

City of Overton, Texas  
Financial Statements  
Together With Independent Auditor's Report  
September 30, 2009

**CITY OF OVERTON, TEXAS  
TABLE OF CONTENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>EXHIBIT/ SCHEDULE</u>	<u>PAGE(S)</u>
Independent Auditor's Report		1-2
Management's Discussion and Analysis		3-13
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	1	14
Statement of Activities	2	15
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	7	20
Statement of Net Assets – Proprietary Funds	8	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	9	22
Statement of Cash Flows – Proprietary Funds	10	23
Notes to the Financial Statements		24-43
Additional Supplemental Information:		
Non-Major Governmental Fund:		
Balance Sheet	11	44
Statement of Revenues, Expenditures and Changes in Fund Balances	12	45

**CITY OF OVERTON, TEXAS  
TABLE OF CONTENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>EXHIBIT/ SCHEDULE</u>	<u>PAGE(S)</u>
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		46-47
Schedule of Findings		48-50



## 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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2009, 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 July 18, 2013, 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



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 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 non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. They 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.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
July 18, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**City of Overton**  
1200 S. Commerce  
Overton, Texas 75684



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
CITY OF OVERTON  
SEPTEMBER 30, 2009**

This section of the City of Overton, Texas' (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

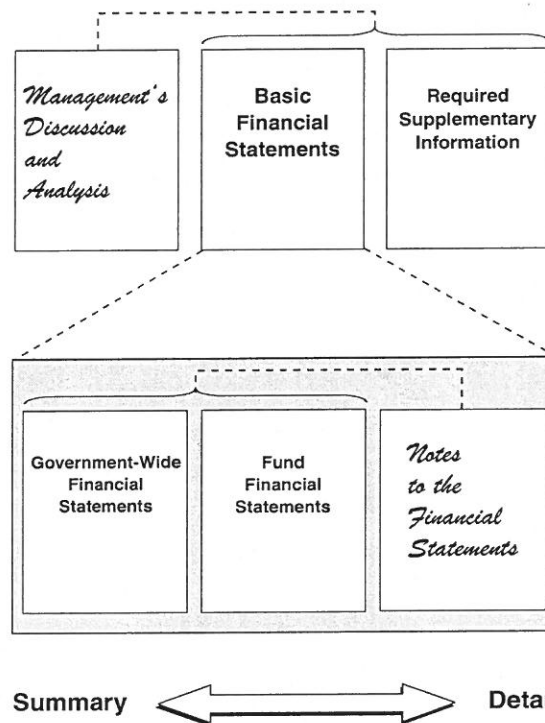
**FINANCIAL HIGHLIGHTS**

- The assets of the City of Overton, including the Component Units, exceeded its liabilities at the close of the most recent fiscal year by \$1,032,733 (Net Assets). Of this amount, \$682,229 (Unrestricted Net Assets, less investment in capital assets) may be used to meet the City's and Component Unit's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's and Component Unit's total net assets increased by \$261,341.
- During the year, the City's total net assets increased by \$192,880 for governmental and business-type activities.
- As of the close of the current fiscal year, the City of Overton's governmental funds reported combined ending fund balances of \$249,862, of which all is undesignated and available for use within the City's fund designation and fiscal policies.
- As of the end of the current fiscal year, the undesignated fund balance for the general fund was \$102,207, or 10% of the total general fund expenditures.
- The City's bonds payable decreased by \$205,061 due to principal repayments on debt in 2009.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of three parts; Management's Discussion and Analysis; the basic financial statements; and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

**FIGURE A-1.  
REQUIRED COMPONENTS OF THE  
CITY'S ANNUAL FINANCIAL  
REPORT**



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

The financial statements include notes which provide additional information about the items found in the financial statements and provide more detailed data about the City's accounting systems. The statements are followed by a section of additional supplementary information that provides detail Non-major Governmental Fund financial statements. Figure A-1 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 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.

<b>FIGURE A-2</b> <b>MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</b>			
<i>Type of Statement</i>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>
<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, and parks and recreation. 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 track 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 be readily 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 nine (9) 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 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 eight (8) governmental funds are combined into a single, aggregated presentation.

The basic Non-Major Governmental Fund Financial Statements can be found on pages 44-45 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, 2009. 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, the City's assets exceeded liabilities by \$199,545 as of September 30, 2009.

A portion of the City's net assets, \$51,377, reflects its investments in capital assets (e.g., land, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. 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, \$299,127, are restricted for debt service and capital projects.

Unrestricted net assets were ended with a deficit balance of \$(150,959). This amount represents resources available to meet the governmental fund's ongoing obligations to citizens and creditors less amounts needed to pay current year liabilities related to bonded debt. The current deficit balance is due to proprietary fund debt service obligations and improvements to infrastructure not available for spending.

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 405,548	\$ 463,488	\$ 166,943	\$ 283,222	\$ 572,492	\$ 746,710
Capital Assets	1,298,369	1,134,326	2,189,488	2,178,815	3,487,857	3,313,141
Total Assets	\$ 1,703,917	\$ 1,597,814	\$ 2,356,431	\$ 2,462,037	\$ 4,060,349	\$ 4,059,851
Non-Current Liabilities	\$ 1,809,129	\$ 1,823,454	\$ 1,725,449	\$ 1,889,985	\$ 3,534,578	\$ 3,713,439
Other Liabilities	53,822	64,216	272,404	275,531	326,226	339,747
Total Liabilities	\$ 1,862,951	\$ 1,887,670	\$ 1,997,853	\$ 2,165,516	\$ 3,860,804	\$ 4,053,186
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ (475,667)	\$ (690,914)	\$ 527,044	\$ 292,991	\$ 51,377	\$ (397,923)
Restricted	124,160	173,757	174,966	29,932	299,126	203,689
Unrestricted	192,473	227,301	(343,431)	(26,402)	(150,958)	200,899
Total Net Assets	\$ (159,034)	\$ (289,856)	\$ 358,579	\$ 296,521	\$ 199,545	\$ 6,665

As of September 30, 2009, the City is able to report positive balances in unrestricted net assets for the government as a whole, as well as for the governmental type activities. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2009 primarily due to annual consumption and depreciation of tangible assets as well as future restrictions of debt service payments.

