

**City of Overton, Texas
Financial Statements
Together With Independent Auditors' Report
September 30, 2012**

**CITY OF OVERTON, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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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, 2012, 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, 2012, 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 August 12, 2015, 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
August 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS



City of Overton
1200 S. Commerce
Overton, Texas 75684



**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF OVERTON
SEPTEMBER 30, 2012**

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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

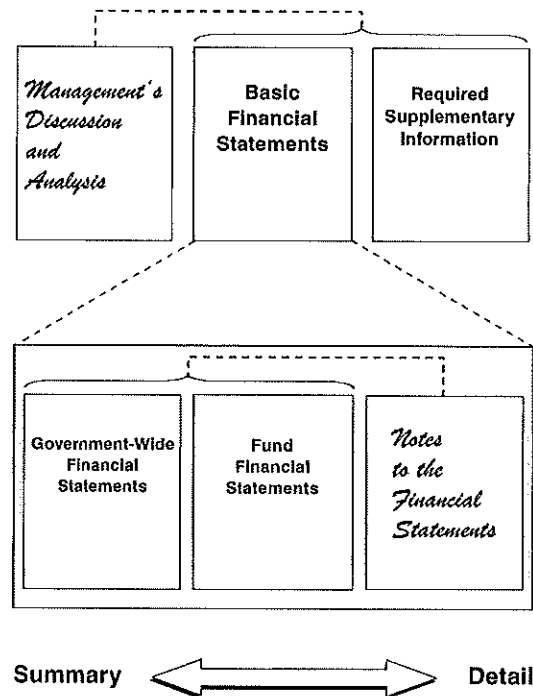
FINANCIAL HIGHLIGHTS

- The assets of the City of Overton, including the Component Units, exceeded its liabilities at the close of the most recent fiscal year by \$1,516,558 (Net Assets). Of this amount, \$1,185,565 (Total Net Assets, less investment in capital assets and other restrictions) 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 \$414,399.
- During the year, the City's total net assets increased by \$265,301 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 \$248,307, of which \$126,986 is unassigned and available for use within the City's fund designation and fiscal policies.
- As of the end of the current fiscal year, the unassigned fund balance for the general fund was \$127,216, or 12% of the total general fund expenditures.
- The City's bonds and notes payable decreased by \$299,190 due to principal repayments on debt in 2012.

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.

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

Government-Wide Statements

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

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

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

Both of the Government-Wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees and fines (governmental activities) from other functions that are intended to recover all or a significant

portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include administration, judicial, 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 ten (10) 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 eight (8) 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, 2012. As a result, a single audit in accordance with Office of Management and Budget (OMB) Circular A-133 was not required.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Overton, the City's assets exceeded its liabilities by \$264,827 as of September 30, 2012.

A deficit portion of the City's net assets, \$(39,641), 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 \$370,634, are restricted for debt service and capital projects and other uses.

Unrestricted net assets ended with a deficit balance of \$(66,166). 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	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 521,383	\$ 371,799	\$ 117,086	\$ 239,121	\$ 638,469	\$ 610,920
Capital Assets	1,106,234	1,197,498	1,838,053	1,930,801	2,944,287	3,128,299
Total Assets	1,627,617	1,569,297	1,955,139	2,169,922	3,582,756	3,739,219
Non-Current Liabilities	1,738,594	1,843,722	1,341,357	1,556,607	3,079,951	3,400,329
Other Liabilities	129,118	113,694	108,860	225,670	237,978	339,364
Total Liabilities	1,867,712	1,957,416	1,450,217	1,782,277	3,317,929	3,739,693
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	(603,849)	(621,339)	564,208	520,070	(39,641)	(101,269)
Restricted	121,321	62,782	249,313	281,407	370,634	344,189
Unrestricted	242,433	170,438	(308,599)	(413,832)	(66,166)	(243,394)
Total Net Assets	\$ (240,095)	\$ (388,119)	\$ 504,922	\$ 387,645	\$ 264,827	\$ (474)

As of September 30, 2012, 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, 2012. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2012, 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 \$265,301.

Governmental Activities:

Governmental activities increased net assets by \$148,024. The key element in this increase is due to an increase in charges for services and franchise taxes.

Business-type Activities:

Business-type activities increased net assets by \$117,277. The key element in this increase is due to a decrease in the cost of sale and services.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Operating Revenues:						
Charges for Services	\$ 195,230	\$ 176,729	\$1,223,371	\$1,221,004	\$1,418,601	\$1,397,733
Operating Grants & Contributions	16,243	1,683	-	-	16,243	1,683
General Revenues:						
Property Taxes	419,303	444,579	-	-	419,303	444,579
Sales & Franchise Taxes	257,240	255,529	-	-	257,240	255,529
Other	74,657	29,676	46,556	1,568	121,213	31,244
Total Revenues	<u>962,673</u>	<u>908,196</u>	<u>1,269,927</u>	<u>1,222,572</u>	<u>2,232,600</u>	<u>2,130,768</u>
Functions/Programs:						
Administration	450,490	404,345	-	-	450,490	404,345
Judicial	35,469	36,625	-	-	35,469	36,625
Public Safety	452,897	461,629	-	-	452,897	461,629
Highways and Streets	1,670	4,904	-	-	1,670	4,904
Public Works	116,913	122,301	-	-	116,913	122,301
Social Services	13,738	15,033	-	-	13,738	15,033
Parks and Recreation	58,096	53,172	-	-	58,096	53,172
Debt Service	90,506	73,572	-	-	90,506	73,572
Water & Sewer	-	-	747,520	938,230	747,520	938,230
Total Expenses	<u>1,219,779</u>	<u>1,171,581</u>	<u>747,520</u>	<u>938,230</u>	<u>1,967,299</u>	<u>2,109,811</u>
Increase (Decrease) in Net Assets	(257,106)	(263,385)	522,407	284,342	265,301	20,957
Before Transfers						
Net Transfers	<u>405,130</u>	<u>304,717</u>	<u>(405,130)</u>	<u>(304,717)</u>	<u>-</u>	<u>-</u>
Net Change in Net Assets	<u>148,024</u>	<u>41,332</u>	<u>117,277</u>	<u>(20,375)</u>	<u>265,301</u>	<u>20,957</u>
Net Assets – Beginning of Year	(388,119)	(429,451)	387,645	408,020	(474)	(21,431)
Net Assets – End of Year	<u>\$ (240,095)</u>	<u>\$ (388,119)</u>	<u>\$ 504,922</u>	<u>\$ 387,645</u>	<u>\$ 264,827</u>	<u>\$ (474)</u>

