\$ (289,856)	\$ 296,521	\$ 6,665	\$ 137,309

FUND FINANCIAL STATEMENTS

**CITY OF OVERTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	MAJOR FUNDS		OTHER NON-MAJOR	TOTAL
	GENERAL FUND	DEBT SERVICE FUND	GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ 23,962	\$ 113	\$ 180,653	\$ 204,728
Receivables (net of allowances):				
Sales taxes	41,436	-	-	41,436
Property taxes	114,975	9,606	-	124,581
Franchise taxes	709	-	-	709
Fine and forfeitures	-	-	-	-
Other	42	-	-	42
Due from other funds	78,788	-	16,662	95,450
Total assets	<u>\$ 259,912</u>	<u>\$ 9,719</u>	<u>\$ 197,315</u>	<u>\$ 466,946</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 19,027	\$ -	\$ -	\$ 19,027
Accrued liabilities	34,142	-	-	34,142
Due to other funds	16,662	-	-	16,662
Due to other governments	-	-	-	-
Deferred revenues	114,949	9,607	-	124,556
Total liabilities	<u>184,780</u>	<u>9,607</u>	<u>-</u>	<u>194,387</u>
Fund Balances:				
Reserved for municipal court	-	-	-	-
Unreserved:				
Undesignated reported in:				
General fund	75,132	-	-	75,132
Special revenue funds	-	112	197,315	197,427
Total fund balances	<u>75,132</u>	<u>112</u>	<u>197,315</u>	<u>272,559</u>
Total liabilities and fund balances	<u>\$ 259,912</u>	<u>\$ 9,719</u>	<u>\$ 197,315</u>	<u>\$ 466,946</u>

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

CITY OF OVERTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Total fund balances - governmental funds	\$ 272,559
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,134,326
Long-term liabilities, including bonds payable and related costs, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	(1,789,672)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(11,047)
Delinquent property taxes receivable is a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.	124,556
Liabilities for compensated absences does not require current financial resource and therefore are not reported in the governmental funds balance sheet.	(20,578)
Net assets of governmental activities	<u>\$ (289,856)</u>

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	MAJOR FUNDS		OTHER NON-MAJOR	TOTAL
	GENERAL FUND	DEBT SERVICE FUND	GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
REVENUES				
Taxes:				
Property	\$ 255,099	\$ 111,485	\$ -	\$ 366,584
Sales	295,450	-	-	295,450
Franchise	74,637	-	-	74,637
Charges for services	50,043	-	45,964	96,007
Fines and forfeitures	120,075	-	-	120,075
Intergovernmental	12,763	-	-	12,763
Licenses and permits	200	-	-	200
Investment earnings	111	122	4,201	4,434
Grant	-	-	17,325	17,325
Miscellaneous	13,353	-	8,994	22,347
Total revenues	821,731	111,607	76,484	1,009,822
EXPENDITURES				
General government:				
Administration	333,381	-	128	333,509
Judicial	34,077	-	-	34,077
Public safety:				
Police	301,625	-	2,800	304,425
Fire	17,630	-	-	17,630
Animal control	2,583	-	-	2,583
Highways and streets	1,947	-	-	1,947
Public works	34,895	-	-	34,895
Social services	10,062	-	-	10,062
Parks and recreation	43,061	-	46,438	89,499
Capital outlay	2,793	-	18,208	21,001
Debt service	53,421	139,349	38,757	231,527
Total expenditures	835,475	139,349	106,331	1,081,155
Excess (deficiency) of revenues over (under) expenditures	(13,744)	(27,742)	(29,847)	(71,333)
OTHER FINANCING SOURCES (USES)				
Other financing sources - capital lease	20,510	-	-	20,510
Operating transfers from other funds	392,662	137,726	38,111	568,499
Operating transfers to other funds	(343,954)	(109,872)	(113,119)	(566,945)
Total other financing sources (uses)	69,218	27,854	(75,008)	22,064
Net change in fund balances	55,474	112	(104,855)	(49,269)
Fund balances - beginning of year, as previously reported	19,658	-	129,632	149,290
Reclassification of fund type	-	-	(160,994)	(160,994)
Restatement of fund type	-	-	333,532	333,532
Fund balances - end of year, as restated	\$ 75,132	\$ 112	\$ 197,315	\$ 272,559

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

CITY OF OVERTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ (49,269)
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense.	18,208
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of financial resources.	(75,007)
Tax revenue is reported in the government-wide statement of activities and changes in net assets, but a portion of the revenue does not provide current financial resources.	31,014
Repayment of principal consumes the current financial resources of governmental funds. This adjustment includes those principal payments along with other debt related adjustments such as amortization on bond issuance costs.	125,531
Some expenses in the statement of activities do not require the use of current financial resources; therefore, that are not reported as expenditures in the governmental funds.	<u>(20,510)</u>
Change in net assets of governmental activities	<u><u>\$ 29,967</u></u>