Analysis of the City's Operations - Overall the City had an increase in net assets of \$192,880.

Governmental Activities:

Governmental activities increased net assets by \$130,822. The key element in this increase is:

- Greater than anticipated revenue collections and an overall control of spending below budgeted amounts.

Business-type Activities:

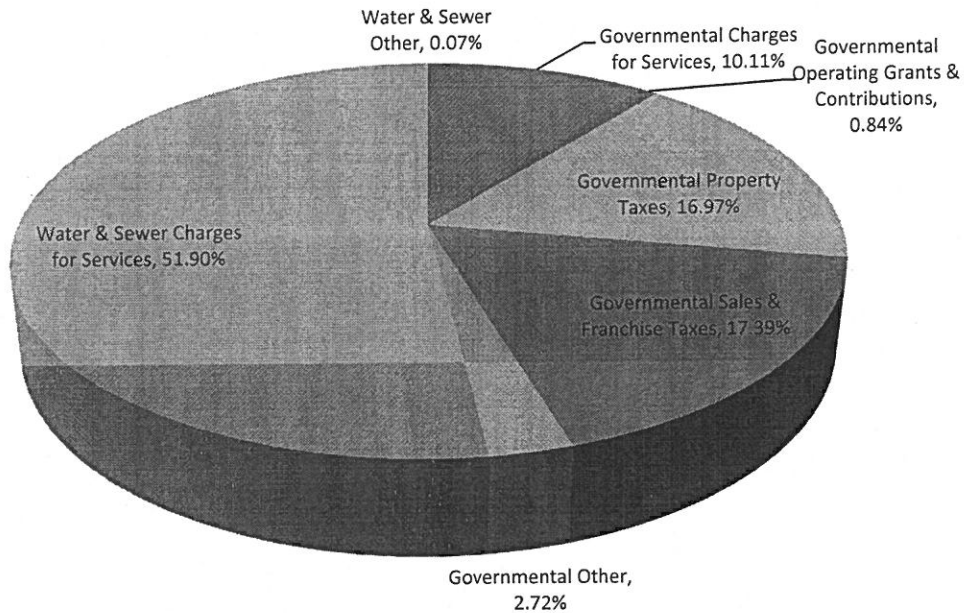
Business-type activities increased net assets by \$62,058. The key element in this increase is:

- Collections of customer service revenues.

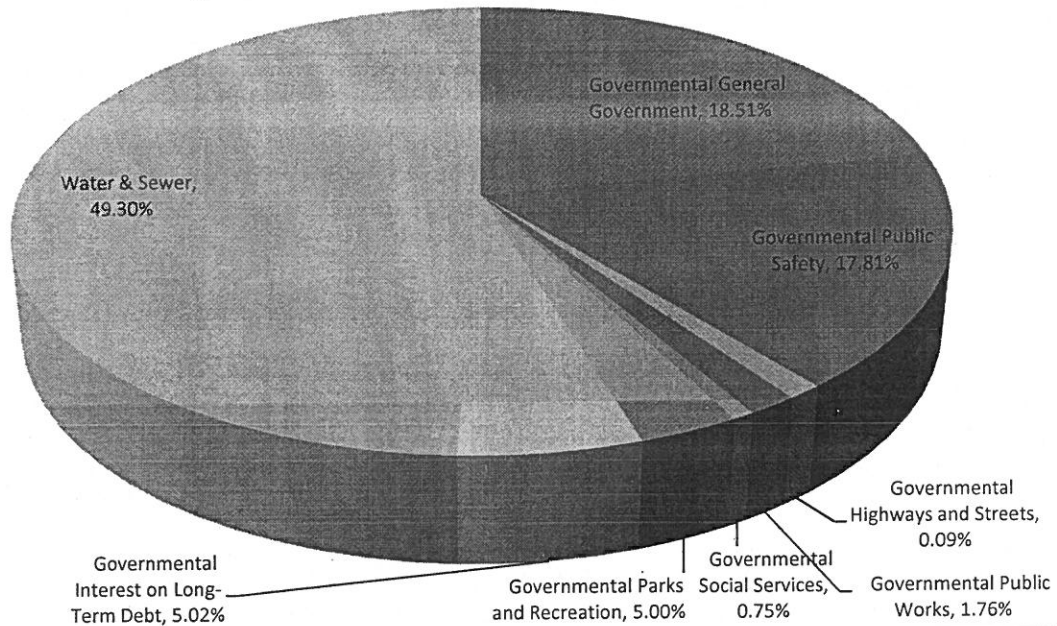
**TABLE A-2**  
**CITY OF OVERTON**  
**CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Operating Revenues:						
Charges for Services	\$ 227,564	\$ 216,282	\$ 1,167,699	\$ 1,068,390	\$ 1,395,263	\$ 1,284,672
Operating Grants & Contributions	18,911	17,325	-	-	18,911	17,325
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues:						
Property Taxes	381,781	397,598	-	-	381,781	397,598
Sales & Franchise Taxes	391,167	370,087	-	-	391,167	370,087
Other	61,179	39,544	1,609	2,976	62,789	42,520
Total Revenues	1,080,602	1,040,836	1,169,309	1,071,366	2,249,911	2,112,202
<b>Functions/Programs:</b>						
General Government	430,563	390,603	-	-	430,563	390,603
Public Safety	330,152	375,878	-	-	330,152	375,878
Highways and Streets	19,850	1,947	-	-	19,850	1,947
Public Works	29,176	37,200	-	-	29,176	37,200
Social Services	12,222	15,740	-	-	12,222	15,740
Parks and Recreation	58,176	105,637	-	-	58,176	105,637
Debt Service	105,345	105,996	-	-	105,345	105,996
Water & Sewer	-	-	958,397	1,077,657	958,397	1,077,657
Total Expenses	985,484	1,033,001	958,397	1,077,657	1,943,881	2,110,658
Increase in Net Assets Before	95,118	7,835	210,912	(6,291)	306,030	1,544
Net Transfers	35,705	1,554	(148,855)	(94,480)	(113,150)	(92,926)
Net Change in Net Assets	130,822	9,389	62,058	(100,771)	192,880	(91,382)
Net Assets – Beginning of Year, as previously reported	(289,856)	(135,953)	296,521	236,298	6,665	100,345
Reclassification of Fund Type	-	(160,994)	-	160,994	-	-
Restatement of Fund Type	-	(2,298)	-	-	-	(2,298)
Prior Period Adjustments	-	-	-	-	-	-
Net Assets – End of Year, as restated	\$ (159,034)	\$ (289,856)	\$ 358,579	\$ 296,521	\$ 199,545	\$ 6,665

