

**City of Overton, Texas
Financial Statements
Together With Independent Auditors' Report
September 30, 2011**

**CITY OF OVERTON, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the TMRS Schedule of Funding Progress on page 44 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.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, 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* in considering the City's internal control over financial reporting and compliance.


PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
November 20, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



City of Overton
1200 S. Commerce
Overton, Texas 75684



MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF OVERTON
SEPTEMBER 30, 2011

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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

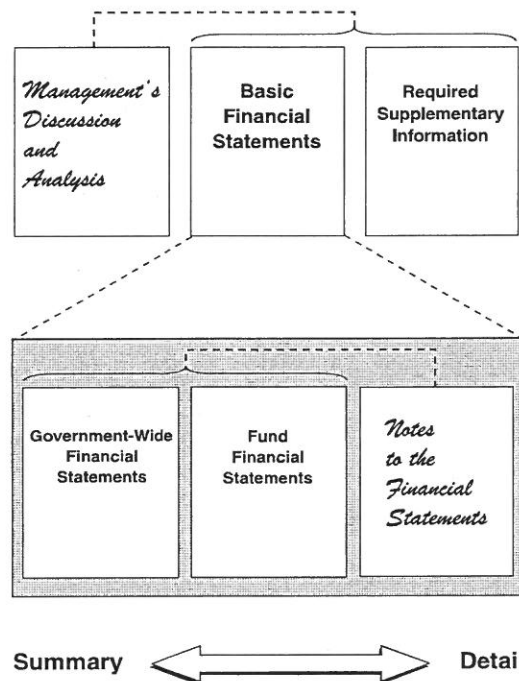
FINANCIAL HIGHLIGHTS

- The assets of the City of Overton, including the Component Units, exceeded its liabilities at the close of the most recent fiscal year by \$1,102,159 (Net Assets). Of this amount, \$679,239 (Unrestricted Net Assets, less investment in capital assets) may be used to meet the City's and Component Unit's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's and Component Unit's total net assets increased by \$137,740.
- During the year, the City's total net assets increased by \$20,957 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 \$121,197, of which \$46,422 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 \$46,422, or 4.5% of the total general fund expenditures.
- The City's bonds payable decreased by \$240,646 due to principal repayments on debt in 2011.

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.

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 on the 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.

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

Government-Wide Statements

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the Government-Wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees and fines (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highway and streets, public works, social services, 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 45-46 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, 2011. 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 \$474 as of September 30, 2011.

A deficit portion of the City's net assets, \$(101,269), 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 \$344,189, are restricted for debt service and capital projects.

TABLE A-2

Unrestricted net assets ended with a deficit balance of \$(243,394). 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	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 371,799	\$ 387,378	\$ 239,121	\$ 140,189	\$ 610,920	\$ 527,567
Capital Assets	1,197,498	1,272,546	1,930,801	2,024,851	3,128,299	3,297,397
Total Assets	1,569,297	1,659,924	2,169,922	2,165,040	3,739,219	3,824,964
Non-Current Liabilities	1,843,722	1,951,059	1,556,607	1,561,410	3,400,329	3,512,469
Other Liabilities	113,694	138,316	225,670	195,610	339,364	333,926
Total Liabilities	1,957,416	2,089,375	1,782,277	1,757,020	3,739,693	3,846,395
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	(621,339)	(651,548)	520,070	517,391	(101,269)	(134,157)
Restricted	62,782	97,006	281,407	186,407	344,189	283,413
Unrestricted	170,438	125,091	(413,832)	(295,778)	(243,394)	(170,687)
Total Net Assets	\$ (388,119)	\$ (429,451)	\$ 387,645	\$ 408,020	\$ (474)	\$ (21,431)

As of September 30, 2011, 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, 2011. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2011, primarily due to annual consumption and depreciation of tangible assets as well as future restrictions of debt service payments and capital projects.

Analysis of the City's Operations - Overall the City had an increase in net assets of \$20,957.

Governmental Activities:

Governmental activities increased net assets by \$41,332. The key element in this increase is due to a decrease in overall administrative costs.

Business-type Activities:

Business-type activities decreased net assets by \$20,375. The key element in this increase is due to an increase in operating expenses.

**CITY OF OVERTON
CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Operating Revenues:						
Charges for Services	\$ 176,729	\$ 190,109	\$ 1,221,004	\$ 1,147,470	\$ 1,397,733	\$ 1,337,579
Operating Grants & Contributions	1,683	27,838	-	-	1,683	27,838
General Revenues:						
Property Taxes	444,579	422,876	-	-	444,579	422,876
Sales & Franchise Taxes	255,529	241,550	-	-	255,529	241,550
Other	29,676	7,825	1,568	97,456	31,244	105,281
Total Revenues	908,196	890,198	1,222,572	1,244,926	2,130,768	2,135,124
Functions/Programs:						
General Government	440,970	773,417	-	-	440,970	773,417
Public Safety	461,629	370,493	-	-	461,629	370,493
Highways and Streets	4,904	15,501	-	-	4,904	15,501
Public Works	122,301	92,665	-	-	122,301	92,665
Social Services	15,033	26,844	-	-	15,033	26,844
Parks and Recreation	53,172	68,138	-	-	53,172	68,138
Debt Service	73,572	99,895	-	-	73,572	99,895
Water & Sewer	-	-	938,230	907,804	938,230	907,805
Total Expenses	1,171,581	1,446,953	938,230	907,804	2,109,811	2,354,758
Increase (decrease) in Net Assets Before Transfers	(263,385)	(556,755)	284,342	337,122	20,957	(219,634)
Net Transfers	304,717	286,339	(304,717)	(287,681)	-	(1,342)
Net Change in Net Assets	41,332	(270,417)	(20,375)	49,441	20,957	(220,976)
Net Assets – Beginning of Year	(429,451)	(159,034)	408,020	358,579	(21,431)	199,545
Net Assets – End of Year	\$ (388,119)	\$ (429,451)	\$ 387,645	\$ 408,020	\$ (474)	\$ (21,431)

