

May 7, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Overton, Texas (City) for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 10, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

Difficulties Encountered in Performing the Audit

During the audit, we encountered difficulties relating to (1) additional work to be performed by the City to reconcile or adjust multiple accounts due to significant discrepancies noted during initial audit fieldwork (including cash, accounts payable, customer deposits, payroll liabilities and expenses, and interfund transfers), (2) lack of reconciled bank statements, and (3) delays in obtaining information requested from the City and lack of availability of some expected information. The City engaged an outside certified public accountant to assist with preparing adjusting entries and providing supporting documentation for audit evidence. Once this work was complete, we had difficulties in scheduling time to continue and complete the audit work due to the weight of our firm's overall audit workload. These difficulties resulted in the delay in the completion of the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole as noted in finding 2014-2 on page 50 of the report.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 7, 2019.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters in Documents Containing Audited Financial Statements

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

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

Restriction on Use

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

Very truly yours,

Prothro, Wilhelmi & Co., PLLC

PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas

**City of Overton, Texas
Financial Statements
Together With Independent Auditors' Report
September 30, 2014**

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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, 2014, 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.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2014, 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 4 through 14 and the TMRS Schedule of Funding Progress on page 45 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.

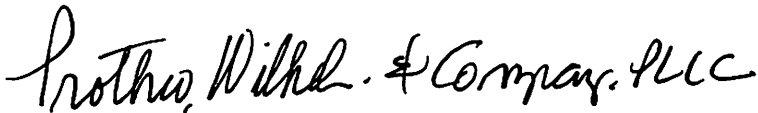
Other information

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 combining 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 May 7, 2019, 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
May 7, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS



City of Overton
1200 S. Commerce
Overton, Texas 75684



MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF OVERTON
SEPTEMBER 30, 2014

This section of the City of Overton, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

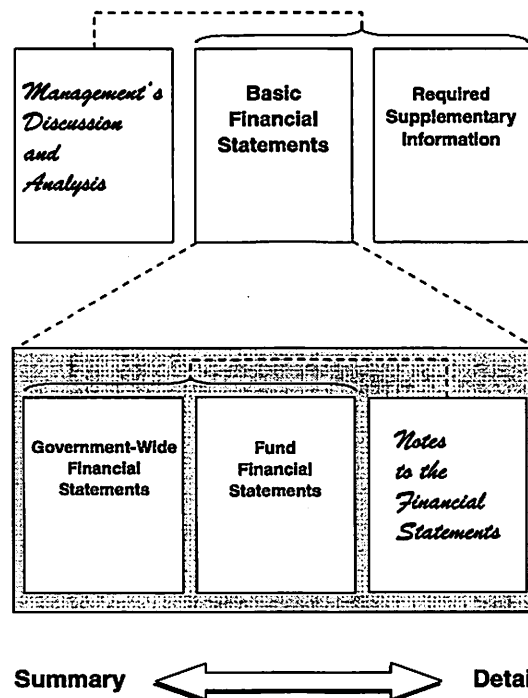
FINANCIAL HIGHLIGHTS

- The assets of the City of Overton, including the Component Units, exceeded its liabilities at the close of the most recent fiscal year by \$2,386,535 (Net Assets). Of this amount, \$1,599,097 (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 \$509,536.
- During the year, the City's total net assets increased by \$326,031 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 \$221,530, of which \$159,366 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 \$159,366, or 13% of the total general fund expenditures.
- The City's bonds and notes payable decreased by \$32,174 due to principal repayments on debt in 2014.

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

Government-Wide Statements

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

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

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

Both of the Government-Wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes, intergovernmental revenues, fees and fines (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include 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 two legally separate entities, an 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 15-16 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 the reader 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 12 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, Debt Service Fund and Grant Fund which are considered to be major funds. A budgetary comparison schedule has been provided for the General Fund on page 21 to demonstrate compliance with the annual appropriated budget. Data from the other nine governmental funds are combined into a single, aggregated presentation.

The basic Non-Major Governmental Fund Financial Statements can be found on pages 46-47 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 22-24 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 25-44 of this report.

Single Audit

The City expended less than \$500,000 in federal financial assistance during the year ended September 30, 2014. 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 \$793,018 as of September 30, 2014.

A portion of the City's net position, \$725,274, 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 and cannot be used to liquidate these liabilities, it should be noted that the resources needed to repay this debt must be provided from other sources.

Restricted net assets, totaling \$62,164, are restricted for debt service, capital projects and other uses.