**Chart A-1**  
**City of Overton, Texas**  
**Revenues for the Year Ended September 30, 2009**



**Chart A-2**  
**City of Overton, Texas**  
**Expenses for the Year Ended September 30, 2009**



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$249,862, a decrease of \$22,698 in comparison with the prior year. All of these fund balances were designated unreserved.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$102,207.

The City's General Fund balance increased \$27,075 during the current fiscal year. The key factors in this increase were:

- Increase in overall revenue including property and sales taxes as well as court fines.

The Other Non-Major Governmental Funds have an ending fund balance of \$147,655. This is a decrease of fund balance of \$49,773 related to a reduction in overall revenues as well as increased expenses in the related funds.

**Proprietary Funds** - The City's proprietary fund statements provide the same type of information found in the Government-Wide Financial Statements, but in more detail.

The Water & Sewer Enterprise Fund reported deficit unrestricted net assets of \$(343,431) as of September 30, 2009. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities above.

**General Fund Budgetary Highlights** - The City budgets on a departmental basis, without regard to whether expenditures are current, capital, debt service or a transfer to another fund. Refer to Note I in the notes to the financial statements for further information regarding the City's General Fund budgeting practices.

A summary of the differences in excess of the budget and actual for the General Fund expenditures are as follows:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Administration	\$ 507,784	\$ 422,352	\$ (85,432)
Highways and Streets	19,850	2,000	(17,850)
Parks and Recreation	16,940	16,050	(890)
Total	<u>\$ 544,574</u>	<u>\$ 440,402</u>	<u>\$ (104,172)</u>

### CAPITAL ASSETS

The City of Overton investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$3,487,857, (net of accumulated depreciation). This investment in capital assets includes land, machinery and equipment, water and wastewater distribution system, and construction in progress. The total increase in capital assets for the current fiscal year was \$174,716, or 5%. More detailed information about the City's capital assets is presented in Note II in the basic financial statements.

**Table A-3**  
**Capital Assets at Year-End and Accumulated Depreciation**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Land	\$ 312,230	\$ 312,230	\$ 50,201	\$ 50,201	\$ 362,431	\$ 362,431
Infrastructure	3,475,000	3,475,000	-	-	3,475,000	3,475,000
Buildings	1,526,400	1,361,900	-	-	1,526,400	1,361,900
Machinery & Equipment	530,349	530,349	420,660	407,591	951,009	937,940
Water & Wastewater Distribution	-	-	5,226,685	5,226,685	5,226,685	5,226,685
Construction in Progress	18,208	18,208	34,185	34,185	52,393	52,393
Accumulated Depreciation	(4,563,818)	(4,563,361)	(3,542,243)	(3,539,847)	(8,106,061)	(8,103,208)
Total	<u>\$ 1,298,369</u>	<u>\$ 1,134,326</u>	<u>\$ 2,189,488</u>	<u>\$ 2,178,815</u>	<u>\$ 3,487,857</u>	<u>\$ 3,313,141</u>

### DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$3,534,578 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	
	2009	2008	2009	2008	2009	2008
Certificates of Obligation	\$ 1,679,631	\$ 1,729,720	\$ 1,691,091	\$ 1,845,310	\$ 3,370,722	\$ 3,575,030
Loans Payable	87,153	30,118	34,109	40,514	121,262	70,632
Compensated Absences	22,085	20,577	249	4,161	22,334	24,738
Capital Leases	20,260	43,039	-	-	20,260	43,039
Total	\$ 1,809,129	\$ 1,823,454	\$ 1,725,449	\$ 1,889,985	\$ 3,534,578	\$ 3,713,439

### 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.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF OVERTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2009**

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
<b>ASSETS</b>					
Cash and cash equivalents	\$ 153,472	\$ 69,479	\$ 222,951	\$ 610,692	\$ 193,464
Receivables (net of allowances):					
Sales taxes	32,362	-	32,362	16,181	12,601
Property taxes	99,533	-	99,533	-	-
Franchise taxes	742	2,863	3,605	-	-
Accounts	697	123,480	124,177	250	-
Internal balances	105,734	(105,734)	-	-	-
Inventory	-	14,098	14,098	-	-
Bond issuance costs	13,008	62,758	75,766	-	-
Capital assets:					
Land	312,230	50,201	362,431	-	-
Infrastructure	3,475,000	-	3,475,000	-	-
Buildings	1,526,400	-	1,526,400	-	-
Machinery and equipment	530,349	-	530,349	-	-
Construction in progress	18,208	34,185	52,393	-	-
Water and sewer distribution	-	5,647,345	5,647,345	-	-
Less: accumulated depreciation	(4,563,818)	(3,542,243)	(8,106,061)	-	-
Total capital assets	1,298,369	2,189,488	3,487,857	-	-
Total Assets	1,703,917	2,356,432	4,060,349	627,123	206,065
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	51,858	157,434	209,292	-	-
Unearned revenue	1,989	215	2,204	-	-
Customer deposits	(25)	114,754	114,729	-	-
Noncurrent liabilities:					
Due within one year	80,528	165,727	246,255	-	-
Due in more than one year	1,728,601	1,559,723	3,288,324	-	-
Total Liabilities	1,862,951	1,997,853	3,860,804	-	-
<b>NET ASSETS</b>					
Investment in capital assets, net of related debt	(475,667)	527,044	51,377	-	-
Restricted:					
Debt services	983	174,966	175,949	-	-
Capital projects	123,178	-	123,178	-	-
Unrestricted	192,472	(343,431)	(150,959)	627,123	206,065
Total Net Assets	\$ (159,034)	\$ 358,579	\$ 199,545	\$ 627,123	\$ 206,065