CITY OF OVERTON, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Property	\$ 379,533	\$ 379,533	\$ 255,099	\$ (124,434)
Sales	173,000	173,000	295,450	122,450
Franchise	100,000	100,000	74,637	(25,363)
Charges for services	37,250	37,250	50,043	12,793
Fines and forfeitures	58,000	58,000	120,075	62,075
Intergovernmental	13,500	13,500	12,763	(737)
Licenses and permits	500	500	200	(300)
Investment earnings	1,200	1,200	111	(1,089)
Grant	-	-	-	-
Miscellaneous	12,100	12,100	13,353	1,253
Total revenues	<u>775,083</u>	<u>775,083</u>	<u>821,731</u>	<u>46,648</u>
EXPENDITURES				
Administration	330,865	330,865	333,381	(2,516)
Judicial	39,070	39,070	34,077	4,993
Public safety	344,343	344,343	321,838	22,505
Highways and streets	10,000	10,000	1,947	8,053
Public works	39,622	39,622	34,895	4,727
Social services	16,669	16,669	10,062	6,607
Parks and recreation	31,140	31,140	43,061	(11,921)
Capital outlay	3,000	3,000	2,793	207
Debt service	130,825	130,825	53,421	77,404
Total expenditures	<u>945,534</u>	<u>945,534</u>	<u>835,475</u>	<u>110,059</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(170,451)</u>	<u>(170,451)</u>	<u>(13,744)</u>	<u>156,707</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources - capital lease	-	-	20,510	20,510
Operating transfers from other funds	179,950	179,950	392,662	212,712
Operating transfers to other funds	(3,500)	(3,500)	(343,954)	(340,454)
Total other financing sources (uses)	<u>176,450</u>	<u>176,450</u>	<u>69,218</u>	<u>(107,232)</u>
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ 5,999</u>	<u>\$ 5,999</u>	<u>55,474</u>	<u>\$ 49,475</u>
Fund Balance - beginning of year			<u>19,658</u>	
Fund Balance - end of year			<u>\$ 75,132</u>	

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

**CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
ASSETS	
Current assets:	
Cash	\$ 40,858
Accounts receivable (net)	97,684
Franchise tax receivable (net)	2,773
Inventory	<u>14,098</u>
Total current assets	<u>155,413</u>
Noncurrent assets:	
Restricted cash	
Customer deposits	103,944
Debt service fund	29,932
Bond issue costs	72,721
Capital assets:	
Land	50,201
Water and sewer distribution	5,634,276
Construction in progress	34,185
Less: accumulated depreciation	<u>(3,539,847)</u>
Total capital assets	2,178,815
Total noncurrent assets	<u>2,385,412</u>
Total assets	<u><u>\$ 2,540,825</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 170,351
Due to other funds	78,788
Unearned revenue	1,236
Customer deposits	103,944
Certificates of obligation payable	<u>161,405</u>
Total current liabilities	<u>515,724</u>
Non-current liabilities:	
Notes payable	40,514
Compensated absences payable	4,161
Bonds payable	<u>1,683,905</u>
Total non-current liabilities	<u>1,728,580</u>
Total liabilities	<u>2,244,304</u>
NET ASSETS	
Investment in capital assets, net of related debt	292,991
Restricted for debt service	29,932
Unrestricted	<u>(26,402)</u>
Total net assets	<u>296,521</u>
Total net assets and liabilities	<u><u>\$ 2,540,825</u></u>

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

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
OPERATING REVENUES	
Charges for services	1,068,390
Miscellaneous income	<u>2,196</u>
Total operating revenues	<u>1,070,586</u>
OPERATING EXPENSES	
Cost of sale and services	845,559
Depreciation	146,538
Amortization	<u>36,131</u>
Total operating expenses	<u>1,028,228</u>
Operating income	<u>42,358</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	780
Interest and fiscal charges on debt	<u>(49,429)</u>
Total nonoperating revenues (expenses)	<u>(48,649)</u>
Loss before operating transfers	<u>(6,291)</u>
TRANSFERS	
Transfers in	419,517
Transfers out	<u>(513,997)</u>
Net transfers and capital contributions	<u>(94,480)</u>
Change in net assets	(100,771)
Net Assets - beginning of year, as previously reported	236,298
Reclassification of fund type	<u>160,994</u>
Net Assets - end of year, as restated	<u><u>\$ 296,521</u></u>

