

City of Overton, Texas
Financial Statements
Together With Independent Auditor's Report
September 30, 2010

**CITY OF OVERTON, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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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, 2010, 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 units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, 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 December 9, 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.

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 & Company, PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas

December 9, 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, 2010

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, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

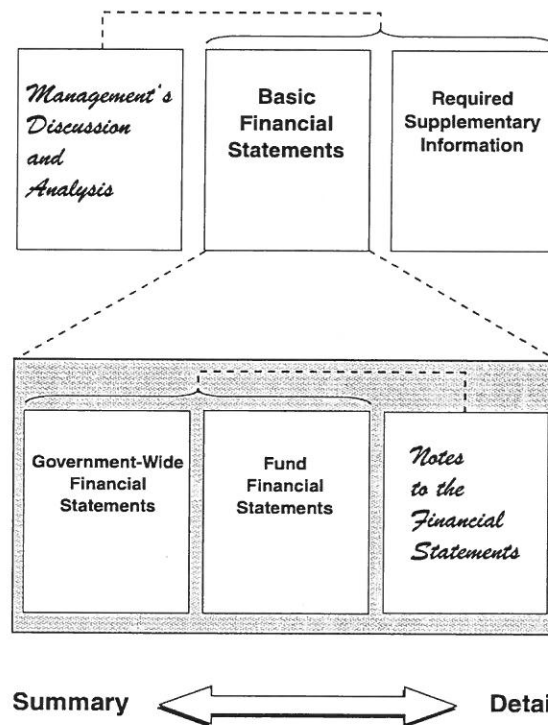
FINANCIAL HIGHLIGHTS

- The assets of the City of Overton, including the Component Units, exceeded its liabilities at the close of the most recent fiscal year by \$964,419 (Net Assets). Of this amount, \$815,163 (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 decreased by \$68,314.
- During the year, the City's total net assets decreased by \$220,976 for governmental and business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$148,854, 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 \$44,755, or 3% of the total general fund expenditures.
- The City's bonds payable decreased by \$216,703 due to principal repayments on debt in 2010.

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.

FIGURE A-2 MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS			
<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
Scope	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
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of flow/outflow information	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 and Debt Service Fund which are considered to be major funds. 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 seven (7) 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, 2010. 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 liabilities exceeded its assets by \$21,431 as of September 30, 2010.

A deficit portion of the City's net assets, \$(134,157), reflects its investments in capital assets (e.g., land, machinery and equipment), less any related debt used to acquire those assets that is 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 is 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, \$283,413, are restricted for debt service and capital projects.

Unrestricted net assets ended with a deficit balance of \$(170,687). 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	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 387,378	\$ 405,548	\$ 140,189	\$ 166,944	\$ 527,567	\$ 572,492
Capital Assets	1,272,546	1,298,369	2,024,851	2,189,488	3,297,397	3,487,857
Total Assets	\$ 1,659,924	\$ 1,703,917	\$ 2,165,040	\$ 2,356,432	\$ 3,824,964	\$ 4,060,349
Non-Current Liabilities	\$ 1,951,059	\$ 1,809,129	\$ 1,561,411	\$ 1,725,449	\$ 3,512,470	\$ 3,534,578
Other Liabilities	138,316	53,822	195,609	272,404	333,925	326,226
Total Liabilities	\$ 2,089,375	\$ 1,862,951	\$ 1,757,020	\$ 1,997,853	\$ 3,846,395	\$ 3,860,804
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ (651,548)	\$ (475,667)	\$ 517,391	\$ 527,044	\$ (134,157)	\$ 51,377
Restricted	97,006	124,160	186,407	174,966	283,413	299,126
Unrestricted	125,091	192,473	(295,778)	(343,431)	(170,687)	(150,958)
Total Net Assets	\$ (429,451)	\$ (159,034)	\$ 408,020	\$ 358,579	\$ (21,431)	\$ 199,545

As of September 30, 2010, the City has a deficit balance in unrestricted net assets for the government as a whole. The governmental type activities reported positive unrestricted net assets as of September 30, 2010. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2010 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 a decrease in net assets of \$(220,976).

Governmental Activities:

Governmental activities decreased net assets by \$(270,417). The key element in this decrease is:

- Increase in overall administrative costs and a reduction in sales tax collections as well as charges for services collected.

Business-type Activities:

Business-type activities increased net assets by \$49,441. The key element in this increase is:

- Decrease in operating expenses.