**CITY OF OVERTON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

FUNCTIONS / PROGRAMS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS							
	PROGRAM REVENUES			PRIMARY GOVERNMENT		COMPONENT UNITS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
Governmental activities:								
Administration	\$ 396,661	\$ 43,163	\$ 18,911	\$ (334,587)	\$ -	\$ (334,587)	\$ -	\$ -
Judicial	33,902	151,629	-	117,727	-	117,727	-	-
Public Safety	330,152	-	-	(330,152)	-	(330,152)	-	-
Highways and streets	19,850	-	-	(19,850)	-	(19,850)	-	-
Public Works	29,176	-	-	(29,176)	-	(29,176)	-	-
Social Services	12,222	-	-	(12,222)	-	(12,222)	-	-
Parks and recreation	58,176	32,772	-	(25,404)	-	(25,404)	-	-
Debt service	105,345	-	-	(105,345)	-	(105,345)	-	-
Total governmental activities	985,484	227,564	18,911	(739,009)	-	(739,009)	-	-
Business-type activities:								
Water and sewer	958,397	1,167,699	-	-	209,303	209,303	-	-
Total business-type activities	958,397	1,167,699	-	-	209,303	209,303	-	-
Total primary government	\$ 1,943,880	\$ 1,395,263	\$ 18,911	(739,009)	209,303	(529,706)	-	-
Component Unit:								
Economic Development Corporation	\$ 141,314	\$ -	\$ 4,071	\$ -	\$ -	\$ -	\$ (137,243)	\$ -
Municipal Development District	8,744	-	-	-	-	-	-	(8,744)
Total component unit	\$ 150,058	\$ -	\$ 4,071	\$ -	\$ -	\$ -	\$ (137,243)	\$ (8,744)
General revenues:								
Property taxes				381,781	-	381,781	-	-
Sales taxes				319,076	-	319,076	23,678	77,106
Franchise taxes				72,091	-	72,091	-	-
Investment earnings				2,416	735	3,151	120	394
Miscellaneous local and intermediate revenue				58,763	874	59,637	-	-
Transfers				35,705	(148,854)	(113,149)	113,150	-
Total general revenues and transfers				869,831	(147,245)	722,586	136,948	77,500
Change in net assets				130,822	62,058	192,880	(295)	68,756
Net assets - beginning of year				(289,856)	296,521	6,665	627,418	137,308
Net assets - end of year				\$ (159,034)	\$ 358,579	\$ 199,545	\$ 627,123	\$ 206,065

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

## **FUND FINANCIAL STATEMENTS**



**CITY OF OVERTON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009**

	<u>MAJOR FUND</u>		
	GENERAL FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash	\$ 22,485	\$ 130,988	\$ 153,473
Receivables (net of allowances):			
Sales taxes	32,362	-	32,362
Property taxes	84,718	14,815	99,533
Franchise taxes	742	-	742
Other	693	5	698
Due from other funds	105,734	16,662	122,396
	<u>246,734</u>	<u>162,470</u>	<u>409,204</u>
Total assets	\$ 246,734	\$ 162,470	\$ 409,204
	<u><u>246,734</u></u>	<u><u>162,470</u></u>	<u><u>409,204</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 14,508	\$ -	\$ 14,508
Accrued liabilities	26,674	-	26,674
Due to other funds	16,662	-	16,662
Deferred revenues	86,708	14,815	101,523
Customer Deposits	(25)	-	(25)
	<u>144,527</u>	<u>14,815</u>	<u>159,342</u>
Total liabilities	144,527	14,815	159,342
Fund Balances:			
Unreserved:			
Undesignated reported in:			
General fund	102,207	-	102,207
Special revenue funds	-	147,655	147,655
	<u>102,207</u>	<u>147,655</u>	<u>249,862</u>
Total fund balances	102,207	147,655	249,862
Total liabilities and fund balances	\$ 246,734	\$ 162,470	\$ 409,204
	<u><u>246,734</u></u>	<u><u>162,470</u></u>	<u><u>409,204</u></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, 2009**

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

Total fund balances - governmental funds	\$ 249,862
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,298,369
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.	(1,774,036)
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.	(10,676)
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.	99,533
Liabilities for compensated absences does not require current financial resource and therefore are not reported in the governmental funds balance sheet.	(22,085)
Net assets of governmental activities	<u>\$ (159,034)</u>

## EXHIBIT 5

**CITY OF OVERTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	MAJOR FUND		NON-MAJOR		TOTAL
	GENERAL		GOVERNMENTAL		GOVERNMENTAL
	FUND		FUNDS		FUNDS
<b>REVENUES</b>					
Taxes:					
Property	\$ 295,102		\$ 111,702		\$ 406,804
Sales	319,076		-		319,076
Franchise	72,091		-		72,091
Charges for services	43,003		32,772		75,775
Fines and forfeitures	151,629		-		151,629
Intergovernmental	18,570		-		18,570
Licenses and permits	160		-		160
Investment earnings	184		2,231		2,415
Grant	412		18,499		18,911
Miscellaneous	40,193		-		40,193
	<u>940,420</u>		<u>165,204</u>		<u>1,105,624</u>
Total revenues					
<b>EXPENDITURES</b>					
General government:					
Administration	507,784		14,121		521,905
Judicial	33,902		-		33,902
Public safety:					
Police	301,735		-		301,735
Fire	22,970		-		22,970
Animal control	4,516		-		4,516
Highways and streets	19,850		-		19,850
Public works	29,176		-		29,176
Social services	11,764		-		11,764
Parks and recreation	16,940		41,236		58,176
Capital outlay	931		164,500		165,431
Debt service	33,690		125,412		159,102
	<u>983,258</u>		<u>345,269</u>		<u>1,328,527</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>(42,838)</u>		<u>(180,065)</u>		<u>(222,903)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Other financing sources - proceeds from loan			164,500		164,500
Operating transfers from other funds	509,221		93,995		603,216
Operating transfers to other funds	(439,308)		(128,203)		(567,511)
	<u>69,913</u>		<u>130,292</u>		<u>200,205</u>
Total other financing sources (uses)					
Net change in fund balances	27,075		(49,773)		(22,698)
Fund balances - beginning of year	75,132		197,428		272,560
Fund balances - end of year	<u>\$ 102,207</u>		<u>\$ 147,655</u>		<u>\$ 249,862</u>