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

**CITY OF OVERTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Increase (Decrease) In Cash and Cash Equivalents

**BUSINESS-TYPE ACTIVITIES
ENTERPRISE FUND**

WATER AND SEWER

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,106,476
Cash received in other operations	2,196
Cash payments to suppliers and employees	<u>(789,030)</u>
Net cash provided by operating activities	<u>319,642</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Increase (decrease) in due to/due from other funds	38,945
Net transfers between funds	<u>(94,480)</u>
Net cash used in non-capital financing activities	<u>(55,535)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal repayments on bonds and debt	(150,000)
Interest and fiscal charges on debt	(49,430)
Payment on notes payable	<u>(6,746)</u>
Net cash used in capital and related financing activities	<u>(206,176)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings	<u>780</u>
Net cash provided by investing activities	<u>780</u>

Net increase in cash and cash equivalents 58,711

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 116,023

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 174,734

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income \$ 42,358

Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation expense	146,538
Amortization of bond issuance costs	36,131
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	37,681
Increase (decrease) in accrued liabilities	51,870
Increase (decrease) in customer deposits	3,324
Increase (decrease) in deferred charges and interest payable	(2,158)
Increase (decrease) in unearned revenue	1,236
Increase (decrease) in compensated absences	<u>2,662</u>

Total adjustments 277,284

Net cash provided by operating activities \$ 319,642

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the City of Overton (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Boards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City operates under a council-manager form of government and provides the following services: public safety (police, fire and animal control), highways and streets, social services, public works, parks and recreation, water and sewer, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the GASB, the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2008.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of these criteria, the following entities are component units of the City:

Overton Economic Development Corporation (OEDC)

The Overton Economic Development Corporation (OEDC) is a nonprofit corporation organized to promote and develop new or expanding employment roles within the City of Overton or adjacent areas of Rusk County. The economic benefits provided by the corporation will benefit the City by stimulating the need for housing, retail sales, entertainment, etc. within the City.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Reporting Entity - continued

Overton Economic Development Corporation (OEDC) - continued

The Directors of the corporation are appointed by the City Council. Its budget must also be approved by the City Council. The 1/2 percent sales tax that funds OEDC is received by the City from the State and is passed to OEDC.

OEDC is reflected in these financial statements as a discretely presented component unit. Separate financial statements are not prepared by OEDC.

Overton Municipal Development District (OMDD)

Cities are authorized under Chapter 377 of the Local Government Code to hold an election, in all or part of a City, including the extra territorial jurisdiction, to create a Municipal Development District and adopt a sales tax to fund the District. The District may undertake a variety of projects authorized under Chapter 377 of the Local Government Code. The City held a special election in November 2004 to adopt a 1/2 per cent sales tax to be used for projects in the portion of Rusk County within the City's jurisdiction. The boundaries of the District are the portion of the City located within Rusk County and does not include any portion of the City located within Smith County.

OMDD is reflected in these financial statements as a discretely presented component unit. Separate financial statements are not prepared by OMDD.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Interfund activities between governmental funds appear as due to/due from's on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

Revenues from local sources consist primarily of property taxes. Property tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The City accounts for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs.

The City reports the following major proprietary fund:

Water and Sewer Fund – The City accounts for the activities of the water and sewer utility, including administration, operation and maintenance of the water and sewer system, billing and collection activities, and accumulation of resources for the payment of, long-term debt principal and interest for loans and certificates of obligation. All costs are financed through user charges made to utility customers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

The City's cash includes amounts on hand but also includes demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

State statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "Due to/from Other Funds" (i.e. the current portion of the interfund loan) or "Advances to/from Other Funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds."

Inventories

The City records inventory of chemicals, pipe and material in the Water and Sewer Fund. The inventory is valued at the lower of cost or market.

Property Taxes

Property Taxes Receivable are shown net of an allowance for uncollectibles. The allowance is equal to five (5) percent of delinquent property taxes receivable at September 30, 2008.

The City's ad valorem taxes are levied on October 1 but do not become due until January 31 of the following year. Taxes become past due February 1 and become delinquent June 30. The City's taxes become a lien on real property on the due date of January 1. This lien is effective until the taxes are paid.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Assets or Equity - continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City 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 statements regardless of their amount.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets though back trending (i.e., estimating the current replacement cost of infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Additional capital assets, constructed or acquired each period, are capitalized and reported at historical cost.

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

Buildings, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Wastewater System	30
Infrastructure	10
Buildings	20-30
Vehicles	5
Machinery & Equipment	7-10

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Assets or Equity - continued

Compensated Absences

Regular full-time employees earn personal time off (PTO) at the rate of 4.62 hours for every two weeks of service for a total of 15 days PTO per year for up to 5 years of service. After 5 years, employees earn at the rate of 5.39 hours for every 2 weeks of service for a total of 17.5 days per year. After 10 years, PTO is earned at a rate of 6.16 hours for every 2 weeks of service for a total of 20 days per year. No employee may accrue more than 25 days of PTO.