Chart A-1
City of Overton, Texas
Revenues for the Year Ended September 30, 2011

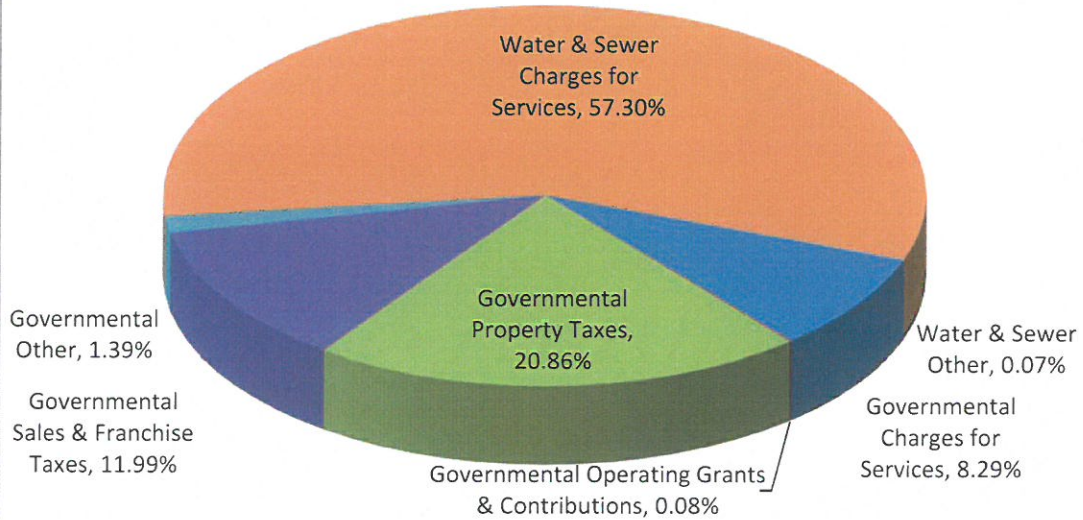
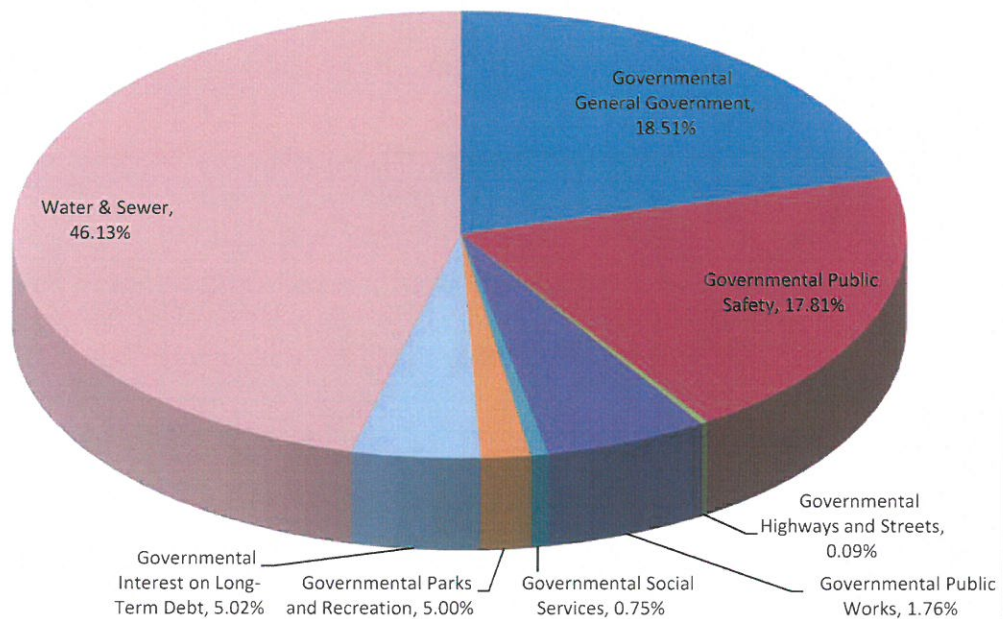


Chart A-2
City of Overton, Texas
Expenses for the Year Ended September 30, 2011



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 \$121,197, a decrease of \$(27,657) in comparison with the prior year. Of this balance, \$46,422 is unassigned and available for spending at the City's discretion. Of the remainder, \$1,704 is reserved to pay debt service and \$73,071 is reserved for future construction and other special purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$46,422, an increase of \$1,667 in comparison with the prior year. The key factor in this increase was an increase in sales taxes revenue.

The Debt Service Fund is a major governmental fund of the City. At the end of the current fiscal year, restricted fund balance of the Debt Service Fund was \$1,704, an increase of 4,732 in comparison with the prior year. The key factor in this decrease was an increase in property tax revenue.

The Other Non-Major Governmental Funds have an ending fund balance of \$73,071, a decrease of \$(34,056) in comparison with the prior year. The key factor in this decrease related to a reduction in grant revenues and an increase in debt service expenses related to the construction loan obtained in the prior year.

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 \$(413,832) as of September 30, 2011. 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 1 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>
Administration	\$ 385,236	\$ 273,399	\$ (111,837)
Social Services	12,728	12,300	(428)
Parks and Recreation	13,255	-	(13,255)
Total	<u>\$ 411,219</u>	<u>\$ 285,699</u>	<u>\$ (125,520)</u>

CAPITAL ASSETS

The City of Overton's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$3,128,299 (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 \$(169,098), or 5%. More detailed information about the City's capital assets is presented in Note 2 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 317,230	\$ 312,230	\$ 50,201	\$ 50,201	\$ 367,431	\$ 362,431
Infrastructure	3,475,000	3,475,000	-	-	3,475,000	3,475,000
Buildings	1,541,591	1,526,400	-	-	1,541,591	1,526,400
Machinery & Equipment	572,791	597,554	420,660	429,402	993,451	1,026,956
Water & Wastewater Distribution	-	-	5,273,602	5,226,685	5,273,602	5,226,685
Accumulated Depreciation	(4,709,114)	(4,638,638)	(3,813,662)	(3,681,437)	(8,522,776)	(8,320,075)
Total	<u>\$ 1,197,498</u>	<u>\$ 1,272,546</u>	<u>\$ 1,930,801</u>	<u>\$ 2,024,851</u>	<u>\$ 3,128,299</u>	<u>\$ 3,297,397</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$3,400,329 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 2 of the basic financial statements.

Table A-4
Outstanding Debt at Year-End

	Governmental Activities		Business - Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Certificates of Obligation	\$ 1,562,467	\$ 1,623,894	\$ 1,352,655	\$ 1,531,874	\$ 2,915,122	\$ 3,155,768
Loans Payable	251,223	291,685	116,975	28,383	368,198	320,068
Pollution Penalties Payable	-	-	86,095	-	86,095	-
Compensated Absences	24,884	25,455	882	1,154	25,766	26,609
Capital Leases	5,148	10,025	-	-	5,148	10,025
Total	\$ 1,843,722	\$ 1,951,059	\$ 1,556,607	\$ 1,561,411	\$ 3,400,329	\$ 3,512,470

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget. A major factor was the economy. The economy continued to struggle through a recession that started a few years ago. In fiscal year 2011, the unemployment rate for the City was about 6.6%, down from 7.7% a couple years ago.

Also, in September 2011, the City adopted the 2011-2012 property tax rate of \$0.57653 per \$100 valuation, the same rate that was adopted for 2010-2011.

These rates, along with other indicators, were taken into account when adopting the General Fund budget for 2012, which accounts for most of the City's operational costs. The City appropriated \$1.13 million in the General Fund for expenditures, which is about 3% less than last year's budgeted amount of \$1.17 million.

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

EXHIBIT 1

CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
ASSETS					
Cash and cash equivalents	\$ 60,397	\$ 113,686	\$ 174,083	\$ 743,687	\$ 228,012
Receivables (net of allowances):					
Sales taxes	34,052	-	34,052	23,981	11,703
Property taxes	135,913	-	135,913	-	-
Franchise taxes	1,348	1,518	2,866	-	-
Accounts	1,383	113,871	115,254	1,440	-
Restricted cash	-	95,000	95,000	-	-
Notes receivable	-	-	-	-	95,000
Internal balances	127,786	(127,786)	-	-	-
Bond issuance costs	10,920	42,832	53,752	-	-
Capital assets:					
Land	317,230	50,201	367,431	-	-
Infrastructure	3,475,000	-	3,475,000	-	-
Buildings	1,541,591	-	1,541,591	-	-
Machinery and equipment	572,791	-	572,791	-	-
Water and sewer distribution	-	5,694,262	5,694,262	-	-
Less: accumulated depreciation	(4,709,114)	(3,813,662)	(8,522,776)	-	-
Total capital assets	1,197,498	1,930,801	3,128,299	-	-
Total assets	1,569,297	2,169,922	3,739,219	769,108	334,715
LIABILITIES					
Accounts payable	33,396	79,283	112,679	-	-
Bank overdrafts	20,876	-	20,876	-	-
Accrued liabilities	40,774	1,092	41,866	-	1,190
Accrued interest	10,102	7,297	17,399	-	-
Deferred revenue	1,616	1,185	2,801	-	-
Customer deposits	(25)	136,813	136,788	-	-
Payable to component unit	6,955	-	6,955	-	-
Noncurrent liabilities:					
Due within one year	108,552	237,567	346,119	-	-
Due in more than one year	1,735,170	1,319,040	3,054,210	-	-
Total liabilities	1,957,416	1,782,277	3,739,693	-	1,190
NET ASSETS					
Investment in capital assets, net of related debt	(621,339)	520,070	(101,269)	-	-
Restricted:					
Debt services	1,704	186,407	188,111	-	-
Capital projects	61,078	95,000	156,078	180,000	-
Unrestricted	170,438	(413,832)	(243,394)	589,108	333,525
Total net assets	\$ (388,119)	\$ 387,645	\$ (474)	\$ 769,108	\$ 333,525