TABLE A-2
CITY OF OVERTON
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Operating Revenues:						
Charges for Services	\$ 190,109	\$ 227,564	\$ 1,147,470	\$ 1,167,699	\$ 1,337,579	\$ 1,395,263
Operating Grants & Contributions	27,838	18,911	-	-	27,838	18,911
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues:						
Property Taxes	422,876	381,781	-	-	422,876	381,781
Sales & Franchise Taxes	241,550	391,167	-	-	241,550	391,167
Other	7,825	61,179	97,457	1,609	105,281	62,788
Total Revenues	890,198	1,080,602	1,244,927	1,169,308	2,135,124	2,249,910
Functions/Programs:						
General Government	773,417	430,563	-	-	773,417	430,563
Public Safety	370,493	330,152	-	-	370,493	330,152
Highways and Streets	15,501	19,850	-	-	15,501	19,850
Public Works	92,665	29,176	-	-	92,665	29,176
Social Services	26,844	12,222	-	-	26,844	12,222
Parks and Recreation	68,138	58,176	-	-	68,138	58,176
Debt Service	99,895	105,345	-	-	99,895	105,345
Water & Sewer	-	-	907,805	958,396	907,805	958,396
Total Expenses	1,446,953	985,484	907,805	958,396	2,354,758	1,943,880
Increase (decrease) in Net Assets Before Transfers	(556,755)	95,118	337,122	210,912	(219,634)	306,030
Net Transfers		35,704	(287,681)	(148,854)	(1,342)	(113,150)
	286,3398					
Net Change in Net Assets	(270,417)	130,822	49,441	62,058	(220,976)	192,880
Net Assets – Beginning of Year	(159,034)	(289,856)	358,579	296,521	199,545	6,665
Net Assets – End of Year	\$ (429,451)	\$ (159,034)	\$ 408,020	\$ 358,579	\$ (21,431)	\$ 199,545

Chart A-1
City of Overton, Texas
Revenues for the Year Ended September 30, 2010

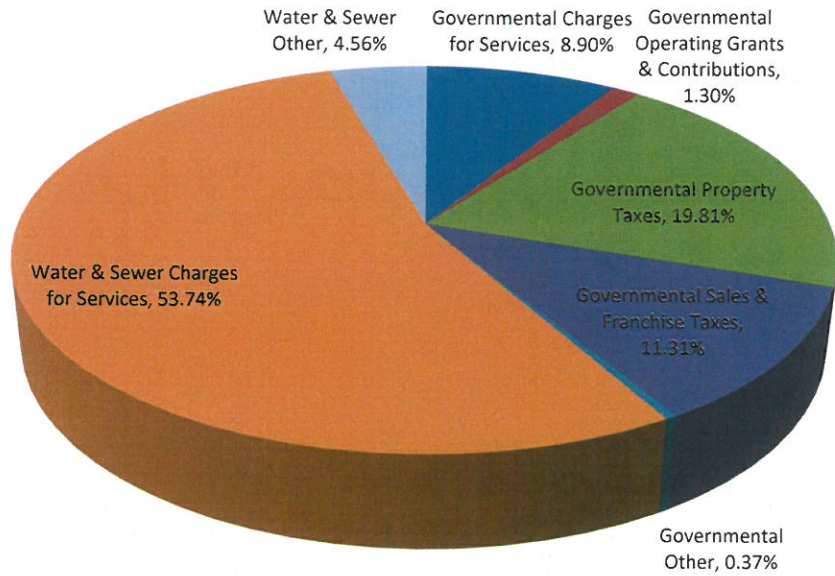
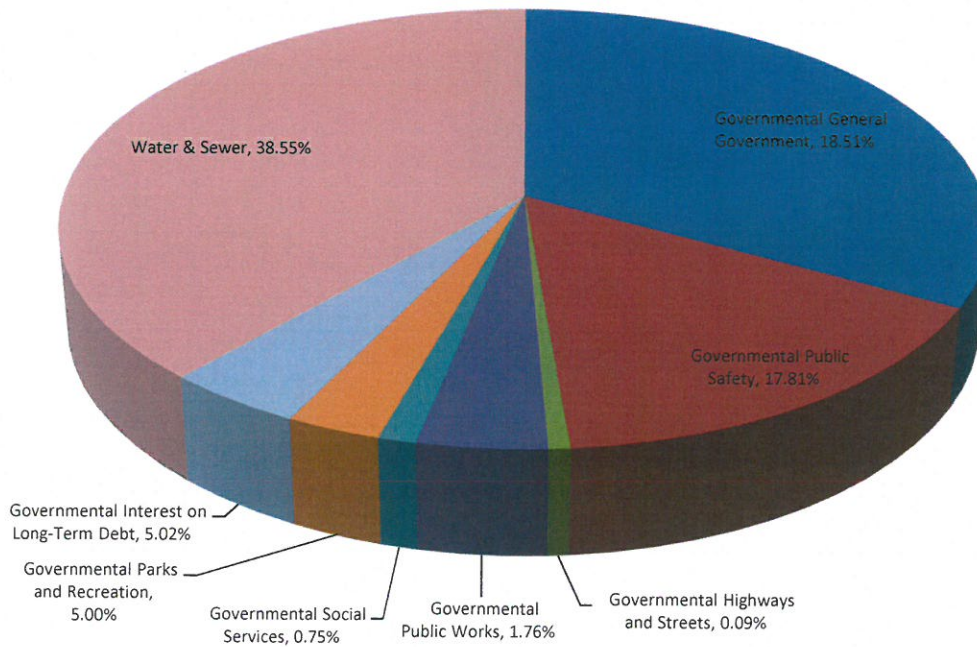


Chart A-2
City of Overton, Texas
Expenses for the Year Ended September 30, 2010



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'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 \$148,854, a decrease of \$(101,007) 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 \$44,755.