Employees receive payment for remaining PTO upon separation of employment if they have been employed 6 months or more and give proper written notice. Accumulated unpaid PTO amounts are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In governmental funds, the cost of PTO is recognized when payments are due. The General Fund and the Water and Sewer Enterprise Fund are used to liquidate the accrued compensated absences liability.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Net assets reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, and Net Assets or Equity - continued

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash and certificates of deposit to be cash equivalents.

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal year end.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Board at its regular meetings.

The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service, or a transfer to another fund. Additionally, transfers from other funds and carryovers from prior years are budgeted as revenue. Total appropriations for all departments of the City may not exceed the reasonable and anticipated revenues of the City in excess of fixed charges for the year. Formal budgetary integration is employed as a management control device during the year for the General Fund, Debt Service Fund, and Special Revenue Funds, as well as the Water and Sewer Enterprise Fund.

Expenditures in Excess of Budgeted Amounts

Following is a summary of expenditures in excess of appropriations for the General Fund:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Administration	\$ 333,381	\$ 330,865	\$ (2,516)
Parks and recreation	43,061	31,140	(11,921)
Total	<u>\$ 376,442</u>	<u>\$ 362,005</u>	<u>\$ (14,437)</u>

Use of 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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The City's balances were completely covered by federal deposit insurance at September 30, 2008. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk are as follows:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Cash & Cash Equivalents					
General Fund	\$ 23,962	23,962	\$ -	\$ -	\$ 23,962
Debt Service Fund	113	113	-	-	113
Water and Sewer Fund	174,734	174,734	-	-	174,734
Non-major Funds	180,653	180,653	-	-	180,653
Component Units					
OMDD	123,503	123,503	-	-	123,503
OEDC	606,451	606,451	-	-	606,451
Total	\$ 1,109,416	1,109,416	\$ -	\$ -	\$ 1,109,416

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, 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, and (9) bid solicitation preferences for certificates of deposit.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Deposits and Investments - continued

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that the City has not adopted an investment policy. The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2008, the City invested only in certificates of deposit with a local bank.

The City's discretely presented component units' funds are all placed in demand deposit accounts or certificates of deposit with a local bank.

Property Tax

The assessed valuation (net of exemptions) was \$61,768,990 for 2008 (with taxes due January 1, 2008) levied at a rate of \$0.555900 per hundred-dollar valuation.

Receivables

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

	Primary Government		Business-Type	
	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Receivables:				
Accounts	\$ 42	\$ -	\$ 98,036	\$ 98,078
Taxes	163,171	10,112	2,773	176,056
Gross receivables	163,213	10,112	100,809	274,134
Less: Allowance for uncollectables	(6,051)	(506)	(352)	(6,909)
Total	<u>\$ 157,162</u>	<u>\$ 9,606</u>	<u>\$ 100,457</u>	<u>\$ 267,225</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Receivables - continued

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
General Fund:	
Delinquent property taxes receivable	\$ 114,949
Debt Service Fund:	
Delinquent property taxes receivable	<u>9,607</u>
 Total governmental funds	 <u><u>\$ 124,556</u></u>

Receivables as of yearend for the City's discretely presented component units are as follows:

	<u>OMDD</u>	<u>OEDC</u>	<u>Total</u>
Taxes	\$ 13,806	\$ 20,718	\$ 34,524
Other	<u>-</u>	<u>250</u>	<u>250</u>
 Total component unit receivables	 <u><u>\$ 13,806</u></u>	 <u><u>\$ 20,968</u></u>	 <u><u>\$ 34,774</u></u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

Primary Government	Balance			Balance
<i>Governmental Activities:</i>	<u>09/30/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>09/30/08</u>
Non-depreciable assets:				
Land	\$ 312,230	\$ -	\$ -	\$ 312,230
Construction in progress	-	18,208	-	18,208
Depreciable assets:				
Infrastructure	3,475,000	-	-	3,475,000
Buildings	1,361,900	-	-	1,361,900
Machinery and equipment	530,349	-	-	530,349
Accumulated depreciation	<u>(4,488,354)</u>	<u>(75,007)</u>	<u>-</u>	<u>(4,563,361)</u>
<i>Governmental Activities, net</i>	<u>1,191,125</u>	<u>(56,799)</u>	<u>-</u>	<u>1,134,326</u>
<i>Business-type Activities:</i>				
Non-depreciable assets:				
Land	50,201	-	-	50,201
Construction in progress	34,185	-	-	34,185
Depreciable assets:				
Water and sewer system	5,634,276	-	-	5,634,276
Accumulated depreciation	<u>(3,393,309)</u>	<u>(146,538)</u>	<u>-</u>	<u>(3,539,847)</u>
<i>Business-type Activities, net</i>	<u>2,325,353</u>	<u>(146,538)</u>	<u>-</u>	<u>2,178,815</u>
Capital Assets, net	<u><u>\$ 3,516,478</u></u>	<u><u>\$ (203,337)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,313,141</u></u>