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

CITY OF OVERTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

FUNCTIONS / PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		COMPONENT UNITS
				GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Governmental activities:						
Administration	\$ 404,343	\$ 24,282	\$ 1,683	\$ (378,378)	\$ -	\$ -
Judicial	36,627	122,292	-	85,665	-	-
Public safety	461,629	-	-	(461,629)	-	-
Highways and streets	4,904	-	-	(4,904)	-	-
Public works	122,301	-	-	(122,301)	-	-
Social services	15,033	11,656	-	(3,377)	-	-
Parks and recreation	53,172	18,499	-	(34,673)	-	-
Debt service	73,572	-	-	(73,572)	-	-
Total governmental activities	1,171,581	176,729	1,683	(993,169)	-	-
Business-type activities:						
Water and sewer	938,230	1,221,004	-	-	282,774	-
Total business-type activities	938,230	1,221,004	-	-	282,774	-
Total primary government	\$ 2,109,811	\$ 1,397,733	\$ 1,683	(993,169)	282,774	-
Component Unit:						
Economic Development Corporation	\$ 69,111	\$ -	\$ 15,786	-	-	(53,325)
Municipal Development District	10,561	-	-	-	-	(10,561)
Total component unit	\$ 79,672	\$ -	\$ 15,786	-	-	(53,325)
General revenues:						
Property taxes				444,579	-	-
Sales taxes				189,687	-	94,843
Franchise taxes				65,842	-	72,733
Investment earnings				417	462	-
Miscellaneous local and intermediate revenue				29,259	1,106	3,562
Transfers				304,717	(304,717)	9,150
Total general revenues and transfers				1,034,501	(303,149)	-
Change in net assets				41,332	(20,375)	107,555
Net assets - beginning of year				(429,451)	408,020	54,230
Net assets - end of year				\$ (388,119)	\$ 387,645	\$ 714,878
				\$ (474)	\$ -	\$ 270,972
				\$ -	\$ -	\$ 333,525

FUND FINANCIAL STATEMENTS

EXHIBIT 3

**CITY OF OVERTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
		FUND		
ASSETS				
Cash	\$ 1,914	\$ 1,704	\$ 56,779	\$ 60,397
Receivables (net of allowances):				
Sales taxes	34,052	-	-	34,052
Property taxes	104,233	31,680	-	135,913
Franchise taxes	1,348	-	-	1,348
Other	1,383	-	-	1,383
Due from other funds	127,786	-	16,662	144,448
Total assets	<u>\$ 270,716</u>	<u>\$ 33,384</u>	<u>\$ 73,441</u>	<u>\$ 377,541</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 33,026	\$ -	\$ 370	\$ 33,396
Bank overdrafts	20,876	-	-	20,876
Accrued liabilities	40,774	-	-	40,774
Due to other funds	16,662	-	-	16,662
Due to component unit	6,955	-	-	6,955
Deferred revenues	106,026	31,680	-	137,706
Customer deposits	(25)	-	-	(25)
Total liabilities	<u>224,294</u>	<u>31,680</u>	<u>370</u>	<u>256,344</u>
Fund Balances:				
Restricted:				
Debt service	-	1,704	-	1,704
Law enforcement	-	-	9,594	9,594
Bluegrass Festival	-	-	1,372	1,372
Construction of capital assets	-	-	61,078	61,078
Other	-	-	1,027	1,027
Unassigned	46,422	-	-	46,422
Total fund balances	<u>46,422</u>	<u>1,704</u>	<u>73,071</u>	<u>121,197</u>
Total liabilities and fund balances	<u>\$ 270,716</u>	<u>\$ 33,384</u>	<u>\$ 73,441</u>	<u>\$ 377,541</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, 2011**

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

Total fund balances - governmental funds	\$ 121,197
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,197,498
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.	(1,807,917)
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.	(10,102)
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.	136,090
Liabilities for compensated absences does not require current financial resources and, therefore, are not reported in the governmental funds balance sheet.	(24,885)
Net assets of governmental activities	<u>\$ (388,119)</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, 2011

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
		FUND		
REVENUES				
Taxes:				
Property	\$ 280,972	\$ 126,214	\$ -	\$ 407,186
Sales	189,687	-	-	189,687
Franchise	65,842	-	-	65,842
Charges for services	23,232	-	30,155	53,387
Fines and forfeitures	122,292	-	-	122,292
Intergovernmental	17,599	-	-	17,599
Licenses and permits	1,050	-	-	1,050
Investment earnings	24	62	331	417
Grant	-	-	1,683	1,683
Donations	1,870	-	9,100	10,970
Miscellaneous	690	-	-	690
Total revenues	703,258	126,276	41,269	870,803
EXPENDITURES				
Current:				
General government:				
Administration	385,236	-	1,568	386,804
Judicial	36,627	-	-	36,627
Public safety:				
Police	382,053	-	-	382,053
Fire	19,926	-	-	19,926
Animal control	2,637	-	-	2,637
Highways and streets	4,904	-	-	4,904
Public works	119,714	-	-	119,714
Social services	12,728	-	-	12,728
Parks and recreation	13,255	-	23,649	36,904
Capital outlay	20,191	-	-	20,191
Debt service - Principal	25,332	25,149	36,953	87,434
Debt service - Interest and other charges	1,897	74,177	17,181	93,255
Total expenditures	1,024,500	99,326	79,351	1,203,177
Excess (deficiency) of revenues over (under) expenditures	(321,242)	26,950	(38,082)	(332,374)
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	919,322	10,500	43,884	973,706
Operating transfers to other funds	(596,413)	(32,718)	(39,858)	(668,989)
Total other financing sources (uses)	322,909	(22,218)	4,026	304,717
Net change in fund balances	1,667	4,732	(34,056)	(27,657)
Fund balances - beginning of year	44,755	(3,028)	107,127	148,854
Fund balances - end of year	\$ 46,422	\$ 1,704	\$ 73,071	\$ 121,197

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, 2011**

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

Net change in fund balances - total governmental funds	\$ (27,657)
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. This is the amount by which capital outlays were less than depreciation expense in the current period.	(75,048)
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.	37,393
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	106,073
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>571</u>
Change in net assets of governmental activities	<u><u>\$ 41,332</u></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, 2011

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Property	450,500	\$ 450,500	\$ 280,972	\$ (169,528)
Sales	280,000	280,000	189,687	(90,313)
Franchise	102,000	102,000	65,842	(36,158)
Charges for services	32,550	32,550	23,232	(9,318)
Fines and forfeitures	120,250	120,250	122,292	2,042
Intergovernmental	19,750	19,750	17,599	(2,151)
Licenses and permits	1,000	1,000	1,050	50
Investment earnings	50	50	24	(26)
Donations	500	500	1,870	1,370
Miscellaneous	14,100	14,100	690	(13,410)
Total revenues	1,020,700	1,020,700	703,258	(317,442)
EXPENDITURES				
Administration	273,399	273,399	385,236	(111,837)
Judicial	45,181	45,181	36,627	8,554
Public safety	410,820	410,820	404,616	6,204
Highways and streets	32,500	32,500	4,904	27,596
Public works	221,228	221,228	119,714	101,514
Social services	12,300	12,300	12,728	(428)
Parks and recreation	-	-	13,255	(13,255)
Capital outlay	30,000	30,000	20,191	9,809
Debt service	130,000	130,000	27,229	102,771
Total expenditures	1,155,428	1,155,428	1,024,500	130,928
Excess (deficiency) of revenues over (under) expenditures	(134,728)	(134,728)	(321,242)	(186,514)
OTHER FINANCING SOURCES (USES)				
Other financing sources	-	-	-	-
Operating transfers from other funds	136,616	136,616	919,322	782,706
Operating transfers to other funds	(3,500)	(3,500)	(596,413)	(592,913)
Total other financing sources (uses)	133,116	133,116	322,909	189,793
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	\$ (1,612)	\$ (1,612)	1,667	\$ 3,279
Fund Balance - beginning of year			44,755	
Fund Balance - end of year			\$ 46,422	