Unrestricted net assets ended with a positive balance of \$5,580. 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
STATEMENT OF NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 554,124	\$ 562,130	\$ (74,190)	\$ (51,302)	\$ 479,934	\$ 510,828
Capital Assets	1,277,162	1,200,645	1,961,522	1,817,998	3,238,684	3,018,643
Total Assets	1,831,286	1,762,775	1,887,332	1,766,696	3,718,618	3,529,471
Non-Current Liabilities	1,609,751	1,618,684	960,487	1,147,121	2,570,238	2,765,805
Other Liabilities	240,963	159,711	112,605	126,208	353,568	285,919
Total Liabilities	1,850,714	1,778,395	1,073,092	1,273,329	2,923,806	3,051,724
Deferred Inflows of Resources	-	10,760	1,794	-	1,794	10,760
Net Position:						
Net Investment in Capital Assets	(301,859)	(394,706)	1,027,133	709,625	725,274	314,919
Restricted	62,164	111,259	-	-	62,164	111,259
Unrestricted	220,267	257,067	(214,687)	(216,258)	5,580	40,809
Total Net Position	\$ (19,428)	\$ (26,380)	\$ 812,446	\$ 493,367	\$ 793,018	\$ 466,987

As of September 30, 2014, 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, 2014. Business type activities reported a deficit unrestricted net asset balance as of September 30, 2014, 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 \$326,031.

Governmental Activities:

Governmental activities net assets increased by \$6,952. The key element in this increase is a increase in charges for services.

Business-type Activities:

Business-type activities net assets increased by \$319,079. The key element in this increase is a transfer of grant proceeds to the fund.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Operating Revenues:						
Charges for Services	\$ 211,829	\$ 231,034	\$ 1,236,522	\$ 1,213,314	\$ 1,448,351	\$ 1,444,348
Operating Grants and Contributions	333,431	191,012	-	-	333,431	191,012
General Revenues:						
Property Taxes	441,060	361,723	-	-	441,060	361,723
Sales and Franchise Taxes	297,780	274,546	17,260	3,080	315,040	277,626
Other	34,238	79,854	17,253	1,126	51,491	80,980
Total Revenues	<u>1,318,338</u>	<u>1,138,169</u>	<u>1,271,035</u>	<u>1,217,520</u>	<u>2,589,373</u>	<u>2,355,689</u>
Functions/Programs:						
Administration	614,946	497,703	-	-	614,946	497,703
Judicial	51,274	36,394	-	-	51,274	36,394
Public Safety	468,767	454,913	-	-	468,767	454,913
Highways and Streets	-	7,975	-	-	-	7,975
Public Works	148,281	74,309	-	-	148,281	74,309
Social Services	14,470	26,465	-	-	14,470	26,465
Parks and Recreation	50,179	55,315	-	-	50,179	55,315
Debt Service	77,142	84,289	-	-	77,142	84,289
Water & Sewer	-	-	838,283	873,423	838,283	873,423
Total Expenses	<u>1,425,059</u>	<u>1,237,363</u>	<u>838,283</u>	<u>873,423</u>	<u>2,263,342</u>	<u>2,110,786</u>
Increase (Decrease) in						
Net Position Before Transfers	(106,721)	(99,194)	432,752	344,097	326,031	244,903
Net Transfers	113,673	322,784	(113,673)	(322,784)	-	-
Net Change in Net Position	6,952	223,590	319,079	21,313	326,031	244,903
Net Position - beginning of year as originally stated	(26,380)	(240,095)	493,367	504,922	466,987	264,827
Prior period adjustment - GASB 65 implementation	-	(9,875)	-	(32,868)	-	(42,743)
Net Position - beginning of year as restated	(26,380)	(249,970)	493,367	472,054	466,987	222,084
Net Position - End of Year	<u>\$ (19,428)</u>	<u>\$ (26,380)</u>	<u>\$ 812,446</u>	<u>\$ 493,367</u>	<u>\$ 793,018</u>	<u>\$ 466,987</u>