Chart A-1
City of Overton, Texas
Revenues for the Year Ended September 30, 2012

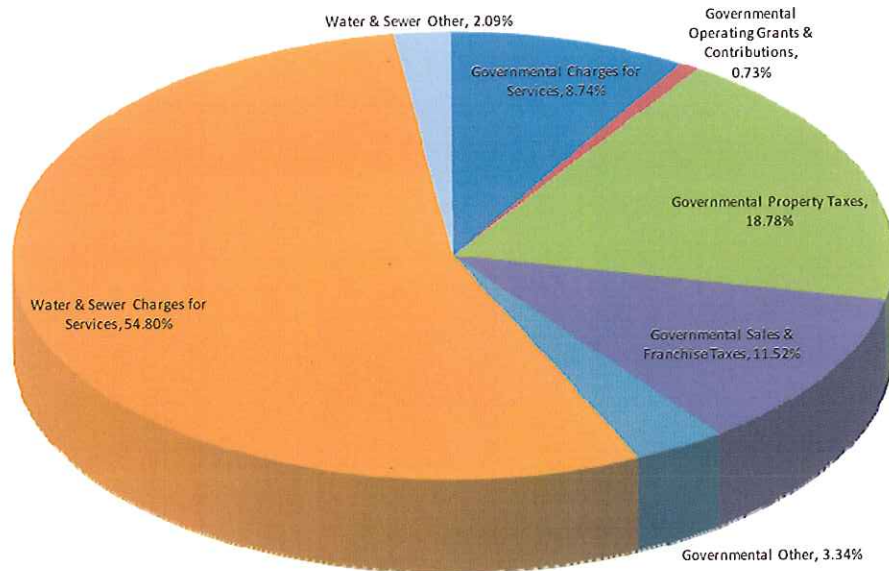
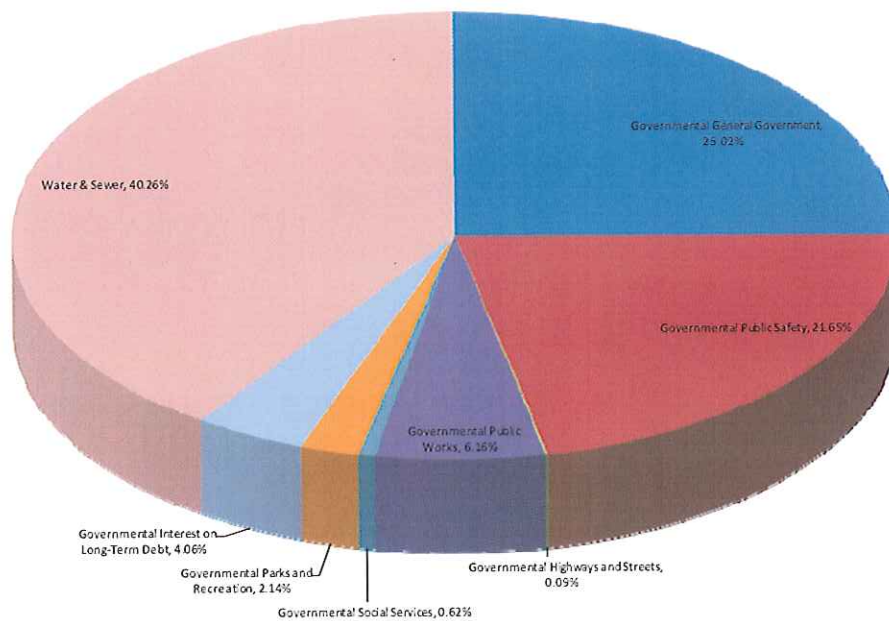


Chart A-2
City of Overton, Texas
Expenses for the Year Ended September 30, 2012



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, unassigned 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 \$248,307, an increase of \$127,110 in comparison with the prior year. Of this balance, \$126,968 is unassigned and available for spending at the City's discretion. Of the remainder, \$3,471 is reserved to pay debt service and \$117,850 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 \$127,216 an increase of \$80,794 in comparison with the prior year. The key factor in this increase was an increase in transfers from other funds.

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 \$3,471, an increase of \$1,767 in comparison with the prior year. The key factor in this increase was an increase in property tax revenue.

The Other Non-Major Governmental Funds have an ending fund balance of \$117,620, an increase of \$44,549 in comparison with the prior year. The key factor in this increase related to a reduction in transfers to other funds.

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

The Water & Sewer Enterprise Fund reported deficit unrestricted net assets of \$(308,599) as of September 30, 2012. 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 differences 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	\$ 402,880	\$ 303,360	\$ 99,520
Parks and recreation	16,715	-	16,715
Total	<u>\$ 419,595</u>	<u>\$ 303,360</u>	<u>\$ 116,235</u>