The City's General Fund balance decreased \$(57,452) during the current fiscal year. The key factors in this decrease were:

- Decrease in sales taxes revenue and charges for services collections.

The Debt Service Fund is a major governmental fund of the City. At the end of the current fiscal year, unreserved fund balance of the Debt Service Fund was \$(3,028).

The City's Debt Service Fund balance decreased \$(4,011) during the current fiscal year. The key factors in this decrease were:

- Increased debt payments related to debt schedules.

The Other Non-Major Governmental Funds have an ending fund balance of \$107,127. This is a decrease of fund balance of \$(39,544) 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 \$(295,778) as of September 30, 2010. 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 total difference in actual expenditures in excess of budget for the General Fund is as follows:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Total	\$ 626,403	\$ 352,716	\$ (273,687)

CAPITAL ASSETS

The City of Overton investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$3,297,397, (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment, and the water and wastewater distribution system. The total decrease in capital assets for the current fiscal year was \$(190,460), 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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</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	1,526,400	-	-	1,526,400	1,526,400
Machinery & Equipment	597,554	530,349	429,402	420,660	1,026,956	951,009
Water & Wastewater Distribution	-	-	5,226,685	5,226,685	5,226,685	5,226,685
Construction in Progress	-	18,208	-	34,185	-	52,393
Accumulated Depreciation	(4,638,638)	(4,563,818)	(3,681,437)	(3,542,243)	(8,320,075)	(8,106,061)
Total	\$ 1,272,546	\$ 1,298,369	\$ 2,024,851	\$ 2,189,488	\$ 3,297,397	\$ 3,487,857

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$3,512,470 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	
	2010	2009	2010	2009	2010	2009
Certificates of Obligation	\$ 1,623,894	\$ 1,679,631	\$ 1,531,874	\$ 1,691,092	\$ 3,155,768	\$ 3,370,722
Loans Payable	291,685	87,153	28,383	34,109	320,067	121,262
Compensated Absences	25,455	22,085	1,154	249	26,610	22,334
Capital Leases	10,025	20,260	-	-	10,025	20,260
Total	\$ 1,951,059	\$ 1,809,129	\$ 1,561,411	\$ 1,725,450	\$ 3,512,470	\$ 3,534,578

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, 2010

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
ASSETS					
Cash and cash equivalents	\$ 79,894	\$ 107,554	\$ 187,448	\$ 699,408	\$ 260,854
Receivables (net of allowances):					
Sales taxes	30,440	-	30,440	15,220	10,118
Property taxes	135,535	-	135,535	-	-
Franchise taxes	1,062	1,459	2,521	-	-
Accounts	697	106,167	106,864	250	-
Internal balances	127,786	(127,786)	-	-	-
Inventory	-	-	-	-	-
Bond issuance costs	11,964	52,795	64,759	-	-
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	597,554	-	597,554	-	-
Construction in progress	-	-	-	-	-
Water and sewer distribution	-	5,656,087	5,656,087	-	-
Less: accumulated depreciation	(4,638,638)	(3,681,437)	(8,320,075)	-	-
Total capital assets	1,272,546	2,024,851	3,297,397	-	-
Total Assets	1,659,924	2,165,040	3,824,964	714,878	270,972
LIABILITIES					
Accounts payable and accrued liabilities	101,503	70,143	171,646	-	-
Unearned revenue	36,838	1,214	38,052	-	-
Customer deposits	(25)	124,252	124,227	-	-
Noncurrent liabilities:					
Due within one year	107,324	186,407	293,731	-	-
Due in more than one year	1,843,735	1,375,004	3,218,739	-	-
Total Liabilities	2,089,375	1,757,020	3,846,395	-	-
NET ASSETS					
Investment in capital assets, net of related debt	(651,548)	517,391	(134,157)	-	-
Restricted:					
Debt services	(3,028)	186,407	183,379	-	-
Capital projects	100,034	-	100,034	-	-
Unrestricted	125,091	(295,778)	(170,687)	714,878	270,972
Total Net Assets	\$ (429,451)	\$ 408,020	\$ (21,431)	\$ 714,878	\$ 270,972