Chart A-1
City of Overton, Texas
Revenues for the Year Ended September 30, 2014

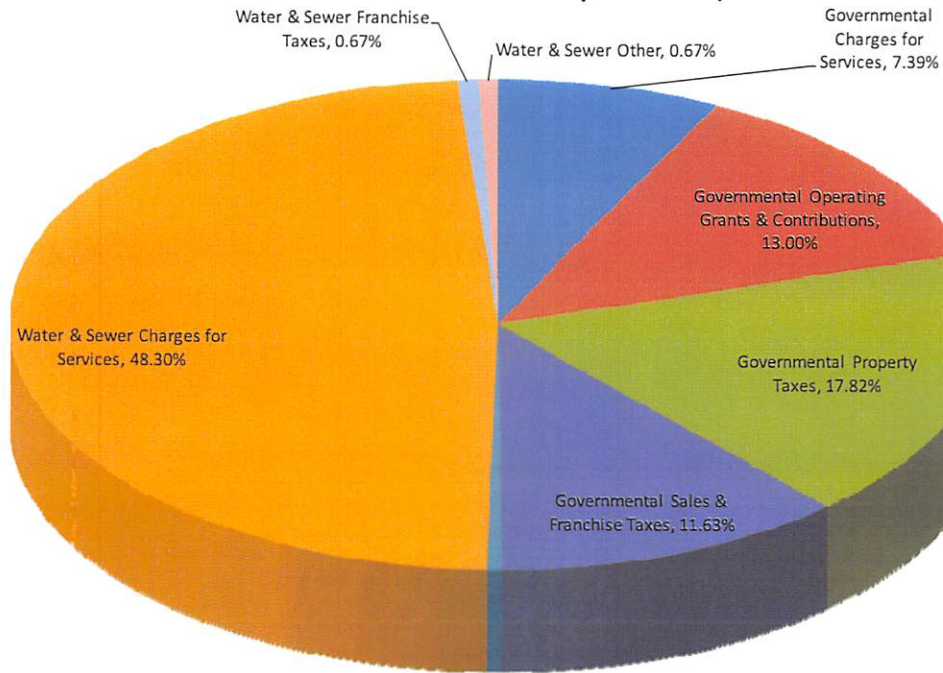
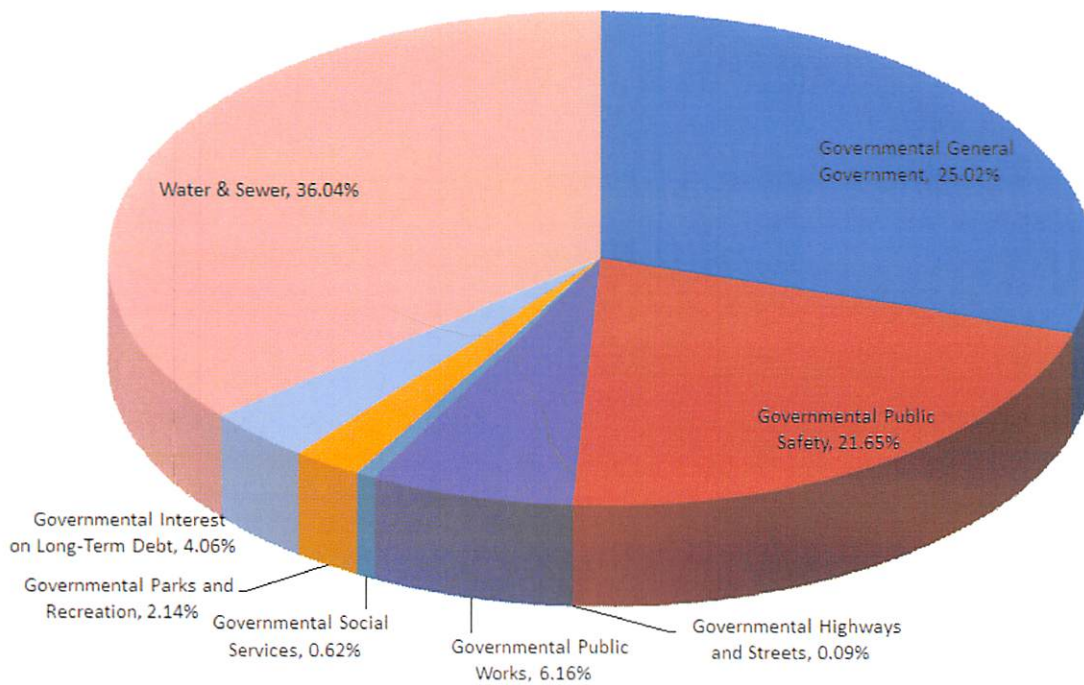


Chart A-2
City of Overton, Texas
Expenses for the Year Ended September 30, 2014



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 are 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 the 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 \$221,530, a decrease of \$91,805 in comparison with the prior year. Of this balance, \$159,366 is unassigned and available for spending at the City's discretion. Of the remainder, \$5,934 is reserved to pay debt service and \$56,230 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 \$159,366, a decrease of \$42,709 in comparison with the prior year. The key factor in this decrease was overall expenditures exceeded revenues.

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 \$5,934, an increase of \$1,387 in comparison with the prior year. The key factor in this increase was an increase in property tax revenue.

The Grant Fund is a major governmental fund of the City. At the end of the current fiscal year, restricted fund balance of the Grant Fund was \$0, a decrease of \$24,607 in comparison with the prior year. The key factor in this decrease was a transfer of funds to the proprietary funds.