CAPITAL ASSETS

The City of Overton's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$2,944,287 (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 \$(184,012), or 6%. 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 317,230	\$ 317,230	\$ 50,201	\$ 50,201	\$ 367,431	\$ 367,431
Infrastructure	3,475,000	3,475,000	-	-	3,475,000	3,475,000
Buildings	1,541,591	1,541,591	-	-	1,541,591	1,541,591
Machinery & Equipment	572,791	572,791	-	-	572,791	572,791
Water & Wastewater Distribution	-	-	5,737,262	5,694,262	5,737,262	5,694,262
Accumulated Depreciation	<u>(4,800,378)</u>	<u>(4,709,114)</u>	<u>(3,949,410)</u>	<u>(3,813,662)</u>	<u>(8,749,788)</u>	<u>(8,522,776)</u>
Total	<u>\$ 1,106,234</u>	<u>\$ 1,197,498</u>	<u>\$ 1,838,053</u>	<u>\$ 1,930,801</u>	<u>\$ 2,944,287</u>	<u>\$ 3,128,299</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$3,079,951 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	
	2012	2011	2012	2011	2012	2011
Certificates of Obligation	\$ 1,500,304	\$ 1,562,467	\$ 1,163,437	\$ 1,352,655	\$ 2,663,741	\$ 2,915,122
Loans Payable	209,981	251,223	110,408	116,975	320,389	368,198
Pollution Penalties Payable	-	-	67,310	86,095	67,310	86,095
Compensated Absences	28,309	24,884	202	882	28,511	25,766
Capital Leases	-	5,148	-	-	-	5,148
Total	<u>\$ 1,738,594</u>	<u>\$ 1,843,722</u>	<u>\$ 1,341,357</u>	<u>\$ 1,556,607</u>	<u>\$ 3,079,951</u>	<u>\$ 3,400,329</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2013 budget. A major factor was the economy. The economy continued to struggle through a recession that started a few years ago.

Also, in September 2012, the City adopted the 2012-2013 property tax rate of \$0.571502 per \$100 valuation a slight decrease from the rate that was adopted for 2010-2011.

These rates, along with other indicators, were taken into account when adopting the General Fund budget for 2013, which accounts for most of the City's operational costs.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT 1

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
ASSETS					
Cash and cash equivalents	\$ 104,324	\$ 130,323	\$ 234,647	\$ 841,351	\$ 279,123
Receivables (net of allowances):					
Sales taxes	34,052	1,249	35,301	16,985	12,194
Property taxes	142,517	-	142,517	-	-
Franchise taxes	1,643	3,066	4,709	-	-
Accounts	2,065	176,487	178,552	8,268	-
Notes receivable	-	-	-	-	95,000
Internal balances	226,907	(226,907)	-	-	-
Bond issuance costs	9,875	32,868	42,743	-	-
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	-	5,737,262	5,737,262	-	-
Less: accumulated depreciation	(4,800,378)	(3,949,410)	(8,749,788)	-	-
Total capital assets	1,106,234	1,838,053	2,944,287	-	-
Total assets	1,627,617	1,955,139	3,582,756	866,604	386,317
LIABILITIES					
Accounts payable	64,190	27,530	91,720	-	-
Bank overdrafts	29,046	-	29,046	-	-
Accrued liabilities	25,805	6,830	32,635	-	1,190
Accrued interest	10,102	6,296	16,398	-	-
Deferred revenue	-	39	39	-	-
Customer deposits	(25)	68,165	68,140	-	-
Noncurrent liabilities:					
Due within one year	105,001	246,949	351,950	-	-
Due in more than one year	1,633,593	1,094,408	2,728,001	-	-
Total liabilities	1,867,712	1,450,217	3,317,929	-	1,190
NET ASSETS					
Investment in capital assets, net of related debt	(603,849)	564,208	(39,641)	-	-
Restricted:					
Debt services	3,471	249,313	252,784	-	-
Law enforcement	7,544	-	7,544	-	-
Capital projects	61,145	-	61,145	-	-
Other	49,161	-	49,161	-	-
Unrestricted	242,433	(308,599)	(66,166)	866,604	385,127
Total net assets	\$ (240,095)	\$ 504,922	\$ 264,827	\$ 866,604	\$ 385,127

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, 2012

FUNCTIONS / PROGRAMS	PROGRAM REVENUES					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS		
								ECONOMIC DEVELOPMENT CORPORATION	DEVELOPMENT DISTRICT	MUNICIPAL
Governmental activities:										
Administration	\$ 450,490	\$ 43,430	\$ 16,243	\$ (390,817)	\$ -	\$ (390,817)	\$ -	\$ -	\$ -	\$ -
Judicial	35,469	121,813	-	86,344	-	86,344	-	-	-	-
Public safety	452,897	-	-	(452,897)	-	-	-	-	-	-
Highways and streets	1,670	-	-	(1,670)	-	-	-	-	-	-
Public works	116,913	-	-	(116,913)	-	-	-	-	-	-
Social services	13,200	-	-	(338)	-	(338)	-	-	-	-
Parks and recreation	58,096	16,787	-	(41,309)	-	(41,309)	-	-	-	-
Debt service	90,506	-	-	(90,506)	-	-	-	-	-	-
Total governmental activities	1,219,779	195,230	16,243	(1,008,306)	-	(1,008,306)	-	-	-	-
Business-type activities:										
Water and sewer	747,520	1,223,371	-	-	475,851	475,851	475,851	-	-	-
Total business-type activities	747,520	1,223,371	-	-	475,851	475,851	475,851	-	-	-
Total primary government	\$ 1,967,299	\$ 1,418,601	\$ 16,243	(1,008,306)	475,851	(532,455)	-	-	-	-
Component Unit:										
Economic Development Corporation	\$ 12,650	\$ -	\$ 14,286	-	-	-	-	1,636	-	-
Municipal Development District	45,000	-	-	-	-	-	-	-	(45,000)	-
Total component unit	\$ 57,650	\$ -	\$ 14,286	-	-	-	-	1,636	(45,000)	-
General revenues:										
Property taxes				419,303	-	-	419,303	-	-	-
Sales taxes				184,207	-	-	184,207	92,104	96,284	-
Franchise taxes				73,033	-	-	73,033	-	-	-
Investment earnings				(63)	408	-	345	3,756	318	-
Miscellaneous local and intermediate revenue				74,720	46,148	-	120,868	-	-	-
Transfers				405,130	(405,130)	-	-	-	-	-
Total general revenues and transfers				1,156,330	(358,574)	-	797,756	95,860	96,602	-
Change in net assets				148,024	117,277	-	265,301	97,496	51,602	-
Net assets - beginning of year				(388,119)	387,645	-	(474)	769,108	333,525	-
Net assets - end of year				\$ (240,095)	\$ 504,922	-	\$ 264,827	\$ 866,604	\$ 385,127	-