CITY OF OVERTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

FUNCTIONS / PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT		COMPONENT UNITS
					BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental activities:							
Administration	\$ 728,610	\$ 58,451	\$ 27,838	\$ (642,321)	\$ -	\$ (642,321)	\$ -
Judicial	44,807	108,039	-	63,232	-	63,232	-
Public Safety	370,493	-	-	(370,493)	-	(370,493)	-
Highways and streets	15,501	-	-	(15,501)	-	(15,501)	-
Public Works	92,665	-	-	(92,665)	-	(92,665)	-
Social Services	26,844	3,300	-	(23,544)	-	(23,544)	-
Parks and recreation	68,138	20,319	-	(47,819)	-	(47,819)	-
Debt service	99,895	-	-	(99,895)	-	(99,895)	-
Total governmental activities	1,446,953	190,109	27,838	(1,229,006)	-	(1,229,006)	-
Business-type activities:							
Water and sewer	907,805	1,147,470	-	-	239,665	239,665	-
Total business-type activities	907,805	1,147,470	-	-	239,665	239,665	-
Total primary government	2,354,758	1,337,579	27,838	(1,229,006)	239,665	(989,341)	-
Component Unit:							
Economic Development Corporation	\$ 27,354	\$ -	\$ 16,786	\$ -	\$ -	\$ -	\$ (10,568)
Municipal Development District	1,583	-	-	-	-	-	(1,583)
Total component unit	28,937	-	16,786	-	-	-	(10,568)
General revenues:							
Property taxes				422,876	-	422,876	-
Sales taxes				174,932	-	174,932	-
Franchise taxes				66,618	-	66,618	66,090
Investment earnings				679	399	1,078	400
Miscellaneous local and intermediate revenue				7,146	97,058	104,204	-
Transfers				286,338	(287,681)	(1,343)	-
Total general revenues and transfers				958,589	(190,224)	768,365	66,490
Change in net assets				(270,417)	49,441	(220,976)	64,907
Net assets - beginning of year				(159,034)	358,579	199,545	206,065
Net assets - end of year				\$ (429,451)	\$ 408,020	\$ (21,431)	\$ 270,972

FUND FINANCIAL STATEMENTS

**CITY OF OVERTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
		FUND		
ASSETS				
Cash	\$ -	\$ -	\$ 79,894	\$ 79,894
Receivables (net of allowances):				
Sales taxes	30,440	-	-	30,440
Property taxes	106,493	29,042	-	135,535
Franchise taxes	1,062	-	-	1,062
Other	692	-	5	697
Due from other funds	127,786	-	27,228	155,014
Total assets	<u>\$ 266,473</u>	<u>\$ 29,042</u>	<u>\$ 107,127</u>	<u>\$ 402,642</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 70,136	\$ -	\$ -	\$ 70,136
Accrued liabilities	20,914	-	-	20,914
Due to other funds	24,200	3,028	-	27,228
Deferred revenues	106,493	29,042	-	135,535
Customer Deposits	(25)	-	-	(25)
Total liabilities	<u>221,718</u>	<u>32,070</u>	<u>-</u>	<u>253,788</u>
Fund Balances:				
Unreserved:				
Undesignated reported in:				
General fund	44,755	-	-	44,755
Debt service fund	-	(3,028)	-	(3,028)
Special revenue funds	-	-	107,127	107,127
Total fund balances	<u>44,755</u>	<u>(3,028)</u>	<u>107,127</u>	<u>148,854</u>
Total liabilities and fund balances	<u>\$ 266,473</u>	<u>\$ 29,042</u>	<u>\$ 107,127</u>	<u>\$ 402,642</u>

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

EXHIBIT 4

CITY OF OVERTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

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

Total fund balances - governmental funds	\$ 148,854
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,272,546
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.	(1,913,640)
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.	(10,453)
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.	98,697
Liabilities for compensated absences does not require current financial resource and therefore are not reported in the governmental funds balance sheet.	(25,455)
Net assets of governmental activities	<u>\$ (429,451)</u>

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

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
		FUND		
REVENUES				
Taxes:				
Property	\$ 301,469	\$ 122,243	\$ -	\$ 423,712
Sales	174,932	-	-	174,932
Franchise	66,618	-	-	66,618
Charges for services	57,776	-	23,619	81,395
Fines and forfeitures	108,039	-	-	108,039
Intergovernmental	15,729	-	-	15,729
Licenses and permits	675	-	-	675
Investment earnings	41	109	529	679
Grant	-	-	27,838	27,838
Miscellaneous	(11,384)	-	2,800	(8,584)
Total revenues	713,895	122,352	54,786	891,033
EXPENDITURES				
General government:				
Administration	488,697	-	13,882	502,579
Judicial	44,807	-	-	44,807
Public safety:				
Police	340,708	-	-	340,708
Fire	22,600	-	-	22,600
Animal control	2,271	-	-	2,271
Highways and streets	15,501	-	-	15,501
Public works	90,360	-	-	90,360
Social services	11,893	-	-	11,893
Parks and recreation	19,802	-	37,928	57,730
Capital outlay	73,097	-	1,849	74,946
Debt service	19,902	99,860	55,381	175,143
Total expenditures	1,129,638	99,860	109,040	1,338,538
Excess (deficiency) of revenues over (under) expenditures	(415,743)	22,492	(54,254)	(447,505)
OTHER FINANCING SOURCES (USES)				
Other financing sources - proceeds from loan	60,160	-	-	60,160
Operating transfers from other funds	695,747	5,828	65,752	767,327
Operating transfers to other funds	(397,616)	(32,331)	(51,042)	(480,989)
Total other financing sources (uses)	358,291	(26,503)	14,710	346,498
Net change in fund balances	(57,452)	(4,011)	(39,544)	(101,007)
Fund balances - beginning of year	102,207	983	146,671	249,861
Fund balances - end of year	\$ 44,755	\$ (3,028)	\$ 107,127	\$ 148,854