The Other Non-Major Governmental Funds have an ending fund balance of \$53,230, a decrease of \$28,876 in comparison with the prior year. The key factor in this decrease related to capital outlay that occurred during the year.

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

The Water & Sewer Enterprise Fund reported deficit unrestricted net assets of \$214,687 as of September 30, 2014. Other factors concerning the finances of this fund have already been previously addressed in the discussion of the City's business-type activities.

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	\$ 565,283	\$ 470,983	\$ 94,300
Judicial	51,274	39,925	11,349
Social services	721	405	316
Parks and recreation	29,699	8,900	20,799
Debt service	17,748	-	17,748
Total	<u>\$ 664,725</u>	<u>\$ 520,213</u>	<u>\$ 144,512</u>

CAPITAL ASSETS

The City of Overton's investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$3,238,684 (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 increase in capital assets for the current fiscal year was \$220,041, or 7%. 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 315,880	\$ 317,230	\$ 50,201	\$ 50,201	\$ 366,081	\$ 367,431
Construction in Progress	-	175,682	-	36,301	-	211,983
Infrastructure	3,749,524	3,475,000	-	-	3,749,524	3,475,000
Buildings	1,541,591	1,541,591	-	-	1,541,591	1,541,591
Machinery & Equipment	547,821	582,116	-	-	547,821	582,116
Water & Wastewater Distribution	-	-	6,143,929	5,821,802	6,143,929	5,821,802
Accumulated Depreciation	(4,877,654)	(4,890,974)	(4,232,608)	(4,090,306)	(9,110,262)	(8,981,280)
Total	<u>\$1,277,162</u>	<u>\$1,200,645</u>	<u>\$1,961,522</u>	<u>\$1,817,998</u>	<u>\$3,238,684</u>	<u>\$3,018,643</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Overton had a total debt of \$2,570,238 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	
	2014	2013	2014	2013	2014	2013
Certificates of Obligation	\$ 1,360,000	\$ 1,420,000	\$ 760,000	\$ 964,218	\$ 2,120,000	\$ 2,384,218
Loans Payable	219,021	175,351	128,311	144,155	347,332	319,506
Pollution Penalties Payable	-	-	20,275	36,725	20,275	36,725
Customer Deposits	-	-	46,078	46,884	46,078	46,884
Compensated Absences	30,730	23,333	5,823	2,023	36,553	25,356
Total	<u>\$ 1,609,751</u>	<u>\$ 1,618,684</u>	<u>\$ 960,487</u>	<u>\$ 1,194,005</u>	<u>\$ 2,570,238</u>	<u>\$ 2,812,689</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 2014 budget. A major factor was the economy. The economy continued to struggle through a recession that started a few years ago.

Also, in September 2014, the City adopted the 2014-2015 property tax rate of \$0.628 per \$100 valuation, an increase from the rate that was adopted for 2013-2014.

These rates, along with other indicators, were considered when adopting the General Fund budget for fiscal year 2014, 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 Finance Department, 1200 South Commerce St, Overton, Texas 75684.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF OVERTON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
ASSETS					
Cash and cash equivalents	\$ 31,861	\$ 129,778	\$ 161,639	\$ 1,054,040	\$ 302,448
Cash (restricted)	3,000	-	3,000	-	-
Receivables (net of allowances):					
Sales taxes	37,577	12,588	50,165	18,788	14,942
Property taxes	105,411	-	105,411	-	-
Franchise taxes	3,387	3,102	6,489	-	-
Accounts	3,500	149,730	153,230	250	-
Notes receivable	-	-	-	-	135,500
Internal balances	369,388	(369,388)	-	67,549	-
Capital assets:					
Land	315,880	50,201	366,081	-	-
Infrastructure	3,749,524	-	3,749,524	-	-
Buildings	1,541,591	-	1,541,591	-	-
Machinery and equipment	547,821	-	547,821	-	-
Water and sewer distribution	-	6,143,929	6,143,929	-	-
Less: accumulated depreciation	(4,877,654)	(4,232,608)	(9,110,262)	-	-
Total capital assets	1,277,162	1,961,522	3,238,684	-	-
Total assets	1,831,286	1,887,332	3,718,618	1,140,627	452,890
LIABILITIES					
Accounts payable	84,564	80,812	165,376	-	-
Outstanding checks	43,606	-	43,606	-	-
Accrued liabilities	36,384	27,708	64,092	-	-
Accrued interest	8,860	4,085	12,945	-	-
Payable to component unit	67,549	-	67,549	-	-
Noncurrent liabilities:					
Due within one year	206,087	152,586	358,673	-	-
Due in more than one year	1,403,664	807,901	2,211,565	-	-
Total liabilities	1,850,714	1,073,092	2,923,806	-	-
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	-	1,794	1,794	-	-
Total deferred inflows of resources	-	1,794	1,794	-	-
Total liabilities and deferred inflows of resources	1,850,714	1,074,886	2,925,600	-	-
NET POSITION					
Net investment in capital assets	(301,859)	1,027,133	725,274	-	-
Restricted:					
Debt services	5,934	-	5,934	-	-
Law enforcement	22,016	-	22,016	-	-
Capital projects	15,563	-	15,563	-	-
Other	18,651	-	18,651	-	-
Unrestricted	220,267	(214,687)	5,580	1,140,627	452,890
Total net position	\$ (19,428)	\$ 812,446	\$ 793,018	\$ 1,140,627	\$ 452,890