FUND FINANCIAL STATEMENTS

EXHIBIT 3

CITY OF OVERTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
ASSETS				
Cash	\$ -	\$ 3,346	\$ 100,978	\$ 104,324
Receivables (net of allowances):				
Sales taxes	34,052	-	-	34,052
Property taxes	107,547	34,970	-	142,517
Franchise taxes	1,643	-	-	1,643
Other	1,735	-	330	2,065
Due from other funds	226,907	-	16,662	243,569
Total assets	<u>\$ 371,884</u>	<u>\$ 38,316</u>	<u>\$ 117,970</u>	<u>\$ 528,170</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 63,840	\$ -	\$ 350	\$ 64,190
Bank overdrafts	29,046	-	-	29,046
Accrued liabilities	25,805	-	-	25,805
Due to other funds	16,662	-	-	16,662
Deferred revenues	109,340	34,845	-	144,185
Customer deposits	(25)	-	-	(25)
Total liabilities	<u>244,668</u>	<u>34,845</u>	<u>350</u>	<u>279,863</u>
Fund Balances:				
Restricted:				
Debt service	-	3,471	-	3,471
Law enforcement	-	-	7,544	7,544
Construction of capital assets	-	-	61,145	61,145
Other	-	-	49,161	49,161
Unassigned	127,216	-	(230)	126,986
Total fund balances	<u>127,216</u>	<u>3,471</u>	<u>117,620</u>	<u>248,307</u>
Total liabilities and fund balances	<u>\$ 371,884</u>	<u>\$ 38,316</u>	<u>\$ 117,970</u>	<u>\$ 528,170</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, 2012**

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

Total fund balances - governmental funds	\$ 248,307
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,106,234
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.	(1,700,410)
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.	144,185
Liabilities for compensated absences does not require current financial resources and, therefore, are not reported in the governmental funds balance	<u>(28,309)</u>
Net assets of governmental activities	<u><u>\$ (240,095)</u></u>

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

EXHIBIT 5

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	DEBT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUNDS	FUNDS
		FUND		
REVENUES				
Taxes:				
Property	\$ 283,651	\$ 127,557	\$ -	\$ 411,208
Sales	184,207	-	-	184,207
Franchise	73,033	-	-	73,033
Charges for services	36,080	-	37,187	73,267
Fines and forfeitures	121,813	-	-	121,813
Intergovernmental	16,603	-	48,097	64,700
Licenses and permits	150	-	-	150
Investment earnings	(180)	36	81	(63)
Grant	-	-	11,402	11,402
Donations	50	-	4,791	4,841
Miscellaneous	5,920	-	4,100	10,020
Total revenues	<u>721,327</u>	<u>127,593</u>	<u>105,658</u>	<u>954,578</u>
EXPENDITURES				
Current:				
General government:				
Administration	402,880	-	26,074	428,954
Judicial	35,469	-	-	35,469
Public safety:				
Police	371,256	-	3,119	374,375
Fire	26,003	-	-	26,003
Animal control	1,506	-	-	1,506
Highways and streets	1,670	-	-	1,670
Public works	114,326	-	-	114,326
Social services	11,433	-	-	11,433
Parks and recreation	16,715	-	23,089	39,804
Debt service - Principal	35,742	35,449	52,406	123,597
Debt service - Interest and other charges	2,262	73,199	-	75,461
Total expenditures	<u>1,019,262</u>	<u>108,648</u>	<u>104,688</u>	<u>1,232,598</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(297,935)</u>	<u>18,945</u>	<u>970</u>	<u>(278,020)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	721,577	19,087	51,826	792,490
Operating transfers to other funds	<u>(342,848)</u>	<u>(36,265)</u>	<u>(8,247)</u>	<u>(387,360)</u>
Total other financing sources (uses)	<u>378,729</u>	<u>(17,178)</u>	<u>43,579</u>	<u>405,130</u>
Net change in fund balances	80,794	1,767	44,549	127,110
Fund balances - beginning of year	46,422	1,704	73,071	121,197
Fund balances - end of year	<u>\$ 127,216</u>	<u>\$ 3,471</u>	<u>\$ 117,620</u>	<u>\$ 248,307</u>

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, 2012**

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

Net change in fund balances - total governmental funds	\$ 127,110
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.	(100,202)
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.	8,095
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.	108,552
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>4,469</u>
Change in net assets of governmental activities	<u><u>\$ 148,024</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, 2012

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Property	\$ 455,000	\$ 455,000	\$ 283,651	\$ (171,349)
Sales	280,000	280,000	184,207	(95,793)
Franchise	108,000	108,000	73,033	(34,967)
Charges for services	11,350	11,350	36,080	24,730
Fines and forfeitures	120,250	120,250	121,813	1,563
Intergovernmental	19,750	19,750	16,603	(3,147)
Licenses and permits	1,000	1,000	150	(850)
Investment earnings	50	50	(180)	(230)
Donations	500	500	50	(450)
Miscellaneous	35,600	35,600	5,920	(29,680)
Total revenues	1,031,500	1,031,500	721,327	(310,173)
EXPENDITURES				
Administration	303,360	303,360	402,880	(99,520)
Judicial	44,420	44,420	35,469	8,951
Public safety	402,703	402,703	398,765	3,938
Highways and streets	17,500	17,500	1,670	15,830
Public works	213,323	213,323	114,326	98,997
Social services	12,303	12,303	11,433	870
Parks and recreation	-	-	16,715	(16,715)
Debt service	132,426	132,426	38,004	94,422
Total expenditures	1,126,035	1,126,035	1,019,262	106,773
Deficiency of revenues under expenditures	(94,535)	(94,535)	(297,935)	(203,400)
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	98,035	98,035	721,577	623,542
Operating transfers to other funds	(3,500)	(3,500)	(342,848)	(339,348)
Total other financing sources	94,535	94,535	378,729	284,194
Excess of revenues & other sources over expenditures & other	\$ -	\$ -	80,794	\$ 80,794
Fund Balance - beginning of year			46,422	
Fund Balance - end of year			\$ 127,216	