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

EXHIBIT 6

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, 2010

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

Net change in fund balances - total governmental funds	\$ (101,007)
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.	54,889
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of financial resources.	(85,220)
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.	(836)
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.	(78,083)
The issuance of long-term debt provides current financial resources to governmental funds. These transactions do not have any effect on net assets.	(60,160)
Change in net assets of governmental activities	<u>\$ (270,417)</u>

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

EXHIBIT 7

**CITY OF OVERTON, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Property	\$ 446,000	\$ 446,000	\$ 301,469	\$ (144,531)
Sales	250,000	250,000	174,932	(75,068)
Franchise	100,000	100,000	66,618	(33,382)
Charges for services	60,650	60,650	57,776	(2,874)
Fines and forfeitures	120,250	120,250	108,039	(12,211)
Intergovernmental	20,000	20,000	15,729	(4,271)
Licenses and permits	1,000	1,000	675	(325)
Investment earnings	200	200	41	(159)
Grant	-	-	-	-
Miscellaneous	12,600	12,600	(11,384)	(23,984)
Total revenues	1,010,700	1,010,700	713,895	(296,805)
EXPENDITURES				
Administration	268,260	268,260	488,697	(220,437)
Judicial	41,456	41,456	44,807	(3,351)
Public safety	413,376	413,376	365,579	47,797
Highways and streets	80,000	80,000	15,501	64,499
Public works	251,599	251,599	90,360	161,239
Social services	12,800	12,800	11,893	907
Parks and recreation	-	-	19,802	(19,802)
Capital outlay	43,000	43,000	73,097	(30,097)
Debt service	118,239	118,239	19,902	98,337
Total expenditures	1,228,730	1,228,730	1,129,638	99,092
Excess (deficiency) of revenues over (under) expenditures	(218,030)	(218,030)	(415,743)	(197,713)
OTHER FINANCING SOURCES (USES)				
Other financing sources	-	-	60,160	60,160
Operating transfers from other funds	221,740	221,740	695,747	474,007
Operating transfers to other funds	(3,500)	(3,500)	(397,616)	(394,116)
Total other financing sources (uses)	218,240	218,240	358,291	140,051
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	\$ 210	\$ 210	(57,452)	\$ (57,662)
Fund Balance - beginning of year			102,207	
Fund Balance - end of year			\$ 44,755	

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

EXHIBIT 8

**CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
ASSETS	
Current assets:	
Cash	\$ 107,554
Accounts receivable (net)	106,167
Franchise tax receivable (net)	<u>1,459</u>
Total current assets	<u>215,180</u>
Noncurrent assets:	
Bond issue costs	52,795
Capital assets:	
Land	50,201
Water and sewer distribution	5,656,087
Less: accumulated depreciation	<u>(3,681,437)</u>
Total capital assets	2,024,851
Total noncurrent assets	<u>2,077,646</u>
Total assets	<u><u>\$ 2,292,826</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 70,143
Due to other funds	127,786
Unearned revenue	1,214
Customer deposits	124,252
Certificates of obligation payable	<u>186,407</u>
Total current liabilities	<u>509,802</u>
Non-current liabilities:	
Notes payable	28,383
Compensated absences payable	1,154
Bonds payable	<u>1,345,467</u>
Total non-current liabilities	<u>1,375,004</u>
Total liabilities	<u>1,884,806</u>
NET ASSETS	
Investment in capital assets, net of related debt	517,389
Restricted for debt service	186,407
Unrestricted	<u>(295,776)</u>
Total net assets	<u>408,020</u>
Total net assets and liabilities	<u><u>\$ 2,292,826</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, 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
OPERATING REVENUES	
Charges for services	\$ 1,147,470
Miscellaneous income	<u>97,058</u>
Total operating revenues	<u>1,244,528</u>
OPERATING EXPENSES	
Cost of sale and services	683,850
Depreciation	139,194
Amortization	<u>9,963</u>
Total operating expenses	<u>833,007</u>
Operating income	<u>411,521</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	399
Interest and fiscal charges on debt	<u>(74,798)</u>
Total nonoperating revenues (expenses)	<u>(74,399)</u>
Net income before operating transfers	<u>337,122</u>
TRANSFERS	
Transfers in	344,421
Transfers out	<u>(632,102)</u>
Net transfers and capital contributions	<u>(287,681)</u>
Change in net assets	49,441
Net Assets - beginning of year	<u>358,579</u>
Net Assets - end of year	<u><u>\$ 408,020</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, 2010**

Increase (Decrease) In Cash and Cash Equivalents

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATER AND SEWER
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,138,582
Cash received in other operations	97,058
Cash payments to suppliers and employees	<u>(683,850)</u>
Net cash provided by operating activities	<u>551,790</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net transfers between funds	(287,681)
Increase (decrease) in due to/due from other funds	<u>22,053</u>
Net cash used in non-capital financing activities	<u>(265,628)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on bonds and debt	(159,219)
Interest and fiscal charges on debt	(74,798)
Payment on notes payable	(5,727)
Acquisition of capital assets	<u>(8,742)</u>
Net cash used in capital and related financing activities	<u>(248,486)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>399</u>
Net cash provided by investing activities	<u>399</u>
Net increase in cash and cash equivalents	38,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>69,479</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 107,554</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 411,521
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	139,194
Amortization of bond issuance costs	9,963
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	18,716
Decrease (increase) in inventory	14,098
Decrease (increase) in capital assets	34,185
Increase (decrease) in accrued liabilities	(87,291)
Increase (decrease) in customer deposits	9,499
Increase (decrease) in unearned revenue	999
Increase (decrease) in compensated absences	<u>906</u>
Total adjustments	<u>140,269</u>
Net cash provided by operating activities	<u><u>\$ 551,790</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, 2010**

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, 2010.