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Administration	\$ 17,067
Public safety	33,819
Public works	2,305
Social services	5,678
Parks and recreation	<u>16,138</u>
Total depreciation expense	<u><u>\$ 75,007</u></u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Interfund Receivables, Payables, and Transfers

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund Receivables and Payables

Interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and/or payments between funds are made.

The composition of interfund balances as of September 30, 2008, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 78,788
Construction fund	General fund	16,662
Total		<u>\$ 95,450</u>

Interfund Transfers

Interfund transfers are made in accordance with the City's adopted budget or through approvals to meet unexpected operating needs.

The composition of interfund transfers as of September 30, 2008, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 392,662	\$ 343,954
Debt service	137,726	109,872
Water and sewer	419,517	513,997
Other governmental	38,111	113,119
Total government	988,016	1,080,942
OEDC	96,926	4,000
Total transfers	<u>\$ 1,084,942</u>	<u>\$ 1,084,942</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt

Capital Leases

The City has acquired certain capital assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Amount</u>
Fire truck	5.5944%	\$ 98,442
Police car	6.87%	23,796
Brush chipper	5.55%	23,990
Total		<u>\$ 146,228</u>

The future minimum lease obligations as of September 30, 2008, were as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2009	\$ 24,765
2010	11,121
2011	5,434
2012	5,434
Total minimum lease payments	46,754
Less: amount representing interest	<u>(3,715)</u>
Present value of minimum lease payments	<u>\$ 43,039</u>

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for both governmental and business-type activities. These debt obligations are reported in the proprietary funds if they are expected to be repaid from proprietary revenue. The original amount of certificates of obligation issued in prior years was \$4,515,000.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt -continued

Certificates of Obligation - continued

Certificates of obligation are direct obligations and pledge full faith and credit of the City.
 Certificates of obligation currently outstanding are as follows:

Purpose	Interest Rates	Original Issue Amount
<i>Governmental Activities:</i>		
1994 Certificates of Obligation	6.1875%	\$ 165,000
2002 Tax and Utility System Surplus Revenue Certificates of Obligation	5.30%	1,450,000
<i>Business-type Activities:</i>		
2003 Tax and Utility System Surplus Revenue Certificates of Obligation	4.30%	400,000
2003 General Obligation Refunding Bonds	4.30%	<u>2,500,000</u>
Total Certificates of Obligation		<u><u>\$ 4,515,000</u></u>

Annual debt service requirements to maturity for certificates of obligation are as follows:

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 50,088	\$ 88,878	\$ 138,966	\$ 155,000	\$ 79,425	\$ 234,425
2010	55,737	85,910	141,647	160,000	73,077	233,077
2011	56,428	82,075	138,503	180,000	67,206	247,206
2012	62,163	80,152	142,315	190,000	58,304	248,304
2013	62,945	76,676	139,621	200,000	50,478	250,478
2014 – 2018	777,359	291,695	1,069,054	790,000	134,530	924,530
2019 – 2022	<u>665,000</u>	<u>68,907</u>	<u>733,907</u>	<u>175,000</u>	<u>7,525</u>	<u>182,525</u>
Total	<u>\$ 1,729,720</u>	<u>\$ 774,293</u>	<u>\$ 2,504,013</u>	<u>\$ 1,850,000</u>	<u>\$ 470,545</u>	<u>\$ 2,320,545</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt -continued

Notes Payable

The City obtained a loan in September of 2000 to refinance the purchase of general government and water and sewer equipment. Interest rate on the loan is 2.47% and the payments are due monthly.