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

**CITY OF OVERTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATER AND SEWER
ASSETS	
Current assets:	
Cash	\$ 130,323
Receivables (net of allowances):	
Sales taxes	1,249
Franchise taxes	3,066
Other	176,487
Total current assets	311,125
Noncurrent assets:	
Bond issue costs	32,868
Capital assets:	
Land	50,201
Water and sewer distribution	5,737,262
Less: accumulated depreciation	(3,949,410)
Total capital assets	1,838,053
Total noncurrent assets	1,870,921
Total assets	\$ 2,182,046
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 27,530
Accrued liabilities	6,830
Accrued interest	6,296
Due to other funds	226,907
Deferred revenue	39
Customer deposits	68,165
Pollution penalties payable	31,500
Notes payable	16,231
Certificates of obligation payable	199,218
Total current liabilities	582,716
Non-current liabilities:	
Compensated absences payable	202
Pollution penalties payable	35,810
Notes payable	94,177
Certificates of obligation payable	964,219
Total non-current liabilities	1,094,408
Total liabilities	1,677,124
NET ASSETS	
Investment in capital assets, net of related debt	564,208
Restricted:	
Debt service	249,313
Unrestricted	(308,599)
Total net assets	504,922
Total net assets and liabilities	\$ 2,182,046

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

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
OPERATING REVENUES	
Charges for services	\$ 1,223,371
Miscellaneous income	<u>1,148</u>
Total operating revenues	<u>1,224,519</u>
OPERATING EXPENSES	
Cost of sale and services	543,254
Depreciation	135,748
Amortization	<u>9,964</u>
Total operating expenses	<u>688,966</u>
Operating income	<u>535,553</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	45,000
Investment earnings	408
Interest and fiscal charges on debt	<u>(58,554)</u>
Total nonoperating revenues (expenses)	<u>(13,146)</u>
Net income before operating transfers	<u>522,407</u>
TRANSFERS	
Transfers in	132,119
Transfers out	<u>(537,249)</u>
Net transfers	<u>(405,130)</u>
Change in net assets	117,277
Net Assets - beginning of year	<u>387,645</u>
Net Assets - end of year	<u><u>\$ 504,922</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, 2012**

Increase (Decrease) In Cash and Cash Equivalents

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	WATER AND SEWER
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 1,088,162
Received in other operations	1,148
Payments to suppliers and employees	<u>(608,734)</u>
Net cash provided by operating activities	<u>480,576</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net transfers between funds	(306,009)
Intergovernmental revenue	<u>45,000</u>
Net cash used in non-capital financing activities	<u>(261,009)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on bonds and debt	(189,218)
Principal payment on notes payable	(6,567)
Interest and fiscal charges on debt	(59,555)
Acquisition of capital assets	<u>(43,000)</u>
Net cash used in capital and related financing activities	<u>(298,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>408</u>
Net cash provided by investing activities	<u>408</u>
Net change in cash and cash equivalents	(78,365)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>208,688</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 130,323</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 535,553
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	135,748
Amortization of bond issuance costs	9,964
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(65,414)
Decrease (increase) in accounts payable	(51,751)
Increase (decrease) in accrued liabilities	5,738
Increase (decrease) in customer deposits	(68,648)
Increase (decrease) in deferred revenue	(1,147)
Increase (decrease) in pollution penalty payable	(18,785)
Increase (decrease) in compensated absences	<u>(682)</u>
Total adjustments	<u>(54,977)</u>
Net cash provided by operating activities	<u><u>\$ 480,576</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012.

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, 2012**

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, 2012

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, 2012

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 fifteen percent (15%) of delinquent property taxes receivable at September 30, 2012.

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, 2012

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 though back trending (i.e., estimating the current replacement cost of infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Additional capital assets, constructed or acquired each period, are capitalized and reported at historical cost.

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

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

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

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012

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 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, 2012

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	\$ 402,880	\$ 303,360	\$ 99,520
Parks and recreation	16,715	-	16,715
Total	<u>\$ 419,595</u>	<u>\$ 303,360</u>	<u>\$ 116,235</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, 2012

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

At September 30, 2012, the reported amount of the City's deposits, including certificates of deposit considered to be cash equivalents, was \$1,355,121 and the bank balance was \$1,399,804. Of the bank balance, \$753,112 was covered by federal depository insurance or by collateral held by the City's agent in the City's name and \$579,520 was covered by collateral held in the pledging bank's trust department in the City's name. \$67,172 was 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, 2012, 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 \$72,016,465 for 2011 (with taxes due January 1, 2012) levied at a rate of \$0.576530 per hundred-dollar valuation.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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:

	Governmental Activities		Business-Type	
	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Receivables:				
Sales taxes	\$ 34,052	\$ -	\$ 1,249	\$ 35,301
Property taxes	126,295	41,119	-	167,414
Franchise taxes	1,643	-	3,066	4,709
Accounts	2,065	-	176,487	178,552
Gross receivables	164,055	41,119	180,802	385,646
Less: Allowance for un-collectables	(18,748)	(6,149)	-	(24,897)
Total	<u>\$ 145,307</u>	<u>\$ 34,970</u>	<u>\$ 180,802</u>	<u>\$ 361,079</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:

	Unavailable
General Fund:	
Delinquent property taxes receivable	\$ 109,340
Debt Service Fund:	
Delinquent property taxes receivable	34,845
Total governmental funds	<u>\$ 144,185</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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	\$ 12,194	\$ 16,985	\$ 29,179
Other	-	8,268	8,268
Total component unit receivables	<u>\$ 12,194</u>	<u>\$ 25,253</u>	<u>\$ 37,447</u>