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, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Reporting Entity - continued

Overton Economic Development Corporation (OEDC) - continued

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

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

Overton Municipal Development District (OMDD)

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for services 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, 2010

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, 2010

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.

Debt Service Fund – The debt service fund is used to account for the receipt of property taxes and payment of general obligation debt associated with the City's Interest and Sinking portion of the property tax rate.

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 separate columns.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

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, 2010.

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, 2010

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, 2010

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 five years of service. After five years, employees earn at the rate of 5.39 hours for every two weeks of service for a total of 17.5 days per year. After ten years, PTO is earned at a rate of 6.16 hours for every two 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 six 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, 2010

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	\$ 488,697	\$ 268,260	\$ (220,437)
Judicial	44,807	41,456	(3,351)
Parks and recreation	19,802	-	(19,802)
Capital outlay	73,097	43,000	(30,097)
Total	<u>\$ 626,403</u>	<u>\$ 352,716</u>	<u>\$ (273,687)</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, 2010**

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

The City's balances were completely covered by federal deposit insurance and purchased collateral at September 30, 2010. 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.

The City had Category 1 cash and cash equivalents totaling \$1,189,972 in local bank depository and Certificate of Deposit accounts.

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.

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, 2010, 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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Property Tax

The assessed valuation (net of exemptions) was \$72,028,691 for 2009 (with taxes due January 1, 2010) 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:

	<u>Primary Government</u>		<u>Business-Type</u>	
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:				
Accounts	\$ 692	\$ -	\$ 106,167	\$ 106,859
Taxes	151,072	32,032	1,459	184,563
Gross receivables	151,764	32,032	107,626	291,422
Less: Allowance for un-collectables	(13,077)	(2,990)	-	(16,067)
Total	<u>\$ 138,687</u>	<u>\$ 29,042</u>	<u>\$ 107,626</u>	<u>\$ 275,355</u>

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

	<u>Unavailable</u>
General Fund:	
Delinquent property taxes receivable	\$ 106,493
Debt Service Fund:	
Delinquent property taxes receivable	29,042
Total governmental funds	<u>\$ 135,535</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Receivables – continued

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	\$ 10,118	\$ 15,220	\$ 25,338
Other	-	250	250
Total component unit receivables	<u>\$ 10,118</u>	<u>\$ 15,470</u>	<u>\$ 25,588</u>

Capital Assets

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

Primary Government	Balance			Balance
<i>Governmental Activities:</i>	09/30/09	Increases	Decreases	09/30/10
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	1,526,400	-	-	1,526,400
Machinery and equipment	530,349	77,605	(10,400)	597,554
Accumulated depreciation	(4,563,818)	(85,220)	10,400	(4,638,638)
<i>Governmental Activities, net</i>	<u>1,298,369</u>	<u>(7,615)</u>	<u>(18,208)</u>	<u>1,272,546</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	5,647,345	8,742	-	5,656,087
Accumulated depreciation	(3,542,243)	(139,194)	-	(3,681,437)
<i>Business-type Activities, net</i>	<u>2,189,488</u>	<u>(130,452)</u>	<u>(34,185)</u>	<u>2,024,851</u>
Capital Assets, net	<u>\$ 3,487,857</u>	<u>\$ (138,067)</u>	<u>\$ (52,393)</u>	<u>\$ 3,297,397</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets – continued

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

Administration	\$	17,067
Public safety		27,430
Public works		2,305
Social services		13,102
Parks and recreation		<u>14,916</u>
Total depreciation expense	\$	<u>74,820</u>

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, 2010, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 127,786
Construction fund	General fund	<u>27,228</u>
Total		<u>\$ 155,014</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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Inter-fund Receivables, Payables, and Transfers - continued

The composition of inter-fund transfers as of September 30, 2010, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 695,747	\$ 397,615
Debt service	5,827	32,331
Water and sewer	344,421	632,102
Other governmental	65,752	51,042
Total government	1,111,748	1,113,091
OEDC/OMDD	28,007	26,664
Total transfers	<u>\$ 1,139,754</u>	<u>\$ 1,139,754</u>

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>
Brush chipper	5.55%	10,025
Total		<u>\$ 10,025</u>

The future minimum lease obligations as of September 30, 2010, were as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2011	\$ 5,434
2012	5,434
2013	-
Total minimum lease payments	10,868
Less: amount representing interest	(843)
Present value of minimum lease payments	<u>\$ 10,025</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt -continued

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.