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, 2011**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
ASSETS	
Current assets:	
Cash	\$ 113,686
Accounts receivable (net)	113,871
Franchise tax receivable (net)	1,518
Restricted cash	<u>95,000</u>
Total current assets	<u>324,075</u>
Noncurrent assets:	
Bond issue costs	42,832
Capital assets:	
Land	50,201
Water and sewer distribution	5,694,262
Less: accumulated depreciation	<u>(3,813,662)</u>
Total capital assets	<u>1,930,801</u>
Total noncurrent assets	<u>1,973,633</u>
Total assets	<u><u>\$ 2,297,708</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 79,283
Accrued liabilities	1,092
Accrued interest	7,297
Due to other funds	127,786
Deferred revenue	1,185
Customer deposits	136,813
Pollution penalties payable	31,500
Notes payable	16,067
Certificates of obligation payable	<u>190,000</u>
Total current liabilities	<u>591,023</u>
Non-current liabilities:	
Compensated absences payable	882
Pollution penalties payable	54,595
Notes payable	100,908
Certificates of obligation payable	<u>1,162,655</u>
Total non-current liabilities	<u>1,319,040</u>
Total liabilities	<u>1,910,063</u>
NET ASSETS	
Investment in capital assets, net of related debt	520,070
Restricted:	
Capital assets	95,000
Debt service	186,407
Unrestricted	<u>(413,832)</u>
Total net assets	<u>387,645</u>
Total net assets and liabilities	<u><u>\$ 2,297,708</u></u>

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

EXHIBIT 9

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
OPERATING REVENUES	
Charges for services	\$ 1,221,004
Miscellaneous income	<u>1,106</u>
Total operating revenues	<u>1,222,110</u>
OPERATING EXPENSES	
Cost of sale and services	638,817
Penalties on environmental quality	95,407
Depreciation	132,225
Amortization	<u>9,963</u>
Total operating expenses	<u>876,412</u>
Operating income	<u>345,698</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	462
Interest and fiscal charges on debt	<u>(61,818)</u>
Total nonoperating revenues (expenses)	<u>(61,356)</u>
Net income before operating transfers	<u>284,342</u>
TRANSFERS	
Transfers in	295,835
Transfers out	<u>(600,552)</u>
Net transfers	<u>(304,717)</u>
Change in net assets	(20,375)
Net Assets - beginning of year	<u>408,020</u>
Net Assets - end of year	<u><u>\$ 387,645</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, 2011**

Increase (Decrease) In Cash and Cash Equivalents

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 1,225,772
Received in other operations	1,106
Payments to suppliers and employees	<u>(630,091)</u>
Net cash provided by operating activities	<u>596,787</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net transfers between funds	<u>(304,717)</u>
Net cash used in non-capital financing activities	<u>(304,717)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Loan proceeds from new debt	95,000
Principal repayments on bonds and debt	(180,000)
Principal payment on notes payable	(6,407)
Interest and fiscal charges on debt	(61,818)
Acquisition of capital assets	(38,175)
Increase in restricted cash	<u>(95,000)</u>
Net cash used in capital and related financing activities	<u>(286,400)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>462</u>
Net cash provided by investing activities	<u>462</u>
Net increase in cash and cash equivalents	6,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>107,554</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 113,686</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 345,698
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	132,225
Amortization of bond issuance costs	9,963
Accretion of bond discount	782
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(7,763)
Increase (decrease) in accrued liabilities	17,528
Increase (decrease) in customer deposits	12,561
Increase (decrease) in deferred revenue	(30)
Increase (decrease) in pollution penalty payable	86,095
Increase (decrease) in compensated absences	<u>(272)</u>
Total adjustments	<u>251,089</u>
Net cash provided by operating activities	<u>\$ 596,787</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, 2011

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 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, 2011.

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 or adjacent areas of Rusk County. The economic benefits provided by the OEDC will benefit the City by stimulating the need for housing, retail sales, entertainment, etc., within the City and surrounding areas.

The Directors of the OEDC are appointed by the City Council, who also approves the OEDC's annual budget. The 1/2 percent sales tax that funds the OEDC is first received by the City from the State and is then passed to OEDC.

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

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reporting Entity – continued

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 activities) 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.

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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 other funds" 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.

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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.

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.

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.

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.

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).

Property Taxes

Property Taxes Receivable is shown net of an allowance for uncollectible balances. The allowance is equal to fourteen percent (14%) of delinquent property taxes receivable at September 30, 2011.

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, 2011

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, 2011

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 noncurrent 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 or business-type activities in the government-wide statement of net assets and the proprietary fund statement of net assets, if applicable. 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.

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.

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities, and Net Assets or Equity – continued

Fund Balance Classifications

Beginning with fiscal year September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – Amounts that are available for any purpose.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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	\$ 385,236	\$ 273,399	\$ (111,837)
Social services	12,728	12,300	(428)
Parks and recreation	13,255	-	(13,255)
Total	<u>\$ 411,219</u>	<u>\$ 285,699</u>	<u>\$ (125,520)</u>

The excess expenditures were covered by available fund balance in the fund.

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, 2011

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

At September 30, 2011, the reported amount of the City's deposits, including certificates of deposit considered to be cash equivalents, was \$1,219,908 and the bank balance was \$1,260,009. Of the bank balance, \$1,250,000 was covered by federal depository insurance or by collateral held by the City's agent in the City's name and \$10,009 was covered by collateral held in the pledging bank's trust department in the City's name. No amounts were uninsured and uncollateralized.

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 had not adopted an investment policy as of September 30, 2011. However, a policy was later adopted in July 2013. 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, 2011, the City invested only in certificates of deposit with local banks.

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

Property Tax

The assessed valuation (net of exemptions) was \$71,396,415 for 2010 (with taxes due January 1, 2011) levied at a rate of \$0.576530 per hundred-dollar valuation.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

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>Governmental Activities</u>		<u>Business-Type</u>	
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:				
Sales taxes	\$ 34,052	\$ -	\$ -	\$ 34,052
Property taxes	118,053	35,321	-	153,374
Franchise taxes	1,348	-	1,518	2,866
Accounts	1,383	-	113,871	115,254
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	154,836	35,321	115,389	305,546
Less: Allowance for un-collectables	(13,820)	(3,641)	-	(17,461)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 141,016</u>	<u>\$ 31,680</u>	<u>\$ 115,389</u>	<u>\$ 288,085</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	\$ 106,026
Debt Service Fund:	
Delinquent property taxes receivable	<u>31,680</u>
Total governmental funds	<u>\$ 137,706</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Receivables

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	\$ 11,703	\$ 23,981	\$ 35,684
Note	95,000	-	95,000
Other	-	1,440	1,440
	<u> </u>	<u> </u>	<u> </u>
Total component unit receivables	<u>\$ 11,703</u>	<u>\$ 25,421</u>	<u>\$ 37,124</u>

In July 2011, the OMDD issued a 10-year, interest free loan of \$95,000 to the City to be used toward the purchase of a pumpvack truck and wastewater pumps for the Water and Sewer department. The loan is recorded as long-term debt in the City's Water and Sewer Fund.