Capital Assets

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

Primary Government	Balance			Balance
<i>Governmental Activities:</i>	09/30/11	Increases	Decreases	09/30/12
Non-depreciable assets:				
Land	\$ 317,230	\$ -	\$ -	\$ 317,230
Depreciable assets:				
Infrastructure	3,475,000	-	-	3,475,000
Buildings	1,541,591	-	-	1,541,591
Machinery and equipment	572,791	-	-	572,791
Accumulated depreciation	(4,709,114)	(91,264)	-	(4,800,378)
<i>Governmental Activities, net</i>	<u>1,197,498</u>	<u>(91,264)</u>	<u>-</u>	<u>1,106,234</u>
<i>Business-type Activities:</i>				
Non-depreciable assets:				
Land	50,201	-	-	50,201
Depreciable assets:				
Water and sewer system	5,694,262	43,000	-	5,737,262
Accumulated depreciation	(3,813,662)	(135,748)	-	(3,949,410)
<i>Business-type Activities, net</i>	<u>1,930,801</u>	<u>(92,748)</u>	<u>-</u>	<u>1,838,053</u>
Capital Assets, net	<u>\$ 3,128,299</u>	<u>\$ (184,012)</u>	<u>\$ -</u>	<u>\$ 2,944,287</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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	51,013
Public works	2,587
Social services	2,305
Parks and recreation	<u>18,292</u>
 Total depreciation expense	 <u><u>\$ 91,264</u></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, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 226,907
Construction fund	General fund	<u>16,662</u>
 Total		 <u><u>\$ 243,569</u></u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 721,577	\$ 342,848
Debt service	19,087	36,265
Other governmental	51,826	8,247
Governmental activities	792,490	387,360
Water and sewer	132,119	537,249
Total transfers	<u>\$ 924,609</u>	<u>\$ 924,609</u>

Long-Term Debt

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>
<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>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2: DETAILED NOTES ON ALL FUNDS -- continued

Long-Term Debt -- continued

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
2013	\$ 62,945	\$ 77,058	\$ 140,003	\$ 200,000	\$ 50,095	\$ 250,095
2014	73,778	73,743	147,521	205,000	41,495	246,495
2015	163,581	67,207	230,788	130,000	32,680	162,680
2016	175,000	58,625	233,625	140,000	27,090	167,090
2017	175,000	49,600	224,600	155,000	21,070	176,070
2018 - 2022	850,000	109,217	959,217	335,000	21,930	356,930
Total	<u>\$ 1,500,304</u>	<u>\$ 435,450</u>	<u>\$ 1,935,754</u>	<u>\$ 1,165,000</u>	<u>\$ 194,360</u>	<u>\$ 1,359,360</u>

Notes Payable

The City obtained a loan in February of 1998 to finance the purchase of general government and water and sewer equipment. This loan was refinanced in 2010 in order to extend the available line of credit for the City. Interest rate on the loan is 2.4375% and the payments are due monthly 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
2013	\$ 42,056	\$ 8,253	\$ 50,309	\$ 16,231	\$ 305	\$ 16,536
2014	156,304	6,691	162,995	16,400	136	16,536
2015	11,621	481	12,102	11,277	8	11,285
2016	-	-	-	9,500	-	9,500
2017	-	-	-	9,500	-	9,500
2018-2022	-	-	-	47,500	-	47,500
Total	<u>\$ 209,981</u>	<u>\$ 15,425</u>	<u>\$ 225,406</u>	<u>\$ 110,408</u>	<u>\$ 449</u>	<u>\$ 110,857</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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>
2013	\$ 31,500
2014	35,810
Total	<u>\$ 67,310</u>

Changes in Long-Term Debt

The changes in the general long-term debt as of September 30, 2012, are as follows:

	<u>Balance 09/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09/30/12</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Certificates of obligation	\$ 1,562,467	\$ -	\$ 62,163	\$ 1,500,304	\$ 62,945
Capital leases	5,148	-	5,148	-	-
Notes payable	251,223	-	41,242	209,981	42,056
Compensated absences	24,884	3,425	-	28,309	-
Total governmental	<u>\$ 1,843,722</u>	<u>\$ -</u>	<u>\$ 107,553</u>	<u>\$ 1,738,594</u>	<u>\$ 105,001</u>
<i>Business-type Activities:</i>					
Certificates of obligation	\$ 1,355,000	\$ -	\$ 190,000	\$ 1,165,000	\$ 200,000
Less: Unamortized bond discount	(2,345)	-	(782)	(1,563)	(782)
Notes payable	116,975	-	6,567	110,408	16,231
Pollution penalties payable	86,095	-	18,785	67,310	31,500
Compensated absences	882	-	680	202	-
Total business-type	<u>\$ 1,556,607</u>	<u>\$ -</u>	<u>\$ 224,750</u>	<u>\$ 1,341,357</u>	<u>\$ 246,949</u>

Total interest incurred and charged to expense for the year ended September 30, 2012, was \$148,224, of which \$89,670 related to governmental activities and \$58,554 related to business-type activities.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 2011	Plan Year 2012
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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, 2012

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)
2010	\$ 1,442	\$ 1,442	100%	\$ -
2011	3,766	3,766	100%	-
2012	1,906	1,906	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 30, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	22.9 Years: closed period	25 Years: closed period	25.1 Years: closed period
Amortization Period for New Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation At	3.0%	3.0%	3.0%
Cost of Living Adjustments	0.0%	0.0%	0.0%

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 3: OTHER INFORMATION – continued

Texas Municipal Retirement System Plan – continued

The funded status as of December 31, 2011 is presented as follows:

Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 1,006,881
Actuarial Accrued Liability	\$ 763,896
Percentage Funded	131.8%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (242,985)
Annual Covered Payroll	\$ 564,005
UAAL as a Percentage of Covered Payroll	(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, 2012.

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, 2012**

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, 2012.

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 2012. 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, 2012.

Subsequent Events

Grants and Other Funding

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 March 2012, the City entered into a 2-year \$150,000 grant agreement with the Texas Department of Agriculture for a sidewalk project for North Commerce Street and East Henderson Street. As part of this agreement, the City must match \$7,250 funding toward the sidewalk activities and \$37,750 toward engineering activities related to this project. The project was completed in December 2013.

On November 1, 2012, the City entered into a 2-year grant agreement with the Texas Department of Agriculture, through the Community Development Block Grant Program, for an amount not to exceed \$275,000 to replace inoperable aeration equipment at the wastewater treatment plant in order to comply with Texas Commission on Environmental Quality (TCEQ) regulations. As part of this agreement, the City must match \$15,000 from its General Fund toward engineering costs and \$15,550 toward administrative costs. This project was completed in January 2014.

In June 2014, the City accepted funding of approximately \$26,000 from the Smith County 9-1-1 District for the purchase of computer equipment.