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, 2009**

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

Net change in fund balances - total governmental funds	\$ (22,698)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense.	164,500
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of financial resources.	(457)
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.	25,023
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.	128,954
The issuance of long-term debt provides current financial resources to governmental funds, these transactions do not have any effect on net assets.	(164,500)
Change in net assets of governmental activities	<u><u>\$ 130,822</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, 2009**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Taxes				
Property	\$ 387,200	\$ 387,200	\$ 295,102	\$ (92,098)
Sales	210,000	210,000	319,076	109,076
Franchise	100,000	100,000	72,091	(27,909)
Charges for services	46,875	46,875	43,003	(3,872)
Fines and forfeitures	103,300	103,300	151,629	48,329
Intergovernmental	12,700	12,700	18,570	5,870
Licenses and permits	225	225	160	(65)
Investment earnings	1,200	1,200	184	(1,016)
Grant	-	-	412	412
Miscellaneous	13,900	13,900	40,193	26,293
Total revenues	875,400	875,400	940,420	65,020
<b>EXPENDITURES</b>				
Administration	422,352	422,352	507,784	(85,432)
Judicial	40,616	40,616	33,902	6,714
Public safety	367,030	367,030	329,221	37,809
Highways and streets	2,000	2,000	19,850	(17,850)
Public works	57,447	57,447	29,176	28,271
Social services	13,300	13,300	11,764	1,536
Parks and recreation	16,050	16,050	16,940	(890)
Capital outlay	3,000	3,000	931	2,069
Debt service	129,725	129,725	33,690	96,035
Total expenditures	1,051,520	1,051,520	983,258	68,262
Excess (deficiency) of revenues over (under) expenditures	(176,120)	(176,120)	(42,838)	133,282
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources - sale of assets	4,000	4,000	-	(4,000)
Operating transfers from other funds	175,620	175,620	509,221	333,601
Operating transfers to other funds	(3,500)	(3,500)	(439,308)	(435,808)
Total other financing sources (uses)	176,120	176,120	69,913	(106,207)
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	\$ -	\$ -	27,075	\$ 27,075
Fund Balance - beginning of year			75,132	
Fund Balance - end of year			\$ 102,207	

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, 2009**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 69,479
Accounts receivable (net)	123,480
Franchise tax receivable (net)	2,863
Inventory	<u>14,098</u>
Total current assets	<u>209,920</u>
Noncurrent assets:	
Bond issue costs	62,758
Capital assets:	
Land	50,201
Water and sewer distribution	5,647,345
Construction in progress	34,185
Less: accumulated depreciation	<u>(3,542,243)</u>
Total capital assets	2,189,488
Total noncurrent assets	<u>2,252,246</u>
Total assets	<u><u>\$ 2,462,166</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 157,434
Due to other funds	105,734
Unearned revenue	215
Customer deposits	114,754
Certificates of obligation payable	<u>165,727</u>
Total current liabilities	<u>543,864</u>
Non-current liabilities:	
Notes payable	34,109
Compensated absences payable	248
Bonds payable	<u>1,525,366</u>
Total non-current liabilities	<u>1,559,723</u>
Total liabilities	<u>2,103,587</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	527,044
Restricted for debt service	174,966
Unrestricted	<u>(343,431)</u>
Total net assets	<u>358,579</u>
Total net assets and liabilities	<u><u>\$ 2,462,166</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, 2009**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,167,699
Miscellaneous income	<u>874</u>
Total operating revenues	<u>1,168,573</u>
<b>OPERATING EXPENSES</b>	
Cost of sale and services	864,383
Depreciation	2,396
Amortization	<u>9,963</u>
Total operating expenses	<u>876,742</u>
Operating income	<u>291,831</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	735
Interest and fiscal charges on debt	<u>(81,654)</u>
Total nonoperating revenues (expenses)	<u>(80,919)</u>
Net income before operating transfers	<u>210,912</u>
<b>TRANSFERS</b>	
Transfers in	388,882
Transfers out	<u>(537,736)</u>
Net transfers and capital contributions	<u>(148,854)</u>
Change in net assets	62,058
Net Assets - beginning of year	<u>296,521</u>
Net Assets - end of year	<u><u>\$ 358,579</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, 2009**

**Increase (Decrease) In Cash and Cash Equivalents**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATER AND SEWER
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,147,691
Cash received in other operations	874
Cash payments to suppliers and employees	<u>(877,300)</u>
Net cash provided by operating activities	<u>271,265</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Net transfers between funds	(148,855)
Increase (decrease) in due to/due from other funds	<u>26,946</u>
Net cash used in non-capital financing activities	<u>(121,909)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal repayments on bonds and debt	(154,218)
Interest and fiscal charges on debt	(81,654)
Payment on notes payable	(6,405)
Acquisition of capital assets	<u>(13,069)</u>
Net cash used in capital and related financing activities	<u>(255,346)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	<u>735</u>
Net cash provided by investing activities	<u>735</u>
Net increase in cash and cash equivalents	(105,255)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>174,734</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 69,479</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 291,831
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,396
Amortization of bond issuance costs	9,963
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(25,885)
Increase (decrease) in accrued liabilities	(12,916)
Increase (decrease) in customer deposits	10,810
Increase (decrease) in unearned revenue	(1,021)
Increase (decrease) in compensated absences	<u>(3,913)</u>
Total adjustments	<u>(20,566)</u>
Net cash provided by operating activities	<u><u>\$ 271,265</u></u>

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, 2009**

**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 governmental 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 remaining Notes to the Financial Statements are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2009.