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 Surplus Revenue Certificates of Obligation	5.30%	1,450,000
2003 Tax Surplus Revenue Certificates of Obligation	4.30%	400,000
<i>Business-type Activities:</i>		
2003 Utility System 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
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	178,580	70,075	248,655	130,000	29,813	159,813
2016 – 2020	875,000	200,350	1,075,350	630,000	70,230	700,230
2021 – 2022	320,000	16,952	336,952	-	-	-
Total	<u>\$ 1,623,894</u>	<u>\$ 599,506</u>	<u>\$ 2,223,400</u>	<u>\$ 1,535,000</u>	<u>\$ 318,043</u>	<u>\$ 1,853,043</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt -continued

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 for a term of five years.

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 for a term of 15 years.

The City obtained a loan in October 2009 to finance the construction of the EMS building. Interest rate on the loan is 3.85% and the payments are due monthly for a total of 60 months.

The City obtained a loan in July 2010 to finance the purchase of two police vehicles. Interest rate on the loan is 2.25% and the payments are due annually for a term of three years.

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

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 40,462	\$ 11,313	\$ 51,775	\$ 6,407	\$ 629	\$ 7,036
2012	41,242	9,809	51,051	6,567	469	7,036
2013	41,815	8,495	50,310	6,731	305	7,036
2014	156,545	6,815	163,360	6,899	137	7,036
2015	11,621	553	12,174	1,779	5	1,784
Total	\$ 291,685	\$ 36,985	\$ 328,670	\$ 28,383	\$ 1,545	\$ 29,928

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Long-Term Debt -continued

Changes in Long-Term Debt

The changes in the general long-term debt as of September 30, 2010 are as follows:

	<u>Balance 09/30/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/10</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Certificates of obligation	\$ 1,679,631	\$ -	\$ 55,737	\$ 1,623,894	\$ 61,428
Capital leases	20,260	-	10,235	10,025	5,434
Notes payable	87,153	224,660	20,128	291,685	40,462
Compensated absences	22,085	3,370	-	25,455	-
Total governmental	<u>\$ 1,809,129</u>	<u>\$ 228,030</u>	<u>\$ 86,100</u>	<u>\$ 1,951,059</u>	<u>\$ 107,324</u>
<i>Business-type Activities:</i>					
Certificates of obligation	\$ 1,695,000	\$ -	\$ 160,000	\$ 1,535,000	\$ 180,000
Less: Unamortized bond discount	(3,908)	-	(782)	(3,126)	-
Notes payable	34,109	-	5,726	28,383	6,407
Compensated absences	249	905	-	1,154	-
Total business-type	<u>\$ 1,725,450</u>	<u>\$ 905</u>	<u>\$ 164,944</u>	<u>\$ 1,561,411</u>	<u>\$ 186,407</u>

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, 2010.

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3: OTHER INFORMATION-continued

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, 2010.

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), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS 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%, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3: OTHER INFORMATION - continued

Texas Municipal Retirement System Plan – continued

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

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

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

Schedule of Funding Progress

Actuarial Valuation Date	12/31/2009
Actuarial Value of Assets	\$ 625,306
Actuarial Accrued Liability	\$ 441,456
Percentage Funded	141.6%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (183,850)
Annual Covered Payroll	\$ 465,230
UAAL as a Percentage of Covered Payroll	(39.5%)

Trend Information

Annual Pension Cost	\$ 4,536
Percent contributed	100%
Net Pension Asset	\$ -

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.5%
Projected Salary Increases	None
Includes Inflation At	3.0%
Cost of Living Adjustments	None

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 3: OTHER INFORMATION - continued

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 2010. 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, 2010.

Subsequent Events

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 December 9, 2013, which is the date the financial statements were made available to management.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF OVERTON, TEXAS
 Required Supplementary Information
 Texas Municipal Retirement System
 Schedule of Funding Progress
 (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2007	\$ 609,500	\$ 436,808	139.5 %	\$ (172,692)	\$ 384,405	(44.9) %
12/31/2008	611,081	419,707	145.6	(191,374)	402,854	(47.5)
12/31/2009	625,306	441,456	141.6	(183,850)	465,230	(39.5)

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

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF OVERTON, TEXAS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION 400k FUND	CONSTR. FUND	STARS & STRIPES FUND	CONSTRUCTION FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
ASSETS								
Cash and Cash Equivalents	\$ 4,582	\$ 11	\$ 2,470	\$ 42,663	\$ 28,650	\$ 25	\$ 1,493	\$ 79,894
Receivables (net of allowances):								
Property taxes	-	-	-	-	-	-	-	-
Other	-	\$ -	-	-	-	-	-	\$ -
Due from other funds	-	-	-	27,228	-	-	-	27,228
Total assets	\$ 4,582	\$ 16	\$ 2,470	\$ 69,891	\$ 28,650	\$ 25	\$ 1,493	\$ 107,127
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	-	-	-	-	-
Deferred revenues	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-
Fund Balances:								
Unreserved fund balances:								
Undesignated, reported in:								
Special revenue fund	4,582	16	2,470	69,891	28,650	25	1,493	107,127
Total fund balance	4,582	16	2,470	69,891	28,650	25	1,493	107,127
Total liabilities and fund balance	\$ 4,582	\$ 16	\$ 2,470	\$ 69,891	\$ 28,650	\$ 25	\$ 1,493	\$ 107,127