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

EXHIBIT 2

**CITY OF OVERTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		TOTAL	ECONOMIC DEVELOPMENT CORPORATION	MUNICIPAL DEVELOPMENT DISTRICT
				GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES			
Governmental activities:								
Administration	\$ 614,946	\$ 32,393	\$ 322,093	\$ (260,460)	\$ -	\$ (260,460)	\$ -	\$ -
Judicial	51,274	165,634	-	114,360	-	114,360	-	-
Public safety	468,767	-	11,338	(437,429)	-	(437,429)	-	-
Public works	148,281	-	-	(148,281)	-	(148,281)	-	-
Social services	14,470	-	-	(14,470)	-	(14,470)	-	-
Parks and recreation	50,179	12	-	(50,167)	-	(50,167)	-	-
Debt service	77,142	13,790	-	(63,352)	-	(63,352)	-	-
Total governmental activities	1,425,039	211,829	333,431	(879,799)	-	(879,799)	-	-
Business-type activities:								
Water and sewer	838,283	1,236,522	-	-	398,239	398,239	-	-
Total business-type activities	838,283	1,236,522	-	-	398,239	398,239	-	-
Total primary government	\$ 2,263,342	\$ 1,448,351	\$ 333,431	(879,799)	398,239	(481,560)	-	-
Component Unit:								
Economic Development Corporation	\$ 12,600	\$ -	\$ -	-	-	-	(12,600)	-
Municipal Development District	67,237	-	-	-	-	-	-	(67,237)
Total component unit	\$ 79,837	\$ -	\$ -	-	-	-	(12,600)	(67,237)
General revenues:								
Property taxes				441,060	-	441,060	-	-
Sales taxes				226,071	-	226,071	113,036	86,921
Franchise taxes				71,709	17,260	88,969	-	-
Investment earnings				184	868	1,052	395	263
Miscellaneous local and intermediate revenue				34,054	16,385	50,439	62,727	-
Transfers				113,673	(113,673)	-	-	-
Total general revenues and transfers				886,751	(79,160)	807,591	176,158	87,184
Change in net position				6,952	319,079	326,031	163,558	19,947
Net position - beginning of year				(26,380)	493,367	466,987	977,069	432,943
Net position - end of year				\$ (19,428)	\$ 812,446	\$ 793,018	\$ 1,140,627	\$ 452,890

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

FUND FINANCIAL STATEMENTS

**CITY OF OVERTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	MAJOR FUNDS			NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEBT SERVICE FUND	GRANT FUND		
ASSETS					
Cash	\$ 844	\$ 4,062	\$ -	\$ 26,955	\$ 31,861
Cash (restricted)	3,000	-	-	-	3,000
Receivables (net of allowances):					
Sales taxes	37,577	-	-	-	37,577
Property taxes	81,218	24,193	-	-	105,411
Franchise taxes	3,387	-	-	-	3,387
Accounts	1,690	-	-	1,810	3,500
Due from other funds	369,388	1,100	-	26,547	397,035
Total assets	\$ 497,104	\$ 29,355	\$ -	\$ 55,312	\$ 581,771
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 83,615	\$ 600	\$ -	\$ 350	\$ 84,565
Outstanding checks	43,606	-	-	-	43,606
Accrued liabilities	36,384	-	-	-	36,384
Due to other funds	25,915	-	-	1,732	27,647
Due to component unit	67,549	-	-	-	67,549
Total liabilities	257,069	600	-	2,082	259,751
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	77,669	22,821	-	-	100,490
Total deferred inflows of resources	77,669	22,821	-	-	100,490
Fund Balances:					
Restricted:					
Debt service	-	5,934	-	-	5,934
Law enforcement	-	-	-	22,016	22,016
Construction of capital assets	-	-	-	15,563	15,563
Other	3,000	-	-	15,651	18,651
Unassigned	159,366	-	-	-	159,366
Total fund balances	162,366	5,934	-	53,230	221,530
Total liabilities, deferred inflows, and fund balances	\$ 497,104	\$ 29,355	\$ -	\$ 55,312	\$ 581,771