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>	09/30/10	Increases	Decreases	09/30/11
Non-depreciable assets:				
Land	\$ 312,230	\$ 5,000	\$ -	\$ 317,230
Depreciable assets:				
Infrastructure	3,475,000	-	-	3,475,000
Buildings	1,526,400	15,191	-	1,541,591
Machinery and equipment	597,554	-	(24,763)	572,791
Accumulated depreciation	(4,638,638)	(95,239)	24,763	(4,709,114)
<i>Governmental Activities, net</i>	<u>1,272,546</u>	<u>(75,048)</u>	<u>-</u>	<u>1,197,498</u>
<i>Business-type Activities:</i>				
Non-depreciable assets:				
Land	50,201	-	-	50,201
Depreciable assets:				
Water and sewer system	5,656,087	38,175	-	5,694,262
Accumulated depreciation	(3,681,437)	(132,225)	-	(3,813,662)
<i>Business-type Activities, net</i>	<u>2,024,851</u>	<u>(94,050)</u>	<u>-</u>	<u>1,930,801</u>
Capital Assets, net	<u>\$ 3,297,397</u>	<u>\$ (169,098)</u>	<u>\$ -</u>	<u>\$ 3,128,299</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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	57,013
Public works	2,587
Social services	2,305
Parks and recreation	<u>16,267</u>
Total depreciation expense	<u>\$ 95,239</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, 2011, 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>16,662</u>
Total		<u>\$ 144,448</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Inter-fund Receivables, Payables, and Transfers – continued

Inter-fund Transfers

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

The composition of inter-fund transfers as of September 30, 2011, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 919,322	\$ 596,413
Debt service	10,500	32,718
Other governmental	43,884	39,858
Governmental activities	973,706	668,989
Water and sewer	295,835	600,552
Total transfers	<u>\$ 1,269,541</u>	<u>\$ 1,269,541</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%	\$ 5,148
Total		<u>\$ 5,148</u>

The future minimum lease obligations as of September 30, 2011, were as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2012	<u>\$ 5,434</u>
Total minimum lease payments	5,434
Less: amount representing interest	<u>(286)</u>
Present value of minimum lease payments	<u>\$ 5,148</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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 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
2012	\$ 62,162	\$ 80,152	\$ 142,314	\$ 190,000	\$ 58,304	\$ 248,304
2013	62,946	76,675	139,621	200,000	50,478	250,478
2014	68,779	73,226	142,005	205,000	42,012	247,012
2015	178,580	70,075	248,655	130,000	29,813	159,813
2015	170,000	58,249	228,249	140,000	27,466	167,466
2017 – 2021	865,000	154,817	1,019,817	490,000	42,764	532,764
2022	155,000	4,236	159,236	-	-	-
Total	<u>\$ 1,562,467</u>	<u>\$ 517,430</u>	<u>\$ 2,079,897</u>	<u>\$ 1,355,000</u>	<u>\$ 250,837</u>	<u>\$ 1,605,837</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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.

The City obtained an interest-free loan from the OMDD in July 2011 to finance the purchase of a pumpvack truck and wastewater pumps. Payments are due annually for a term of 10 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
2012	\$ 41,242	\$ 9,809	\$ 51,051	\$ 16,067	\$ 469	\$ 16,536
2013	41,815	8,494	50,309	16,231	305	16,536
2014	156,545	6,814	163,359	16,400	136	16,536
2015	11,621	553	12,174	11,277	8	11,285
2016	-	-	-	9,500	-	9,500
2017	-	-	-	9,500	-	9,500
2018	-	-	-	9,500	-	9,500
2019	-	-	-	9,500	-	9,500
2020	-	-	-	9,500	-	9,500
2021	-	-	-	9,500	-	9,500
Total	<u>\$ 251,223</u>	<u>\$ 25,670</u>	<u>\$ 276,893</u>	<u>\$ 116,975</u>	<u>\$ 918</u>	<u>\$ 117,893</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Debt – continued

Pollution Penalties Payable

In fiscal year 2011, the Texas Commission on Environmental Quality (TCEQ) conducted two reviews of the City's domestic wastewater treatment system and determined that the City failed to comply with various State requirements. The TCEQ assessed total penalties of \$95,407, of which \$2,832 was to be paid immediately. The City agreed to pay the remaining balance in total monthly installments of \$2,625 over 35 months.

Annual payment requirements for the City's pollution penalties payable are as follows:

<u>Year Ending September 30</u>	<u>Business-Type Activities</u>
2012	\$ 31,500
2013	31,500
2014	23,095
Total	<u>\$ 86,095</u>

Changes in Long-Term Debt

The changes in the general long-term debt as of September 30, 2011, are as follows:

	<u>Balance 09/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/11</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Certificates of obligation	\$ 1,623,894	\$ -	\$ 61,427	\$ 1,562,467	\$ 62,162
Capital leases	10,025	-	4,877	5,148	5,148
Notes payable	291,685	-	40,462	251,223	41,242
Compensated absences	25,455	-	571	24,884	-
Total governmental	<u>\$ 1,951,059</u>	<u>\$ -</u>	<u>\$ 107,337</u>	<u>\$ 1,843,722</u>	<u>\$ 108,552</u>
<i>Business-type Activities:</i>					
Certificates of obligation	\$ 1,535,000	\$ -	\$ 180,000	\$ 1,355,000	\$ 190,000
Less: Unamortized bond discount	(3,126)	-	(781)	(2,345)	-
Notes payable	28,383	95,000	6,408	116,975	16,067
Pollution penalties payable	-	95,407	9,312	86,095	31,500
Compensated absences	1,154	-	272	882	-
Total business-type	<u>\$ 1,561,411</u>	<u>\$ 190,407</u>	<u>\$ 195,211</u>	<u>\$ 1,556,607</u>	<u>\$ 237,567</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Total interest incurred and charged to expense for the year ended September 30, 2011, was \$133,599, of which \$71,781 related to governmental activities and \$61,818 related to business-type activities.

NOTE 3: OTHER INFORMATION

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:

	Plan Year 2010	Plan Year 2011
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%, Transfers	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 3: OTHER INFORMATION – continued

Texas Municipal Retirement System Plan – continued

Three-Year Trend Information

Year Ending September 30,	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	\$ 4,606	\$ 4,606	100%	\$ -
2010	1,442	1,442	100%	-
2011	3,766	3,766	100%	-

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 30, 2010, also follows:

Valuation Date	12/31/2008	12/31/2009	12/31/2010 – Prior to Restructuring	12/31/2010 - Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24 Years	22.9 Years	21.8 Years	25 Years
Amortization Period for New Gains/Losses	25 years	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation At	3.0%	3.0%	3.0%	3.0%
Cost of Living Adjustments	0.0%	0.0%	0.0%	0.0%

Funded Status and Funding Progress – In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on September 30, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010, TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 3: OTHER INFORMATION – continued

Texas Municipal Retirement System Plan – continued

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	12/31/2010 – Under Original Fund Structure	12/31/2010 – Under New Fund Structure
Actuarial Value of Assets	\$ 693,472	\$ 935,733
Actuarial Accrued Liability	\$ 520,285	\$ 696,877
Percentage Funded	133.3%	134.3%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (173,187)	\$ (238,856)
Annual Covered Payroll	\$ 554,659	\$ 554,659
UAAL as a Percentage of Covered Payroll	(31.2%)	(43.1%)

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

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

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, 2011.

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, 2011**

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, 2011.

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 2011. 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, 2011.