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	TOTAL OTHER NON- GOVERNMENTAL FUNDS
REVENUES								
Taxes:								
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	20,319	-	-	-	-	3,300	23,619
Grant	-	-	27,838	-	-	-	-	27,838
Investment earnings	12	-	-	452	65	-	-	529
Miscellaneous	-	2,500	-	-	-	300	-	2,800
Total revenues	12	22,819	27,838	452	65	300	3,300	54,786
EXPENDITURES								
Administration	-	-	13,882	-	-	-	-	13,882
Public safety	-	-	-	-	-	-	-	-
Parks and recreation	-	37,928	-	-	-	-	-	37,928
Capital outlay	-	-	-	-	-	-	1,849	1,849
Debt service	-	-	16,320	-	36,407	-	2,654	55,381
Total expenditures	-	37,928	30,202	-	36,407	-	4,503	109,040
Excess (deficiency) of revenues over (under) expenditures	12	(15,109)	(2,364)	452	(36,342)	300	(1,203)	(54,254)
OTHER FINANCING SOURCES (USES)								
Other financing sources - proceeds from loan	-	-	13,149	-	36,407	-	-	-
Transfers from other funds	-	13,499	(25,338)	(25,153)	-	(550)	2,696	65,751
Transfers to other funds	-	-	-	-	-	-	-	(51,041)
Total other financing sources (uses)	-	13,499	(12,189)	(25,153)	36,407	(550)	2,696	14,710
Net change in fund balances	12	(1,610)	(14,553)	(24,701)	65	(250)	1,493	(39,544)
Fund balances - beginning of year	4,570	1,626	17,023	94,592	28,585	275	-	146,671
Fund Balances - end of year	\$ 4,582	\$ 16	\$ 2,470	\$ 69,891	\$ 28,650	\$ 25	\$ 1,493	\$ 107,127

COMPLIANCE AND INTERNAL CONTROL

**Prothro WILHELM**

**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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 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, (2010-1 to 2010-6), 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 City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, TX

December 9, 2013

**CITY OF OVERTON, TEXAS
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

CONTROL DEFICIENCIES:

2010-1

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.

2010-2

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.

2010-2 - CONTINUED

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.

Recommendation:

Develop a personnel document that can be used to track vital statistic information including pay rate and position.

SIGNIFICANT DEFICIENCIES:

2010-3

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.

Update:

The City Manager and departments have implemented a purchase order system.

2010-4**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.

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.

Update:

Money collected from the municipal court and public works is counted under dual control and deposited by the City Manager.

MATERIAL WEAKNESSES:**2010-5****Condition:**

The City does not have an investment policy 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".

2010-5 - CONTINUED

Effect:

The City was 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.

Update:

An investment policy was created and adopted by the city council in July 2013.

2010-6

Condition:

Management has been lax in responding to outside agency requests for information and action plans related to water quality, water system, and disaster planning.

Criteria:

Requests for information from state agencies should be adhered to.

Cause:

Management lacked knowledgeable oversight.

Effect:

Non-compliance in reporting and communicating with state agencies can result in fines and other state limitations in funding.

Recommendation:

The City Manager has worked to update action plans, disaster programs, and other items requested by state agencies. They continue to work to ensure the water system meets the state standards.

Update:

During the past year, the City Manager responded to two Agreed Orders from TCEQ. All documentation to the complete the City's response to the third Agreed Order will be completed by the end of the year.

The Emergency Action Plan requested by TCEQ was prepared in November 2012 and remitted in April 2013.



City of Overton
1200 S. Commerce
Overton, Texas 75684



December 9, 2013

Prothro, Wilhelmi and Company, PLLC
6855 Oak Hill Blvd.
Tyler, Texas 75703

We are providing this letter in connection with your audit of the financial statements of the City of Overton, Texas, which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of September 30, 2010 and the respective changes in financial position and, where applicable, cash flows, for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 9, 2013, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
 - a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have a process to track the status of audit findings and recommendations.
- 9) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 10) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 11) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 12) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the City is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
- 13) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

14) There are no—

- a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (*Statement of Financial Accounting Standards No. 5*).
- c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (*Statement of Financial Accounting Standards No. 5*).
- d) Reservations or designation of fund equity that were not properly authorized and approved.

15) As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

16) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

17) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

18) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

19) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

20) The financial statements properly classify all funds and activities.

21) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

22) Components of Net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

23) Provisions for uncollectible receivables have been properly identified and recorded.

24) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

25) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

- 26) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 27) Deposits are properly classified as to risk and are properly disclosed.
- 28) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- 29) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 30) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 31) We have evaluated the City's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 32) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signed: C.R. Evans, Jr.
C.R. Evans, Mayor

Date: Dec. 19, 2013

Signed: Joe Cantu
Joe Cantu, City Manager

Date: 12-19-2013