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

CITY OF OVERTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

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

Total fund balances - governmental funds	\$ 221,530
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported on the governmental funds.	1,277,162
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.	(1,579,023)
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.	(8,860)
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.	100,491
Liabilities for compensated absences does not require current financial resources and, therefore, are not reported in the governmental funds balance sheet.	<u>(30,728)</u>
Net position of governmental activities	<u>\$ (19,428)</u>

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

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	MAJOR FUNDS			NON-MAJOR	TOTAL
	GENERAL	DEBT	GRANT	GOVERNMENTAL	GOVERNMENTAL
	FUND	SERVICE	FUND	FUNDS	FUNDS
REVENUES					
Taxes:					
Property	\$ 308,661	\$ 119,534	\$ -	\$ -	\$ 428,195
Sales	226,071	-	-	-	226,071
Franchise	71,709	-	-	-	71,709
Charges for services	20,127	-	-	33,974	54,101
Fines and forfeitures	157,478	-	-	-	157,478
Intergovernmental	31,679	-	-	-	31,679
Licenses and permits	250	-	-	-	250
Investment earnings	53	42	-	89	184
Grant	-	-	253,280	68,428	321,708
Donations	-	-	-	11,723	11,723
Miscellaneous	-	-	-	2,375	2,375
Total revenues	816,028	119,576	253,280	116,589	1,305,473
EXPENDITURES					
Current:					
General government:					
Administration	565,283	-	30,576	15,000	610,859
Judicial	51,274	-	-	-	51,274
Public safety:					
Police	403,566	-	-	632	404,198
Fire	26,718	-	-	-	26,718
Public works	145,976	-	-	-	145,976
Social services	721	-	-	-	721
Parks and recreation	29,699	-	-	856	30,555
Capital outlay	-	-	-	76,654	76,654
Debt service - Principal	15,510	25,000	-	42,880	83,390
Debt service - Interest and other charges	2,238	66,383	-	11,985	80,606
Total expenditures	1,240,985	91,383	30,576	148,007	1,510,951
Excess (deficiency) of revenues over (under) expenditures	(424,957)	28,193	222,704	(31,418)	(205,478)
OTHER FINANCING SOURCES (USES)					
Operating transfers from other funds	415,087	-	-	42,253	457,340
Operating transfers to other funds	(29,839)	(26,806)	(247,311)	(39,711)	(343,667)
Total other financing sources (uses)	385,248	(26,806)	(247,311)	2,542	113,673
Net change in fund balances	(39,709)	1,387	(24,607)	(28,876)	(91,805)
Fund balances - beginning of year	202,075	4,547	24,607	82,106	313,335
Fund balances - end of year	\$ 162,366	\$ 5,934	\$ -	\$ 53,230	\$ 221,530

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

CITY OF OVERTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

Net change in fund balances - total governmental funds	\$ (91,805)
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 exceeded depreciation expense in the current period.	79,962
Tax revenue is reported in the government-wide statement of activities and changes in net position, but a portion of the revenue does not provide current financial resources.	12,865
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 position. 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.	86,854
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>(80,924)</u>
Change in net position of governmental activities	<u>\$ 6,952</u>

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

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes				
Property	\$ 431,235	\$ 315,000	\$ 308,661	\$ (6,339)
Sales	306,000	337,649	226,071	(111,578)
Franchise	75,000	67,000	71,709	4,709
Charges for services	38,212	6,021	20,127	14,106
Fines and forfeitures	167,588	155,509	157,478	1,969
Intergovernmental	21,000	28,627	31,679	3,052
Licenses and permits	200	250	250	-
Investment earnings	40	1	53	52
Donations	7	(1,793)	-	1,793
Miscellaneous	5,840	358	-	(358)
Total revenues	1,045,122	908,622	816,028	(92,594)
EXPENDITURES				
Administration	509,377	470,983	565,283	(94,300)
Judicial	41,496	39,925	51,274	(11,349)
Public safety	443,400	446,108	430,284	15,824
Public works	162,643	172,960	145,976	26,984
Social services	-	405	721	(316)
Parks and recreation	(960)	8,900	29,699	(20,799)
Debt service	-	-	17,748	(17,748)
Total expenditures	1,155,955	1,139,281	1,240,985	(101,704)
Deficiency of revenues under expenditures	(110,833)	(230,659)	(424,957)	(194,298)
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	190,000	220,000	415,087	195,087
Operating transfers to other funds	-	-	(29,839)	(29,839)
Total other financing sources	190,000	220,000	385,248	165,248
Excess of revenues and other sources over expenditures and other uses	\$ 79,167	\$ (10,659)	(39,709)	\$ (29,050)
Fund Balance - beginning of year			202,075	
Fund Balance - end of year			\$ 162,366	