Annual debt service requirements to maturity for the City's notes payable are as follows:

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 4,761	\$ 1,104	\$ 5,865	\$ 6,405	\$ 1,485	\$ 7,890
2010	4,258	985	5,243	5,727	1,325	7,052
2011	4,763	468	5,231	6,407	629	7,036
2012	4,882	349	5,231	6,567	469	7,036
2013	5,004	227	5,231	6,731	305	7,036
2014 – 2015	6,450	524	6,974	8,677	705	9,382
Total	\$ 30,118	\$ 3,657	\$ 33,775	\$ 40,514	\$ 4,918	\$ 45,432

Changes in Long-Term Debt

The changes in the general long-term debt as of September 30, 2008 are as follows:

	Balance 09/30/07	Prior Period Adjustment	Additions	Reductions	Balance 09/30/08	Due Within One Year
<i>Governmental Activities:</i>						
Certificates of obligation	\$ 1,454,676	\$ 320,000	\$ -	\$ 44,956	\$ 1,729,720	\$ 50,088
Capital leases	67,126	-	23,990	48,077	43,039	24,765
Notes payable	35,135	-	-	5,017	30,118	4,761
Compensated absences	17,265	-	3,312	-	20,577	-
Total governmental	\$ 1,574,202	\$ 320,000	\$ 27,302	\$ 98,050	\$ 1,823,454	\$ 79,614
<i>Business-type Activities:</i>						
Certificates of obligation	\$ 2,320,000	\$ (320,000)	\$ -	\$ 150,000	\$ 1,850,000	\$ 155,000
Less: Unamortized bond discount	(5,009)	-	-	(319)	(4,690)	-
Notes payable	47,260	-	-	6,746	40,514	6,405
Compensated absences	1,499	-	2,662	-	4,161	-
Total business-type	\$ 2,363,750	\$ (320,000)	\$ 2,662	\$ 156,427	\$ 1,889,985	\$ 161,405

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Restatements and Prior Period Adjustments

During the year ending September 30, 2008, the City determined that its interpretation of GASB statement No. 34 relating to presentation of governmental funds was incorrect. Therefore, restatements to the 2007 governmental fund financial statements for the debt service expenditures of bond proceeds and related issuance costs and the corresponding proprietary fund and nonmajor governmental fund statements were required.

The result was a restatement of the beginning fund balance of \$160,994 and a prior period adjustment in the amount of \$333,352 for the 400k Construction Fund financial statement to incorporate the current financial resources measurement focus and the modified accrual basis of accounting for governmental funds, previously reported as a proprietary fund.

In addition, the Statement of Activities reflects the restatement of the fund type for \$160,994 and a prior period adjustment for certain activities that did not require the use of financial resources of the previously reported net assets in the amount of \$2,298.

NOTE 3: OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending September 30, 2008.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and 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 city expects such amounts, if any, to be immaterial.

No reportable litigation was pending against the City as of September 30, 2008.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3: OTHER INFORMATION - continued

Texas Municipal Retirement System 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 statewide TMRS, one of 827 administered by 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.

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

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

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

The City is one of 827 municipalities having their benefit plan administered by TMRS. Each of the 827 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 3: OTHER INFORMATION - continued

Texas Municipal Retirement System Plan - continued

The Schedule of Actuarial Liabilities and Funding Progress for the City is as follows:

Schedule of Funding Progress

Actuarial Valuation Date	12/31/2007
Actuarial Value of Assets	\$ 611,081
Actuarial Accrued Liability	\$ 419,707
Percentage Funded	145.6%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (191,374)
Annual Covered Payroll	\$ 402,854
UAAL as a Percentage of Covered Payroll	(4.75%)

Trend Information

Annual Pension Cost	\$ 21,205
Percent contributed	100%
Net Pension Obligation	\$ -

Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Fund Value
Investment Rate of Return	-	4.25%
Projected Salary Increases	-	None
Includes Inflation At	-	3.0%
Cost of Living Adjustments	-	None

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE 3: OTHER INFORMATION - continued

Texas Municipal Retirement System Plan - continued

Contributions – Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period.

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$500,000 or more in federal or state awards during 2008. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the years ended September 30, 2008.

Subsequent Events

On February 26, 2009, the OEDC provided a \$100,000 grant and \$100,000 interest free loan to Clary E. & I for the construction of an office building. In addition, a \$15,000 grant and \$15,000 interest free loan was provided to Nutty Peanut Butter to further economic development within the City.

On June 2, 2009, the City re-leased a city street and the ball field to the Overton Independent School District for \$1 per year for the next 10 years.

On April 15, 2010, the City financed two new police cruisers in the amount of \$58,215.

On May 20, 2010, the City approved the receipt of a \$150,000 sidewalk grant. The grant called for matching funds, of which \$45,000 was donated to the City by the OEDC.

On October 21, 2010, the OEDC approved a \$50,000 grant to ARPCO to assist with organizational administrative costs.

On July 21, 2011, the OMDD provided a \$95,000 loan to the City to purchase a pump truck and wastewater pumps.