**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 and surrounding areas.

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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) reports 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.

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

**Government-Wide and Fund Financial Statements - continued**

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.

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 un-matured 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.

Inter-fund activities between governmental funds appear as due to/due from 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 inter-fund transactions between governmental funds are eliminated on the government-wide statements.

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

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

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.

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.

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.



**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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

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

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.

**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 allow and the City currently invests in certificates of deposit.

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 inter-fund loan) or "Advances to/from Other Funds" (i.e. the noncurrent portion of inter-fund loans).

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 is shown net of an allowance for uncollectible balances. The allowance is equal to fourteen (14) percent of delinquent property taxes receivable at September 30, 2009.

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, 2009**

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

**Assets, Liabilities, and Net Assets or Equity - continued**

Capital Assets

Capital assets, including land, buildings, equipment, and infrastructure (roads, bridges and water and sewer systems), 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 through 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, 2009**

**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. Certified peace officers may accrue up to 30 days of PTO, and all other employees may accrue up to 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, 2009**

**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	\$ 507,784	\$ 422,352	\$ (85,432)
Highways and Streets	19,850	2,000	(17,850)
Parks and recreation	16,940	16,050	(890)
Total	<u>\$ 544,574</u>	<u>\$ 440,402</u>	<u>\$ (104,172)</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, 2009**

**NOTE 2: DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

The City's balances were completely covered by federal deposit insurance at September 30, 2009. 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:

	<b>Bank Balance</b>	<b>Category</b>			<b>Carrying Amount</b>
		<b>1</b>	<b>2</b>	<b>3</b>	
<b>Cash &amp; Cash Equivalents</b>					
General Fund	\$ 56,314	56,314	\$ -	\$ -	\$ 56,314
Water and Sewer Fund	75,171	75,171	-	-	75,171
Non-major Funds	130,987	130,987	-	-	130,987
 Component Units					
OMDD	193,464	193,464	-	-	193,464
OEDC	610,692	610,692	-	-	610,692
 Total	<u>\$ 1,066,628</u>	<u>1,066,628</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,107</u>

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, 2009**

**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, 2009, 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 \$66,831,186 for 2009 (with taxes due January 1, 2009) 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:

	<b>Primary Government General Fund</b>	<b>Business- Type Water and Sewer Fund</b>	<b>Total</b>
Receivables:			
Accounts	\$ 697	\$ 126,337	\$ 127,029
Taxes	148,840	2,863	151,703
Gross receivables	149,537	129,200	278,737
Less: Allowance for un-collectables	(16,203)	(2,857)	(19,060)
Total	<u>\$ 133,334</u>	<u>\$ 126,342</u>	<u>\$ 259,677</u>

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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>
<b>General Fund:</b>	
Delinquent property taxes receivable	\$ 86,708
<b>Debt Service Fund:</b>	
Delinquent property taxes receivable	<u>14,815</u>
 Total governmental funds	 <u><u>\$ 101,522</u></u>

Receivables as of year-end for the City's discretely presented component units are as follows:

	<u>OMDD</u>	<u>OEDC</u>	<u>Total</u>
Taxes	\$ 12,601	\$ 16,181	\$ 28,782
Other	<u>-</u>	<u>250</u>	<u>250</u>
 Total component unit receivables	 <u><u>\$ 12,601</u></u>	 <u><u>\$ 16,431</u></u>	 <u><u>\$ 29,032</u></u>

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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:

<b>Primary Government</b>	<b>Balance</b>			<b>Balance</b>
<i>Governmental Activities:</i>	<b>09/30/08</b>	<b>Increases</b>	<b>Decreases</b>	<b>09/30/09</b>
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	164,500	-	1,526,400
Machinery and equipment	530,349	-	-	530,349
Accumulated depreciation	(4,563,361)	(81,189)	80,732	(4,563,818)
<i>Governmental Activities, net</i>	<u>1,134,326</u>	<u>83,311</u>	<u>80,732</u>	<u>1,298,369</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	13,069	-	5,647,345
Accumulated depreciation	(3,539,847)	(143,207)	140,811	(3,542,243)
<i>Business-type Activities, net</i>	<u>2,178,815</u>	<u>(130,138)</u>	<u>140,811</u>	<u>2,189,488</u>
Capital Assets, net	<u>\$ 3,313,141</u>	<u>\$ (46,827)</u>	<u>\$ 221,543</u>	<u>\$ 3,487,857</u>

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

Administration	\$ -
Public safety	-
Public works	-
Social services	457
Parks and recreation	-
Total depreciation expense	<u>\$ 457</u>



**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 2: DETAILED NOTES ON ALL FUNDS - continued**

**Inter-fund Receivables, Payables, and Transfers**

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund 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 inter-fund transactions are treated as transfers.