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

**CITY OF OVERTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
ASSETS	
Current assets:	
Cash	\$ 129,778
Receivables (net of allowances):	
Sales taxes	12,588
Franchise taxes	3,102
Accounts receivable	<u>149,730</u>
Total current assets	<u>295,198</u>
Noncurrent assets:	
Capital assets:	
Land	50,201
Water and sewer distribution	6,143,929
Less: accumulated depreciation	<u>(4,232,608)</u>
Total capital assets	<u>1,961,522</u>
Total noncurrent assets	<u>1,961,522</u>
Total assets	<u>\$ 2,256,720</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 80,812
Accrued liabilities	27,708
Accrued interest	4,085
Due to other funds	369,388
Deferred revenue	1,794
Pollution penalties payable	20,275
Notes payable	2,311
Certificates of obligation payable	<u>130,000</u>
Total current liabilities	<u>636,373</u>
Non-current liabilities:	
Compensated absences payable	5,823
Customer deposits	46,078
Notes payable	126,000
Certificates of obligation payable	<u>630,000</u>
Total non-current liabilities	<u>807,901</u>
Total liabilities	<u>1,444,274</u>
NET POSITION	
Net investment in capital assets	1,027,133
Unrestricted	<u>(214,687)</u>
Total net position	<u>812,446</u>
Total net position and liabilities	<u>\$ 2,256,720</u>

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

EXHIBIT 9

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
OPERATING REVENUES	
Charges for services	\$ 1,236,522
Franchise fees	17,260
Miscellaneous income	<u>688</u>
Total operating revenues	<u>1,254,470</u>
OPERATING EXPENSES	
Cost of sale and services	654,352
Depreciation	<u>142,302</u>
Total operating expenses	<u>796,654</u>
Operating income	<u>457,816</u>
NONOPERATING REVENUES (EXPENSES)	
Grant revenue	15,697
Investment earnings	868
Interest and fiscal charges on debt	<u>(41,629)</u>
Total nonoperating revenues (expenses)	<u>(25,064)</u>
Net income before operating transfers	<u>432,752</u>
TRANSFERS	
Transfers in	258,057
Transfers out	<u>(371,730)</u>
Net transfers	<u>(113,673)</u>
Change in net position	319,079
Net position - beginning of year	493,367
Net position - end of year	<u>\$ 812,446</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, 2014**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATER AND SEWER</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 1,232,233
Received in other operations	17,948
Payments to suppliers and employees	<u>(632,619)</u>
Net cash provided by operating activities	<u>617,562</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Net transfers between funds	<u>(65,458)</u>
Net cash used in non-capital financing activities	<u>(65,458)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal repayments on bonds and debt	(205,000)
Principal payment on notes payable	(15,844)
Interest and fiscal charges on debt	(41,951)
Acquisition of capital assets	<u>(285,827)</u>
Net cash used in capital and related financing activities	<u>(548,622)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>868</u>
Net cash provided by investing activities	<u>868</u>
Net change in cash and cash equivalents	4,350
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>125,428</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 129,778</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 457,816
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	142,302
Increase in:	
Accounts receivable	(5,277)
Increase (decrease) in:	
Accounts payable	10,601
Accrued liabilities	23,782
Customer deposits	(806)
Deferred revenue	1,794
Pollution penalty payable	(16,450)
Compensated absences	<u>3,800</u>
Total adjustments	<u>159,746</u>
Net cash provided by operating activities	<u><u>\$ 617,562</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, 2014

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, emergency medical services 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, 2014.

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

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reporting Entity – continued

Overton Municipal Development District

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 funds from the sales tax are received directly from the state. 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. The Overton Municipal Development District's (OMDD) Board of Directors is appointed by the City Council.

The 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 position 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 included among program revenues are reported instead as general revenues.

Inter-fund activities between governmental funds and between governmental funds and proprietary funds appear as "due to/due from other funds" on the governmental fund balance sheet, the proprietary fund statement of net position, other resources and other uses on the governmental fund statement of revenues, expenditures, and changes in fund balance, and on the proprietary fund statement of revenues, expenses, and changes in fund net position. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide statement of net position as internal balances and on the statement of activities as inter-fund transfers.