Subsequent Events

In August 2013, the City accepted an \$110,000 monetary grant from the OMDD to repair 620 feet of sewer line and to replace a manhole on Helen Street.

In fiscal year ending September 30, 2013, the City received a grant from the Texas Department of Agriculture for a sidewalk project for North Commerce Street and East Henderson Street. The project was completed in December 2013.

In fiscal year ending September 30, 2013, the City received a grant from the Texas Community Development Block Grant Program for a wastewater sewer system improvement project. This project was completed in January 2014.

On February 27, 2014, the TCEQ stated that it has agreed to suspend any payment due on the pollution penalties account until April 1, 2015, at which time the TCEQ and the City will readdress the City's financial status to negotiate a new payment plan.

Management has evaluated subsequent events through November 20, 2014, 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) (1) / (2)	(4) (2) - (1)	(5)	(6) (4) / (5)
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)
12/31/2010 ¹	693,472	520,285	133.3	(173,187)	554,659	(31.2)
12/31/2010 ²	935,733	696,877	134.3	(238,856)	554,659	(42.1)

¹ Actuarial valuation performed under the original fund structure

² Actuarial valuation performed under the new fund structure

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, 2011

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
ASSETS								
Cash and cash equivalents	\$ 9,594	\$ 1,742	\$ 902	\$ 15,319	\$ 28,704	\$ 125	\$ 393	\$ 56,779
Due from other funds	-	-	-	16,662	-	-	-	16,662
Total assets	<u>\$ 9,594</u>	<u>\$ 1,742</u>	<u>\$ 902</u>	<u>\$ 31,981</u>	<u>\$ 28,704</u>	<u>\$ 125</u>	<u>\$ 393</u>	<u>\$ 73,441</u>
LIABILITIES AND FUND BALANCE								
Liabilities:								
Accounts payable	\$ -	\$ 370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 370
Total liabilities	<u>\$ -</u>	<u>\$ 370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370</u>
Fund balances:								
Restricted:								
Law enforcement	9,594	-	-	-	-	-	-	9,594
Bluegrass Festival	-	1,372	-	-	-	-	-	1,372
Construction of capital assets	-	-	-	31,981	28,704	-	393	61,078
Other	-	-	902	-	-	125	-	1,027
Total fund balance	<u>9,594</u>	<u>1,372</u>	<u>902</u>	<u>31,981</u>	<u>28,704</u>	<u>125</u>	<u>393</u>	<u>73,071</u>
Total liabilities and fund balance	<u>\$ 9,594</u>	<u>\$ 1,742</u>	<u>\$ 902</u>	<u>\$ 31,981</u>	<u>\$ 28,704</u>	<u>\$ 125</u>	<u>\$ 393</u>	<u>\$ 73,441</u>

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
REVENUES								
Charges for services	\$ -	\$ 18,499	\$ -	\$ -	\$ -	\$ -	\$ 11,656	\$ 30,155
Grant	-	-	1,683	-	-	-	-	1,683
Investment earnings	12	-	-	265	54	-	-	331
Donations	5,000	4,000	-	-	-	100	-	9,100
Total revenues	5,012	22,499	1,683	265	54	100	11,656	41,269
EXPENDITURES								
Administration	-	-	1,568	-	-	-	-	1,568
Parks and recreation	-	23,649	-	-	-	-	-	23,649
Debt service	-	-	-	-	40,934	-	13,200	54,134
Total expenditures	-	23,649	1,568	-	40,934	-	13,200	79,351
Excess (deficiency) of revenues over (under) expenditures	5,012	(1,150)	115	265	(40,880)	100	(1,544)	(38,082)
OTHER FINANCING SOURCES (USES)								
Other financing sources - proceeds from loan	-	-	-	-	-	-	-	-
Transfers from other funds	-	2,506	-	-	40,934	-	444	43,884
Transfers to other funds	-	-	(1,683)	(38,175)	-	-	-	(39,858)
Total other financing sources (uses)	-	2,506	(1,683)	(38,175)	40,934	-	444	4,026
Net change in fund balances	5,012	1,356	(1,568)	(37,910)	54	100	(1,100)	(34,056)
Fund balances - beginning of year	4,582	16	2,470	69,891	28,650	25	1,493	107,127
Fund Balances - end of year	9,594	1,372	902	31,981	28,704	125	393	73,071

COMPLIANCE AND INTERNAL CONTROL

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

To the City Council
City of Overton, Texas

We have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, 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, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

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.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, TX
November 20, 2014

**CITY OF OVERTON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

CONTROL DEFICIENCIES:

2011-1

Condition:

(Repeat from prior year) 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:

As recommended in the prior year audit, a copy of the purchase order/purchase approval and invoices should be attached to support payments to vendors. If the payment is a reoccurring monthly payment, a copy of the contract/council item should be attached to the support. Wire transfers should be maintained in a separate file with two proper signature approvals documented on an internal document with appropriate documentation related to the purpose of the wire and wire instructions.

Management's Response:

The City has since implemented procedures that require attachment of appropriate documentation for each disbursement. Purchase orders, signed off invoices, etc., are attached to the City's copy of the check made out to the vendor. Wire transfers through fiscal year 2013 were limited to making payments on outstanding bonds in February and August of each year. These were basically 4 ACH transfers per year. Procedures are in place now that require that either the City Secretary or City Manager also authorize payments by ACH transfer. Transfers themselves are made at the bank by bank employees but are initiated by the Director of Finance. The bank has been advised not to execute transfers without written authorization by a minimum of two employees that are authorized to disburse funds from City accounts.

2011-2

Condition:

One instance was noted where a bank deposit was approximately \$20 less than the amount shown on the daily report. No entry was made to record any over/shortages on the daily report.

Criteria:

The daily cash deposits should be reviewed and agreed to the daily system reports. Any over/shortages should be investigated and recorded to the system as needed.

2011-2 – CONTINUED

Cause:

Procedures may not be in place to require a reconciliation of the cash deposits to the daily reports.

Effect:

A potential exists for misappropriation of assets due to fraud.

Recommendation:

The Finance Director should review the deposit slips prior to deposit to verify that the amounts agree to the daily report. The Finance Director should document her review by initialing the daily report.

Management's Response:

The Financial Director is now checking the amounts shown on the deposit slip to ensure that it agrees with the daily report. If they agree, she initials the daily report. The City Manager or City Secretary may complete this task in event of the absence of the Director of Finance.

2011-3

Condition:

One instance was noted where only a portion of the credit card activity shown on the monthly statement was paid. The remaining balance was carried forward on the credit card account, but no liability was recorded to accrue that balance.

Criteria:

Expenses should be recorded in the period incurred.

Cause:

Limited knowledge of accrual accounting may have resulted in the expenses being recorded when paid instead of when incurred.

Effect:

A potential exists for expenses and related liabilities to be misstated.

Recommendation:

All credit card activity should be recorded in the period incurred. If an amount is not paid in the month incurred, a related liability should be recorded and offset when payment is actually made.

Management's Response:

The usual practice is to pay all credit card bills in full. If there is a dispute with a charge or a problem with cash flow, the entire bill will not be paid until either condition is resolved.

2011-4

Condition:

Multiple stale-dated checks were noted on the bank reconciliations.

Criteria:

Stale-dated checks should be reviewed and investigated on a timely basis.

2011-4 – CONTINUED

Cause:

Lack of review due to limited personnel and no formal documentation of procedures regarding the bank reconciliation process have caused the stale-dated items to remain on the outstanding check list of the bank reconciliation.

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:

Stale-dated checks listed on the outstanding check list of the bank reconciliations should be reviewed and addressed in a timely manner. Adjustments to void checks should be made when determined necessary.