Texas Commission on Environmental Quality (TCEQ) Compliance

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

Contracts

In January 2015, the City awarded a contract to Champion EMS to continue to maintain an EMS Station in Overton and provide ambulance services for the City through 2020. Payments of \$3,000 will be due monthly beginning in January 2015.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Subsequent Events – continued

Loans

In March 2015, the City obtained a 10-year, interest-free loan of \$100,000 from the OMDD to help fund the replacement and upsizing of a sewer trunk line.

Capital Improvements Project

In fiscal year ending September 30, 2015, the OEDC proposed five capital improvement projects for the City with the OEDC agreeing to fund up to \$1,240,000 of its own fund balance toward these projects. These propositions were presented to the Overton citizens in a special election in May 2015, with a request to use Type A funds from the OEDC for Type B projects. The propositions were approved by the public as follows:

1. Proposition #1 – Up to \$280,000 for Water, Sewer, and Street capital improvements, such as replacement of water/sewer lines and repaving of alleyways in the downtown business district between Overton and South Street east of Commerce St.
2. Proposition #2 – Up to \$250,000 for Street Network capital improvements, which include reconstruction and/or renovation of certain roads in Overton.
3. Proposition #3 – Up to \$229,000 for North Overton Lake dam improvements that will stabilize the slide area and reinforce the embankment on the west end of the dam to prevent further erosion and possible breaching.
4. Proposition #4 – Up to \$264,000 for Overton Lake, North Lake Dam improvements to demolish the existing service spillway, and reconstruct a new one plus employ erosion control mechanisms.
5. Proposition #5 – Up to \$125,000 for Wastewater Treatment Plant improvements to upgrade the clarifier and weirs and to upgrade the chlorine contact chamber at the plant.

Management has evaluated subsequent events through August 12, 2015, 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)
12/31/2009	\$ 625,306	\$ 441,456	141.6 %	\$ (183,850)	\$ 465,230	(39.5) %
12/31/2010	935,733	696,877	134.3	(238,856)	554,659	(42.1)
12/31/2011	1,006,881	763,896	131.8	(242,985)	564,005	(43.1)

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, 2012

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	CEMETERY FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
ASSETS									
Cash and cash equivalents	\$ 7,544	\$ 140	\$ 10,864	\$ 15,351	\$ 28,739	\$ 125	\$ 393	\$ 37,822	\$ 100,978
Receivables (net of allowances):									
Other	-	(20)	-	-	-	-	-	350	330
Due from other funds	-	-	-	16,662	-	-	-	-	16,662
Total assets	<u>\$ 7,544</u>	<u>\$ 120</u>	<u>\$ 10,864</u>	<u>\$ 32,013</u>	<u>\$ 28,739</u>	<u>\$ 125</u>	<u>\$ 393</u>	<u>\$ 38,172</u>	<u>\$ 117,970</u>
LIABILITIES AND FUND BALANCE									
Liabilities:									
Accounts payable	\$ -	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350
Total liabilities	-	350	-	-	-	-	-	-	350
Fund balances:									
Restricted:									
Law enforcement	7,544	-	-	-	-	-	-	-	7,544
Bluegrass Festival	-	(230)	-	-	-	-	-	-	(230)
Construction of capital assets	-	-	-	32,013	28,739	-	393	-	61,145
Other	-	-	10,864	-	-	125	-	38,172	49,161
Total fund balance	<u>7,544</u>	<u>(230)</u>	<u>10,864</u>	<u>32,013</u>	<u>28,739</u>	<u>125</u>	<u>393</u>	<u>38,172</u>	<u>117,620</u>
Total liabilities and fund balance	<u>\$ 7,544</u>	<u>\$ 120</u>	<u>\$ 10,864</u>	<u>\$ 32,013</u>	<u>\$ 28,739</u>	<u>\$ 125</u>	<u>\$ 393</u>	<u>\$ 38,172</u>	<u>\$ 117,970</u>

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	POLICE FUND	BLUEGRASS FUND	GRANT FUND	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	CEMETERY FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
REVENUES									
Charges for services	\$ -	\$ 16,787	\$ -	\$ -	\$ -	\$ -	\$ 13,200	\$ 7,200	\$ 37,187
Grant	-	-	11,402	-	-	-	-	-	11,402
Investment earnings	13	-	-	32	36	-	-	-	81
Intergovernmental	-	-	-	-	-	-	-	48,097	48,097
Donations	516	4,000	-	-	-	-	-	275	4,791
Miscellaneous	4,100	-	-	-	-	-	-	-	4,100
Total revenues	4,629	20,787	11,402	32	36	-	13,200	55,572	105,658
EXPENDITURES									
Administration	-	-	8,674	-	-	-	-	17,400	26,074
Public safety	3,119	-	-	-	-	-	-	-	3,119
Parks and recreation	-	23,089	-	-	-	-	-	-	23,089
Debt service	-	-	-	-	39,206	-	13,200	-	52,406
Total expenditures	3,119	23,089	8,674	-	39,206	-	13,200	17,400	104,688
Excess (deficiency) of revenues over (under) expenditures	1,510	(2,302)	2,728	32	(39,170)	-	-	38,172	970
OTHER FINANCING SOURCES (USES)									
Transfers from other funds	3,146	700	8,774	-	39,206	-	-	-	51,826
Transfers to other funds	(6,706)	-	(1,541)	-	-	-	-	-	(8,247)
Total other financing sources (uses)	(3,560)	700	7,233	-	39,206	-	-	-	43,579
Net change in fund balances	(2,050)	(1,602)	9,961	32	36	-	-	38,172	44,549
Fund balances - beginning of year	9,594	1,372	903	31,981	28,703	125	393	-	73,071
Fund Balances - end of year	7,544	(230)	10,864	32,013	28,739	125	393	38,172	117,620

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2015.

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. We consider items 2012-8, 2012-9, 2012-10 and 2012-11 to be *significant deficiencies*. We consider items 2012-12, 2012-13 and 2012-14 to be *material weaknesses*.

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. No instances of compliance or other matters deficiencies were noted in our testing.