Inter-fund Receivables and Payables

Inter-fund balances resulted from the time lag between the dates that inter-fund 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 inter-fund balances as of September 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 105,734
Construction fund	General fund	16,662
Total		<u>\$ 122,396</u>

Inter-fund Transfers

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

The composition of inter-fund transfers as of September 30, 2009, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 509,221	\$ 439,308
Debt service	36,551	60,000
Water and sewer	388,882	537,736
Other governmental	57,443	68,203
Total government	992,097	1,105,247
OEDC	117,150	4,000
Total transfers	<u>\$ 1,109,247</u>	<u>\$ 1,109,247</u>



**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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%	\$ 5,016
Police car	6.87%	598
Brush chipper	5.55%	15,461
Total		<u>\$ 21,075</u>

The future minimum lease obligations as of September 30, 2009, were as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2010	\$ 11,122
2011	5,434
2012	5,434
Total minimum lease payments	21,990
Less: amount representing interest	(915)
Present value of minimum lease payments	<u>\$ 21,075</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, 2009**

**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
2003 Tax and Utility System Surplus Revenue Certificates of Obligation	4.30%	400,000
<i>Business-type Activities:</i>		
2003 General Obligation Refunding Bonds	4.30%	2,500,000
Total Certificates of Obligation		<u>\$ 4,515,000</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
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	68,778	73,226	142,004	205,000	42,012	247,012
2015 – 2019	893,581	249,224	1,142,805	760,000	100,043	860,043
2020 – 2022	480,000	38,152	518,152	-	-	-
Total	<u>\$ 1,679,632</u>	<u>\$ 685,415</u>	<u>\$ 2,365,047</u>	<u>\$ 1,695,000</u>	<u>\$ 391,120</u>	<u>\$ 2,086,120</u>

Notes Payable

The City obtained a loan in February of 1998 to finance the purchase of general government and water and sewer equipment. This loan was refinanced in 2010 in order to extend the available line of credit for the City. Interest rate on the loan is 2.4375% and the payments are due monthly.

The City obtained a loan in September of 2000 to finance the purchase of general government and water and sewer equipment. Interest rate on the loan is 7.01% and the payments are due semi-annually.

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 2: DETAILED NOTES ON ALL FUNDS - continued**

**Long-Term Debt -continued**

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

<b>Year Ending September 30</b>	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 14,556	\$ 4,758	\$ 19,314	\$ 5,727	\$ 739	\$ 6,466
2011	15,062	3,943	19,005	6,407	629	7,036
2012	15,181	3,100	18,281	6,567	469	7,036
2013	15,303	2,239	17,542	6,731	305	7,036
2014	15,428	1,382	16,810	6,899	137	7,036
2015	11,620	970	12,590	1,777	568	2,345
<b>Total</b>	<b>\$ 87,150</b>	<b>\$ 16,392</b>	<b>\$ 103,542</b>	<b>\$ 34,108</b>	<b>\$ 2,847</b>	<b>\$ 36,955</b>

**Changes in Long-Term Debt**

The changes in the general long-term debt as of September 30, 2009 are as follows:

	<b>Balance 09/30/08</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 09/30/09</b>	<b>Due Within One Year</b>
<i>Governmental Activities:</i>					
Certificates of obligation	\$ 1,729,719	\$ -	\$ 50,088	\$ 1,679,631	\$ 55,737
Capital leases	43,039	-	22,779	20,260	10,235
Notes payable	102,214	-	15,061	87,153	14,556
Compensated absences	20,577	1,508	-	22,085	-
<b>Total governmental</b>	<b>\$ 1,895,549</b>	<b>\$ 1,508</b>	<b>\$ 87,928</b>	<b>\$ 1,809,129</b>	<b>\$ 80,528</b>
<i>Business-type Activities:</i>					
Certificates of obligation	\$ 1,850,000	\$ -	\$ 155,000	\$ 1,695,000	\$ 160,000
Less: Unamortized bond discount	(4,690)	-	(782)	(3,908)	-
Notes payable	40,514	-	6,405	34,109	5,727
Compensated absences	4,161	-	3,913	249	-
<b>Total business-type</b>	<b>\$ 1,889,985</b>	<b>\$ -</b>	<b>\$ 164,536</b>	<b>\$ 1,725,450</b>	<b>\$ 165,727</b>

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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, 2009.

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, 2009.

**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 Texas Municipal Retirement System (TMRS), one of 821 currently 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.

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**NOTE 3: OTHER INFORMATION - continued**

**Texas Municipal Retirement System Plan - continued**

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 200% of the employee's accumulated contributions. 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 821 municipalities having their benefit plan administered by TMRS. Each of the 821 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 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, 2009**

**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	12/31/2006
Actuarial Value of Assets	\$ 633,789
Actuarial Accrued Liability	\$ 467,064
Percentage Funded	135.70%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (166,725)
Annual Covered Payroll	\$ 335,052
UAAL as a Percentage of Covered Payroll	(49.76%)

**Trend Information**

Annual Pension Cost	\$ 15,232
Percent contributed	100%
Net Pension Obligation	\$ -

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation At	-	3.5%
Cost of Living Adjustments	-	None

**CITY OF OVERTON, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

**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. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006 valuation is effective for rates beginning January 2008)

**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 2009. 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, 2009.

**Subsequent Events**

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 through July 18, 2013, which is the date the financial statements were made available to management.

## **ADDITIONAL SUPPLEMENTAL INFORMATION**



CITY OF OVERTON, TEXAS  
BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

	POLICE FUND	BLUEGRASS FUND	DEBT SERVICE FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
<b>ASSETS</b>									
Cash and Cash Equivalents	\$ 4,570	\$ 1,621	\$ 983	\$ 17,023	\$ 77,931	\$ 28,585	\$ 275	\$ -	\$ 130,988
Receivables (net of allowances):									
Property taxes	-	-	14,815	-	-	-	-	-	14,815
Other	-	5	-	-	-	-	-	-	5
Due from other funds	-	-	-	-	16,662	-	-	-	16,662
Total assets	\$ 4,570	\$ 1,626	\$ 15,798	\$ 17,023	\$ 94,593	\$ 28,585	\$ 275	\$ -	\$ 162,470
<b>LIABILITIES AND FUND BALANCE</b>									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-	-	-
Deferred revenues	-	-	14,815	-	-	-	-	-	14,815
Total liabilities	-	-	14,815	-	-	-	-	-	14,815
Fund Balances:									
Unreserved fund balances:									
Undesignated, reported in:									
Special revenue fund	4,570	1,626	983	17,023	94,593	28,585	275	-	147,655
Total fund balance	4,570	1,626	983	17,023	94,593	28,585	275	-	147,655
Total liabilities and fund balance	\$ 4,570	\$ 1,626	\$ 15,798	\$ 17,023	\$ 94,593	\$ 28,585	\$ 275	\$ -	\$ 162,470