Management has evaluated subsequent events though November 15, 2012, which is the date the financial statements were made available to management.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF OVERTON, TEXAS
BALANCE SHEET
OTHER NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400k CONSTR. FUND	STARS & STRIPES FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
ASSETS							
Cash and Cash Equivalents	\$ 4,551	\$ 6,087	\$ 12,645	\$ 99,658	\$ 57,437	\$ 275	\$ 180,653
Due from other funds	-	-	-	16,662	-	-	16,662
Total assets	<u>\$ 4,551</u>	<u>\$ 6,087</u>	<u>\$ 12,645</u>	<u>\$ 116,320</u>	<u>\$ 57,437</u>	<u>\$ 275</u>	<u>\$ 197,315</u>
LIABILITIES AND FUND BALANCE							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-
Deferred revenues	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:							
Unreserved fund balances:							
Undesignated, reported in:							
Special revenue fund	4,551	6,087	12,645	116,320	57,437	275	197,315
Total fund balance	<u>4,551</u>	<u>6,087</u>	<u>12,645</u>	<u>116,320</u>	<u>57,437</u>	<u>275</u>	<u>197,315</u>
Total liabilities and fund balance	<u>\$ 4,551</u>	<u>\$ 6,087</u>	<u>\$ 12,645</u>	<u>\$ 116,320</u>	<u>\$ 57,437</u>	<u>\$ 275</u>	<u>\$ 197,315</u>

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OTHER NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400k CONSTR. FUND	STARS & STRIPES FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
REVENUES							
Charges for services	\$ -	\$ 45,964	\$ -	\$ -	\$ -	\$ -	\$ 45,964
Grant	-	-	17,325	-	-	-	17,325
Investment earnings	26	-	-	3,410	765	-	4,201
Miscellaneous	7,244	1,500	-	-	-	250	8,994
Total revenues	7,270	47,464	17,325	3,410	765	250	76,484
EXPENDITURES							
Administration	-	-	128	-	-	-	128
Public safety	2,800	-	-	-	-	-	2,800
Parks and recreation	-	46,438	-	-	-	-	46,438
Capital outlay	-	-	-	18,208	-	-	18,208
Debt service	-	-	-	-	38,757	-	38,757
Total expenditures	2,800	46,438	128	18,208	38,757	-	106,331
Excess (deficiency) of revenues over (under) expenditures	4,470	1,026	17,197	(14,798)	(37,992)	250	(29,847)
OTHER FINANCING SOURCES (USES)							
Transfers from other funds	5,125	5,020	752	2,214	25,000	-	38,111
Transfers to other funds	(5,125)	(101)	(5,432)	-	(102,109)	(352)	(113,119)
Total other financing sources (uses)	-	4,919	(4,680)	2,214	(77,109)	(352)	(75,008)
Net change in fund balances	4,470	5,945	12,517	(12,584)	(115,101)	(102)	(104,855)
Fund balances - beginning of year, as previously reported	81	142	128	128,904	-	377	129,632
Reclassification of fund type	-	-	-	-	(160,994)	-	(160,994)
Restatement of fund type	-	-	-	-	333,532	-	333,532
Fund Balances - end of year, as restated	\$ 4,551	\$ 6,087	\$ 12,645	\$ 116,320	\$ 57,437	\$ 275	\$ 197,315

COMPLIANCE AND INTERNAL CONTROL



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

To the City Council
City of Overton, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Overton, Texas (City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *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.

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.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

6855 OAK HILL BOULEVARD • TYLER, TEXAS 75703 • TEL 903 534 8811 • FAX 903 534 8891 • WWW.PW-TX.COM

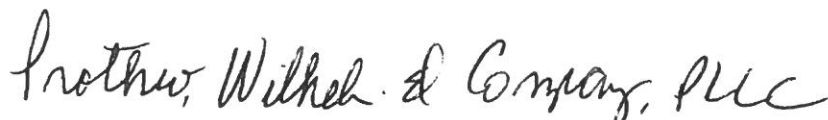
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, as items 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, and 2008-7, that we consider to be deficiencies, significant deficiencies, or material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as described above.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
November 15, 2012

**CITY OF OVERTON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

DEFICIENCIES

2008-1

Condition:

The City does not maintain formal job descriptions or written procedures of daily operations.

Criteria:

Formal job descriptions and written procedures should be maintained by the City.

Cause:

Long term employees have the ability to perform daily operational activities without oversight.

Effect:

Personnel may not be performing duties within their assigned job responsibilities.

Recommendation:

The City should establish clear and complete procedures and job descriptions for all personnel. These job descriptions should be prepared in a manner so that a relatively untrained person can step into a position and easily identify the process necessary to properly perform the task.

Management's Response:

We have identified specific job responsibilities within the City. With the hiring of a new City Manager, we expect to outline job responsibilities of each function within the City and begin implementing them during the first quarter of calendar year 2013.