Management's Response:

The City is in the process of implementing procedures that will put a stop payment on any check that is not cashed within 120 days; notify the payee of the need to contact the City so that a new check may be issued; and track the corresponding Accounts/Receivable so that if the payee cannot be located, the funds may be sent to the State Comptroller's "Unclaimed Property Fund."

2011-5

Condition:

We were unable to verify approved pay rates and other changes for all employees tested. Also, it appears that a personnel file was not maintained for one employee.

Criteria:

A formal personnel router should be maintained to document employee census information and approval of new hire and personnel status changes. A personnel file should also be kept for all employees.

Cause:

Procedures may not have been in place to ensure that employee census data and status changes are properly documented and maintained in a personnel file.

Effect:

A potential exists for incorrect starting pay and incorrect pay rate changes to be processed. Potential increase in fraud risk whereby fictitious employees could be set up or unauthorized raises could be made.

Recommendation:

Develop a personnel document that can be used to track vital statistic information including pay rate and position. Maintain personnel files for all employees.

Management's Response:

The City has recently implemented a new "Employee Change & Separation Request Form", which is now required to be completed to properly document new hire census data and status changes. The form requires signatures by the employee, the department head, the City Secretary/HR Manager, and the City Manager.

2011-6**Condition:**

Employee timesheets are not signed by a supervisor.

Criteria:

Timesheets for hourly employees should be reviewed and approved by management.

Cause:

Procedures may not have been in place to ensure that employee time sheets are reviewed and signed by a supervisor.

Effect:

A potential exists for an employee to manipulate the timesheet and be paid for additional hours that were never worked.

Recommendation:

The City Secretary should ensure that timesheets for all hourly employees are reviewed and signed by a supervisor prior to processing payroll.

Management's Response:

All timesheets are now approved by the employee's Supervisor, including the City Manager's time sheet that is approved by the Mayor.

2011-7**Condition:**

During a walkthrough to observe the end-of-day cash counting procedures, we noted that a dual count of the cash drawer was not performed. Also, it appears that the clerks have access to the key to the vault in the Finance Director's office.

Criteria:

Last year, the City implemented a procedure to require dual counting of the cash drawers at the close of each business day.

Cause:

Dual counting procedures are not followed consistently. Also, limited personnel may have resulted in the need for clerical employees to obtain access to the vault key in order to store their cash registers at the end of the day.

Effect:

Current controls do not appear to be adequate to reduce the potential for fraud risk.

Recommendation:

Procedures requiring dual counting of cash drawers should be followed consistently. To ensure this occurs, both individuals should sign/initial the Daily Cash Summary report that is completed each day. Also, only management should have access to the vault key.

2011-7 – CONTINUED

Management's Response:

Arrangements have been made so that now, only the City manager, City Secretary, and Director of Finance have a key to the vault. Also, the two individuals that are responsible for counting cash have been instructed to notify either the Director of Finance, City Secretary, or City Manager that the counting has been completed and to have whomever is also checking it, initial the Daily Cash Summary Report.

SIGNIFICANT DEFICIENCIES:

2011-8

Condition:

Monthly bank reconciliations are not being reviewed by supervisory personnel.

Criteria:

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

Cause:

Lack of review may be due to limited personnel and no formal documentation of procedures regarding the bank reconciliation process.

Effect:

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

Recommendation:

The City Manager should perform a review of each month's bank reconciliation subsequent to completion. Approval should be documented by signing the first page of the reconciliation.

Management's Response:

To reduce the volume of bank accounts that need to be reconciled, the City Council has been asked to approve a Resolution (No. 2014-11-20B) to close out eleven bank accounts that have become obsolete or unnecessary. Several others will be closed at a later time. Staff is also working to activate the Bank Reconciliation Module of the Accounting Software that is currently in use. These changes notwithstanding, procedures will be documented and put into place with the final step being a review and sign off by the City Manager each month.

2011-9

Condition:

Credit card statements do not indicate a secondary review. It appears that the Finance Director is reconciling the credit card statements and issuing checks for payment.

Criteria:

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

Cause:

Lack of review may be due to limited personnel and no formal documentation of procedures regarding the credit card statement approval process.

2011-9 – CONTINUED

Effect:

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

Recommendation:

The City Manager should perform the review and approval process relating to the credit card statements. Completion of this procedure should be documented by initialing the credit card statement.

Management's Response:

A procedure will be put in place to have the City Manager sign off on all credit card payments in the future.

2011-10

Condition:

(Repeat from prior year) Purchase orders are generated from a centralized location by a single individual who also enters the accounts payable transactions and records journal entries. Also, no copies of the purchase orders were attached to the invoices for recordkeeping.

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. Also, purchase orders should be attached to the respective invoices for improved recordkeeping.

Management's Response:

As part of the re-structuring of the Chart of Accounts that was completed prior to the beginning of fiscal year 2015, the Accounting Software Vendor was asked to assist the City in activating the Purchase Order Module of the Accounting System. This process is still in progress but should be completed in December 2014 along with a documented set of procedures. In the meantime and for several months now, a manual purchase order system has been in place. For purchases over \$250 that are non-recurring expenses, the City Manager must approve the PO. When the invoice is issued, the head of the originating department signs off on the invoice approving the work that was done or the product received, which is then sent to the City Manager for final approval for payment. The approved purchase order and signed off invoice are attached to the City's copy of the A/P check and then filed.

2011-11**Condition:**

Four instances were noted where a check payment only contained one authorized check signer.

Criteria:

Each check disbursement must have two signatures from authorized personnel.

Cause:

Checks were not reviewed prior to mailing to ensure that each contained dual signatures.

Effect:

Weak internal controls over check disbursements may result in increased risk of fraudulent activity.

Recommendation:

The Finance Director should ensure that all checks contain dual authorized signatures before issuing or mailing check disbursements.

Management's Response:

Since this is essentially a clerical checking function, the Utility Billing Clerk has been given the assignment of checking each batch of checks that are ready to go out, in order to ensure that each check has two signatures.

2011-12**Condition:**

It does not appear that the new ticketing system is automatically uploading to the City's software system. Currently, the municipal court clerk receives detailed information for citations and enters them manually into the system. She also receives and processes payments for those citations and occasionally issues manual receipts.

Criteria:

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

Cause:

Miscommunication may have delayed the implementation of the new ticketing system. Also, limited personnel has allowed for the municipal court clerk to perform multiple functions including recording, cash handling, and approvals.

Effect:

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

Recommendation:

The City should begin fully utilizing the new ticketing system to automatically upload citations to the system. Any tickets needing manual input should be made by an individual separate from the cash handling function. If feasible, only system generated receipts should be provided for payments. Finally, a summary report should be printed from the system at the end of each day and used to reconcile the cash received. This should then be provided to the Finance Director as support for the deposit.

2011-12 – CONTINUED

Management's Response:

The automated uploading of information is delayed until Smith County completes an upgrade of all of its 9-1-1 dispatching system controls. In the meantime, a problem does continue to exist regarding separation of duties for manual entry of tickets into the system. The person assigned this duty also receives payment for tickets. Because this person also serves as dispatcher during normal office hours, there are no other clerks available to input the tickets into the system. The only possibility of separating this task from collections would be to have the dispatchers at night, enter the tickets, until the new automated system is operational.

MATERIAL WEAKNESSES:

2011-13

Condition:

As brought to our attention by the previous City Manager, the fees for the Municipal Court Technology Fund do not appear to be separately recorded. In addition, fees for both the Municipal Court Technology Fund and the Municipal Court Security Fund were not properly restricted. No separate bank accounts or Special Revenue Funds have been set up to separate these fees from other sources of revenue.

Criteria:

Article 102.017 and Article 102.0172 require that these fees be deposited in a separate fund and can only be used for specific purposes.

Cause:

Management and staff lacked training in the Articles noted above.