CITY OF OVERTON, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	POLICE FUND	BLUEGRASS FUND	DEBT SERVICE FUND	GRANT FUND	CONSTRUCTION FUND	400k CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
<b>REVENUES</b>									
Taxes:									
Property	\$ -	\$ -	\$ 111,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,702
Charges for services	-	32,772	-	-	-	-	-	-	32,772
Grant	-	-	-	18,499	-	-	-	-	18,499
Investment earnings	19	-	209	-	1,849	154	-	-	2,231
Miscellaneous	-	-	-	-	-	-	-	-	-
Total revenues	19	32,772	111,911	18,499	1,849	154	-	-	165,204
<b>EXPENDITURES</b>									
Administration	-	-	-	14,121	-	-	-	-	14,121
Public safety	-	-	-	-	-	-	-	-	-
Parks and recreation	-	41,236	-	-	-	-	-	-	41,236
Capital outlay	-	-	-	-	-	-	-	164,500	164,500
Debt service	-	-	87,591	-	-	37,821	-	-	125,412
Total expenditures	-	41,236	87,591	14,121	-	37,821	-	164,500	345,269
Excess (deficiency) of revenues over (under) expenditures	19	(8,464)	24,320	4,378	1,849	(37,667)	-	(164,500)	(180,065)
<b>OTHER FINANCING SOURCES (USES)</b>									
Other financing sources - proceeds from loan	-	-	-	-	-	-	-	-	-
Transfers from other funds	-	5,502	36,551	14,121	-	37,821	-	164,500	164,500
Transfers to other funds	-	(1,500)	(60,000)	(14,121)	(23,576)	(29,006)	-	-	(128,203)
Total other financing sources (uses)	-	4,002	(23,449)	-	(23,576)	8,815	-	164,500	130,292
Net change in fund balances	19	(4,462)	871	4,378	(21,727)	(28,852)	-	-	(49,773)
Fund balances - beginning of year	4,551	6,088	112	12,645	116,320	57,437	275	-	197,428
Fund Balances - end of year	\$ 4,570	\$ 1,626	\$ 983	\$ 17,023	\$ 94,593	\$ 28,585	\$ 275	\$ -	\$ 147,655

## **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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A *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.

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, (2009-1 to 2009-5), which 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 the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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  
July 18, 2013

**CITY OF OVERTON, TEXAS  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**DEFICIENCIES:**

**2009-1**

**Condition:**

A number of selected accounts payable checks lacked required approval documentation or an invoice was not attached to the document in the City's files.

**Criteria:**

Accounts payable items should include purchase approval documentation such as invoice records, copies of purchase orders or council approved contracts.

**Cause:**

There is limited staffing due to the size of the organization and no formal purchasing policy defining required documentation.

**Effect:**

A potential exists for improper coding of expenses, incorrect payments to vendors or duplicate payments due to a lack of proper documentation.

**Recommendation:**

Ensure all accounts payable items include a copy of the purchase order/purchase approval and invoices before a check is written and released to the vendor. If the payment is a reoccurring monthly payment, a copy of the contract/council item should be included with the check. Wire transfers should be maintained in a separate file with proper two signature approval documented on an internal document with appropriate documentation related to the purpose of the wire and wire instructions.

**2009-2**

**Condition:**

The City does not maintain a formal personnel router form in individual personnel files to document approval of new hire and status changes within the organization.

**Criteria:**

A formal personnel router should be maintained to document employee census information and approval of new hire and personnel status changes.

**Cause:**

Limited personnel have allowed staff to utilize application forms to gather vital statistic information.

**Effect:**

A potential exists for incorrect starting pay and incorrect pay rate changes to be processed. Additionally the staff lacks documentation for reporting vital statistics to various state and federal entities.

## **DEFICIENCIES – continued**

### **Recommendation:**

Develop a personnel document that can be used to track vital statistic information including pay rate and position. To effectively utilize this form it should be able to track approval of both new hire employees and changes to current employee status.

## **SIGNIFICANT DEFICIENCIES:**

### **2009-3**

#### **Condition:**

Purchase orders are generated from a centralized location by a single individual who also enters the accounts payable transactions and records journal entries.

#### **Criteria:**

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

#### **Cause:**

Limited personnel and a lack of written purchasing policy has allowed for the same employee to complete multiple job functions.

#### **Effect:**

Departments lack budgetary control over expense line items and there is a potential for miscoding of expenses without departmental oversight.

#### **Recommendation:**

A purchasing policy is needed which will identify purchasing control levels including approved staff and dollar levels. The policy should identify at what level purchase orders are issued, i.e. departmental, finance department, and develop procedures for documentation of the accounts payable process.

## **MATERIAL WEAKNESSES:**

### **2009-4**

#### **Condition:**

A single individual enters journal entries for revenues; codes accounts payable checks, makes deposits and reconciles the bank statement.

#### **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.



## **MATERIAL WEAKNESSES – continued**

### **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:**

Purchase of the new software should eliminate some of the internal control issues related to this item. It is recommended that the City additionally separate the duties of the individual making deposits from the individual reconciling the bank statement. The City should ensure that they are utilizing the electronic systems to their full potential while maintaining a separation of duties to ensure proper internal controls are followed.

## **2009-5**

### **Condition:**

No investment policy is currently maintained by the City as required by the Texas Public Funds Investment Act.

### **Criteria:**

The Texas Public Funds Investment Act requires adoption of an approved Investment Policy by Council with annual review.

### **Cause:**

Management and staff lacked training in the "Act".

### **Effect:**

The City is non-compliant with the Texas Public Funds Investment Act.

### **Recommendation:**

The City should adopt an Investment Policy which meets the requirements of the "Act" and review/approve annually the policy as required by the "Act". The Investment Officers identified in the policy are required to receive a specified number of investment training hours bi-annually as stated in the Public Funds Investment Act.