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
August 12, 2015

**CITY OF OVERTON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

CONTROL DEFICIENCIES:

2012-1

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:

Internal procedures require that back-up documents that justify any expense be signed off by the City Manager or City Secretary and that this documentation is attached to the disbursement document, check or ACH transfer before it is filed. Invoices related to contracted services in the future will have a reference, (either contract number or date that Council approved the agreement) recorded on the invoice. Recurring expenses such as utilities will be logged monthly to ensure proper distribution of the expenses among the funds and departments (see attachment A). These expenses are authorized by budget appropriation and simply require sign off by the City Manager or City Secretary.

Wire transfers are filed separately and require two signatures to execute.

2012-2

Condition:

(Repeat from prior year) 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.

2012-2 – CONTINUED

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 remaining balance of any partially paid credit card account will be accrued until paid.

2012-3

Condition:

(Repeat from prior year) Multiple stale-dated checks were noted on the bank reconciliations.

Criteria:

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

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 risk of transactional misstatements and/or misappropriation of assets that might 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 still 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."

2012-4

Condition:

(Repeat from prior year) We were unable to verify approved pay rates and other changes for most employees tested.

2012-4 – CONTINUED

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 risk exists for incorrect starting pay and incorrect pay rate changes to be processed. There is also a 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 implemented a new "Employee Change & Separation Request Form" effective for fiscal year 2015, 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

2012-5

Condition:

(Repeat from prior year) 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 risk 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 or City Secretary.

2012-6

Condition:

(Repeat from prior year) 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:

The City has 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.

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.

2012-7

Condition:

Two instances were noted where a credit card statement was paid via ACH (electronic payment), but there was no documentation to support the approval of the payment.

Criteria:

Expenditures should be properly approved to help maintain internal controls over the disbursement of funds.

Cause:

Although the payment of the statement appeared to be verbally authorized, there was no policy in place that required documented approval.

Effect:

Appropriate approval and related controls could not be determined.

Recommendation:

All disbursements, both checks and electronic transactions, should have a documented approval process to ensure that the appropriate controls are in place and operating effectively.

2012-7 – CONTINUED

Management's Response:

The City's Management staff will make a concerted effort in the coming year to establish a formal set of Guidelines, Policies and Procedures for Financial Management. This will include specific procedures for processing accounts payable, payroll and accounts receivable. In the meantime, the City Manager will review all payment transactions to ensure that proper documentation is being made for all disbursements.

SIGNIFICANT DEFICIENCIES:

2012-8

Condition:

(Repeat from prior year) 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 risk of 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:

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

2012-9

Condition:

(Repeat from prior year) 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.

2012-9 – CONTINUED

Effect:

There is a potential risk of 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.

2012-10

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 risk of 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:

(See 2012-7) In the meantime, staff will be more assiduous about following the informal procedures set up for processing accounts payable.

2012-11

Condition:

(Repeat from prior year) 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 risk of 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.

Management's Response:

The automated uploading of information has been delayed because we cannot find a specialist IT technician to install the lap top computers in the patrol units. We are searching for a technician among the neighboring cities who have this system and contract with them on a temp basis to install the laptops. 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 Police Chief is going to instruct one of the part-time night Dispatchers to enter the tickets, until the new automated system is operational.

MATERIAL WEAKNESSES:

2012-12

Condition:

(Repeat from prior year) 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.

2012-12 – CONTINUED

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 for fiscal year 2015 creates 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 Purchase Order requisition process that includes reviewing the expense to make sure it is an eligible purchase under guidelines of the program.

2012-13

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.

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:

Both the City Manager and Director of Finance have attained current PFIA training certification. (see attachment B).

2012-14

Condition: Significant adjusting entries were necessary to correct and adjust balances and transactions reported in the general ledger in order to prepare accurate financial statements.

Criteria: Timely and accurate financial reports are essential to perform analysis of financial condition, review data for accuracy and completeness, monitor compliance with budget appropriations, prepare long-range financial plans, and to safeguard assets.

Cause: Significant adjustments were necessary to properly record accounts receivable, including unbilled receivables, water deposits, property and sales taxes and salary and related expenses.

Effect: The City's year-end financial statements were misstated prior to approval and recording of the proposed audit adjustments.

Recommendation: The City should review the content of the audit adjustments in order to understand the purpose of the adjustments, reclassifications or corrections and incorporate these entries into the City's monthly and year-end accounting transactions. Additionally, the City should develop and implement policies and procedures to include strong internal controls related to financial reporting and monitoring to produce more useful and accurate financial reports.

Management's Response:

The audit adjusting entries are being made by the Finance Director as well as the accruals, which are approved by the City Manager prior to final posting.

A Statement of Revenue and Expenditures is printed monthly for review by the City Manager. If any adjustments are needed, they are made at the time. This should ensure more accurate reports and diminish the amount of adjusting entries at year end.

COMPONENT UNITS

OVERTON ECONOMIC DEVELOPMENT CORPORATION (OEDC)

2012-OEDC1

Condition:

(Repeat from prior year) 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.

2012-OEDC1 – CONTINUED

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. Since that time, the OEDC Board has approved and updated their By-Laws, elected new officers and meet on a regular basis. The OEDC Board and Council have entered into an Agreement for the City staff to provide administrative services to the Board. The OEDC bank account has been re-established under the OEDC and is no longer controlled by the City.

2012-OEDC2

Condition:

(Repeat from prior year) 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.

Management's Response:

An annual operating budget will be submitted for the Board's and Council approval in October for the FY 20145-16 year.

2012-OEDC3

Condition:

(Repeat from prior year) 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.

2012-OEDC3 – CONTINUED

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:

In negotiating the Administrative Services agreement with the City, the OEDC Board determined that it would be their responsibility to prepare the annual Strategic Plan and oversee its implementation.

OVERTON MUNICIPAL DEVELOPMENT DISTRICT (OMDD)

2012-OMDD1

Condition:

(Repeat from prior year) 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 re-appoint members to the OMDD. At a meeting held on February 12, 2015 and another held on February 28th, the OMDD Board elected new officers, approved a set of By-laws and authorized an Administrative Services Agreement for the City to provide staff services to the OMDD Board.