Effect:

The City may not be able to track the total balances and activity of the Municipal Court Technology Fund and the Municipal Court Security Fund. Also, restricted fees may be improperly used toward purchases not approved by the Articles.

Recommendation:

The City should create two separate Special Revenue Funds, the Municipal Court Technology Fund and the Municipal Court Security Fund. Transactions should be monitored to ensure that funds are used for approved purchases noted in the Articles.

Management's Response:

The revised chart of accounts created separate "Funds" for these two Special Revenue Fund Accounts. Each fund has its unique revenue and expenditure accounts so that both income and expenses may be easily monitored. All purchases charged to these funds will begin with the PO requisition process that includes reviewing the expense to make sure it is an eligible purchase under guidelines of the program.

2011-14

Condition:

(Repeat from prior year) During the year under audit, the City did not have an investment policy as required by the Texas Public Funds Investment Act ("Act").

Criteria:

The "Act" requires adoption of an approved Investment Policy by Council with annual review.

2011-14 – CONTINUED

Cause:

Management and staff lacked training in the “Act”.

Effect:

The City was non-compliant with the “Act” during the year under audit.

Recommendation:

In July 2013, the City Council created and adopted an Investment Policy which meets the requirements of the “Act”. As recommended in the previous year’s audit comments, the Council should review/approve the policy annually as required by the “Act”. The Investment Officers identified in the policy should also receive a specified number of investment training hours bi-annually as stated in the “Act”.

Management’s Response:

An Investment Policy was developed and passed by the City Council in July 2013. An updated Policy was passed in August 2014. The latest policy reduced the number of Investment Officers to just one, the City Manager. The current City Manager has held the PFIA training certification in the past and will get re-certified as soon as possible.

2011-15

Condition:

No detail was available to support the Water & Sewer customer deposits liability balance.

Criteria:

The Texas Administrative Code, Title 30, Part 1, Chapter 291, Subchapter E, Rule Section 291.84 “Applicant and Customer Deposit”, paragraph (g)(1) indicates that “the utility shall keep records to show (a) the name and address of each depositor, (b) the amount and date of the deposit, (c) each transaction concerning the deposit, and (d) the amount of interest earned on customer deposit funds”.

Cause:

Records may not have been properly maintained by the accounting system during the year under audit, and the City may not have kept an outside record.

Effect:

The City may not have been in compliance with Rule Section 291.84 of the Texas Administrative Code and may be unable to support customer deposit balances.

Recommendation:

The City should maintain proper records as required for the Water & Sewer customer deposits. The new accounting software should be reviewed to determine if it has this capability.

2011-15 – CONTINUED

Management's Response:

The Utility Billing Module of the USTI Accounting software does in fact store information on customer deposits that does include (a) the name and address of each depositor, (b) the amount and date of the deposit, (c) each transaction concerning the deposit. Interest is not paid on deposits, and deposits are only returned when an account is closed out. The system does have the capability of generating the information needed to make journal entries that will affect the transfer of funds from the customer deposit account to water/sewer operating revenue. This process has not been employed in the past but will be initiated in November 2014. Currently there is a liability of \$65,000 for customer deposits. The balance in the customer deposit bank account is \$78,000 leaving a current surplus of funds in the account of approximately \$13,000. In addition to getting caught up on maintaining sufficient balances in the Customer deposit fund, staff will explore the possibility of returning deposits to customers in those cases where the customers pays on time for 12 consecutive months without any delinquencies.

COMPONENT UNITS

OVERTON ECONOMIC DEVELOPMENT CORPORATION (OEDC)

2011-OEDC1

Condition:

It does not appear that the OEDC meets on a regular basis.

Criteria:

Per Section 4.08 "Meetings" of the OEDC's bylaws, "the board shall meet at least once each month".

Cause:

Current OEDC board (for the year under audit) may have lacked knowledge of this bylaws requirement.

Effect:

The OEDC is not in compliance with its bylaws in regard to the regular meeting requirement.

Recommendation:

The OEDC should meet at least once each month and record minutes of each meeting. New board members should be informed of this requirement.

Management's Response:

In its regular meeting on October 16th, 2014, the City Council took action to reconstitute and re-appoint members to the OEDC. The first step to getting the new board back on a regular meeting schedule will be to have the Chairman call a meeting in early December with the first item on the Agenda to set a regular meeting date, secondly elect new officers and thirdly, review the By-laws to make sure all members understand the requirements of the Board.

2011-OEDC2

Condition:

The OEDC's annual budget appears to be included and approved with the City's budget.

Criteria:

Per Section 7.02 "Budget" of the OEDC's bylaws, the OEDC should prepare an annual budget to be approved by the City Council. The budget should be submitted to the City Manager for inclusion in the annual budget presentation to the City Council.

Cause:

Wording of the bylaws may have been misinterpreted to mean that the budget should be included with the City's budget instead of included with the presentation of budgets to the City Council.

Effect:

The OEDC's budget is not separately approved by the City Council, as required by the bylaws.

Recommendation:

The OEDC should prepare and submit an annual budget to the City to be approved by the City Council as an item separate from the City's budget.

2011-OEDC2 – CONTINUED

Management's Response:

In lieu of an Executive Director, one of which is not currently employed by the OEDC, the City Manager of Overton, may develop a budget format and actual budget to be implemented by Jan. 1st, 2015.

2011-OEDC3

Condition:

It does not appear that the OEDC reviews and updates its overall economic development plan on a semiannual basis.

Criteria:

Per Section 4.04 "General Duties of the Board" of the OEDC's bylaws, "the Board shall review and update its overall economic development plan twice each year to ensure that said plan is up to date with the current economic climate and is capable of meeting Overton's current economic development needs".

Cause:

Current OEDC board (for the year under audit) may have lacked knowledge of this bylaws requirement.

Effect:

The OEDC may not be in compliance with its bylaws in regard to its economic development plan.

Recommendation:

The OEDC should ensure that, on a semiannual basis, it reviews and updates its overall economic development plan. New board officers should be informed of this requirement.

Management's Response:

Key to complying with this requirement would be consideration by the Board of hiring, with approval of the City Council a qualified full-time or part-time Executive Director. Responsibility for developing a proper strategic plan would be the first task of a new Executive Director.

OVERTON MUNICIPAL DEVELOPMENT DISTRICT (OMDD)

2011-OMDD1

Condition:

It does not appear that the OMDD meets on a regular basis. Also, no board minutes were available for any OMDD board meetings during the year under audit.

Recommendation:

We recommend that the OMDD meet on a periodic basis and prepare minutes of each meeting to document discussions and board decisions.

Management's Response:

In its regular meeting on October 16th, 2014, the City Council took action to also reconstitute and reappoint members to the OMDD. The first step to getting the new board back on a regular meeting schedule will be to have the Chairman call a meeting in early December with the first item on the Agenda to set a regular meeting date and secondly to elect new officers. The third task will be to develop for consideration a system of by-laws that are consistent with the objectives of a Municipal Development District and compliant with the laws regards such organizations.



November 20, 2014

To the Honorable Mayor and Members of 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) for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2011. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements were:

Management's estimate of the allowance for doubtful accounts and uncollected taxes and fines is based on historical revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

During the audit, we encountered difficulties relating to (1) additional work to be performed by the City to adjust payroll expenses and related liabilities (due to the inability to rely on the year-to-date information on the payroll report from the old system), (2) delays in obtaining information requested from the City and lack of availability of some expected information, and (3) delays in obtaining confirmations requested from financial institutions. These difficulties resulted in the delay in the completion of the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 20, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

We applied certain limited procedures to Management's Discussion and Analysis and Texas Municipal Retirement System - Schedule of Funding Progress, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the non-major fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas
November 20, 2014