2008-2

Condition:

Records of board minutes for the Overton Municipal Development District are not maintained by the City.

Criteria:

The City is responsible for ensuring documentation is maintained in accordance with State and Federal Laws.

Cause:

The City has not required the Overton Municipal Development District to maintain records with the City Secretary.

Effect:

The City is unable to obtain record of board meetings held by the Overton Municipal Development District.

DEFICIENCIES – continued

2009-2 – continued

Recommendation:

We recommend the City maintain copies of all board minutes and records of the Overton Municipal Development District.

Management's Response:

As of 2012, the City will be acquiring and maintaining the minutes and records of the OMDD.

2008-3

Condition:

Purchase orders are not being utilized.

Criteria:

Purchase orders should be used as a means to reconcile outstanding invoices or accounts payable.

Cause:

There is currently no formal procedure requiring purchase orders to be utilized.

Effect:

There is a risk for unauthorized disbursements to occur and not be detected in a timely manner.

Recommendation:

A formal procedure should be adopted by the City to utilize purchase orders, which will ensure disbursements are within the City's operational objectives.

Management's Response:

As referenced in 2008-7, we acquired a new Accounting System that should facilitate a correct purchase order system beginning January 1, 2013.

SIGNIFICANT DEFICENCIES

2008-4

Condition:

The City has incorrectly prepared the Excess Highway Fines Form 40-128.

Criteria:

In conformity with instructions presented on Form 40-128, a reconciliation process should make it possible to verify revenue reports created by the court reporting software match the calculation for Excess Highway Fines reporting.

SIGNIFICANT DEFICIENCIES – continued

2008-4 – continued

Cause:

The City does not have controls in place to determine if Excess Highway Fines are being properly calculated in accordance with Form 40-128 as presented by the Texas Comptroller of Public Accounts.

Effect:

There is a risk that liabilities to the Texas Comptroller of Public Accounts could be understated due to the lack of controls over Excess Highway Fines reporting.

Recommendation:

The City should determine how to reconcile court reporting software reports used for the Excess Highway Fines calculation as a means to verify liabilities to the Texas Comptroller of Public Accounts are accurately presented.

Management's Response:

As of the fiscal year 2012 –2013, the Police Chief and Court clerk will implement a formula to correctly calculate the Excess Highway Fines to be reported on Form 40-128.

2008-5

Condition:

The Police Department citation books are not maintained in a central location. In addition, outstanding citations are not monitored for collectivity or updated status.

Criteria:

Monitoring activities are a management function of the City.

Cause:

The City has not established clear responsibility for citation books or verified revenue collected from citations.

Effect:

Citations that should be in warrant status are not properly classified. There is also a potential for misappropriation of assets due to the lack of supervisory review in this area.

Recommendation:

Supervisory review procedures should be established to review citation status updates and citation collection processes.

Management's Response:

Citation Books are currently under lock and key and distributed by the Police Chief as needed.

MATERIAL WEAKNESSES

2008-6

Condition:

The same employee is responsible for writing checks, making daily deposits, reconciling the bank statements and recording daily activities into the general ledger system. In addition, there are currently no supervisory review procedures over the bank reconciliation process.

Criteria:

Segregation of duties should be maintained and supervisory review performed in order to ensure integrity of financial data.

Cause:

Limited personnel with accounting background have allowed for the same employee to complete multiple job functions.

Effect:

There is a potential for transactional misstatements and/or misappropriation of assets that could not be detected in a timely manner due to the lack of segregation of duties and supervisory review.

Recommendation:

Although there are check signing procedures in place, there is a need for supplemental supervisory review of bank reconciliations. Segregation of duties for daily activities related to deposits and the general ledger function will help to ensure the integrity of financial data.

Management's Response:

Daily deposits are prepared by separate departments and taken to the bank by the Financial Director. The new system allows for electronic reconciliations by Management. A new City Manager was hired during September 2012 and will now begin reviewing reconciliations.

2008-7

Condition:

Financial records related to trial balance totals currently do not reconcile.

Criteria:

Generally Accepted Accounting Principles requires double entry accounting be used to record transactions.

Cause:

The accounting system "EDOC" currently used by the City allows one-sided transactions to occur within the software.

MATERIAL WEAKNESSES – continued

2008-7 – continued

Effect:

Trial balance totals are not in balance as a result of one-sided transactions.

Recommendation:

We recommend that the City consider moving to an accounting system that ensures financial data is properly recorded in accordance with Generally Accepted Accounting Principles.

Management's Response:

A new Accounting System was implemented May 2012 that requires double-entry accounting and will not allow for one-sided transactions.