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 and enterprise funds major and reports their financial condition and results of operations in separate columns.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Government-Wide and Fund Financial Statements – continued

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. 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.

Revenues from local sources consist primarily of property and sales 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 after year-end. 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 position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Accounting

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.

Grant Fund – The grant fund is used to account for activity relating to grants awarded by other governmental agencies. Activity includes grant expenditures in accordance with approved grant budgets as well as recording of grant reimbursements or proceeds in accordance with the grant agreement.

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.

Additionally, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds – The special revenue funds account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance often is accounted for in a special revenue fund.

Assets, Liabilities, and Net Position 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.

Statement of Cash Flows

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

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities, and Net Position or Equity – continued

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, 2014.

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 July 1. This lien is effective until the taxes are paid.

Capital Assets

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

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

The costs of normal maintenance and repairs that do not add to the value of an 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>
Water and 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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities, and Net Position 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 position and the proprietary fund statement of net position, if applicable. Bond premiums and discounts 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. The City has implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which requires that bond issuance costs be expensed when incurred.

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 Position

In the government-wide financial statements, net position is classified in the following categories:

- Net investment in capital assets – 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.
- Restricted net position – 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.
- Unrestricted net position – consists of the net amount of the assets, deferred outflows and inflows of resources, and liabilities not included in net investment in capital assets or restricted components of net position.

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Assets, Liabilities, and Net Position or Equity – continued

Fund Balance Classifications

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which 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:

- Non-spendable fund balance – Amounts that are in non-spendable 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.

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.

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, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Deferred Outflows/Inflows of Resources

In accordance with GASB Statements No. 63 and 65, the statement of net position may report separate sections of deferred outflows of resources in addition to assets or deferred inflows of resources in addition to liabilities. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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	\$ 565,283	\$ 470,983	\$ 94,300
Judicial	51,274	39,925	11,349
Social services	721	405	316
Parks and recreation	29,699	8,900	20,799
Debt service	17,748	-	17,748
Total	<u>\$ 664,725</u>	<u>\$ 520,213</u>	<u>\$ 144,512</u>

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

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

At September 30, 2014, the reported amount of the City's and Component Units' deposits, including certificates of deposit considered to be cash equivalents, was \$1,477,521 and the bank balance was \$1,479,670. Of the bank balance, \$774,590 was covered by federal depository insurance or by collateral held by the City's agent in the City's name, \$693,705 was covered by collateral held in the pledging bank's trust department in the City's name, and \$70,105 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. 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) banker's acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

During the year ended September 30, 2014, 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 \$75,642,551 for 2013 (with taxes due January 1, 2014) levied at a rate of \$0.553182 per hundred-dollar valuation.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Receivables

Receivables as of September 30, 2014, for the City's major government funds and business-type funds, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities			Business-Type Activities	Total
	General Fund	Debt Service Fund	Grant Fund	Water & Sewer Fund	
Receivables:					
Sales taxes	\$ 37,577	\$ -	\$ -	\$ 12,588	\$ 50,165
Property taxes	95,551	28,462	-	-	124,013
Franchise taxes	3,387	-	-	3,102	6,489
Accounts	1,690	-	-	156,005	157,695
Gross receivables	138,205	28,462	-	171,695	338,362
Less: Allowance for un-collectables	(14,333)	(4,269)	-	(6,275)	(24,877)
Total	<u>\$ 123,872</u>	<u>\$ 24,193</u>	<u>\$ -</u>	<u>\$ 165,420</u>	<u>\$ 313,485</u>

Governmental funds report unavailable 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. As of September 30, 2014, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
General Fund:	
Delinquent property taxes receivable	\$ 77,669
Debt Service Fund:	
Delinquent property taxes receivable	<u>22,821</u>
Total governmental funds	<u>\$ 100,490</u>

Receivables as of September 30, 2014, for the City's discretely presented component units are as follows:

	<u>OEDC</u>	<u>OMDD</u>	<u>Total</u>
Taxes	\$ 18,788	\$ 14,942	\$ 33,730
Accounts	<u>250</u>	<u>-</u>	<u>250</u>
Total component units	<u>\$ 19,038</u>	<u>\$ 14,942</u>	<u>\$ 33,980</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Capital Assets

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

Primary Government	Balance	Increases	Decreases	Balance
<i>Governmental Activities:</i>	9/30/2013			9/30/2014
Non-depreciable assets:				
Land	\$ 317,230	\$ -	\$ (1,350)	\$ 315,880
Construction in Progress	175,682	-	(175,682)	-
Depreciable assets:				
Infrastructure	3,475,000	274,524	-	3,749,524
Buildings	1,541,591	-	-	1,541,591
Machinery and equipment	582,116	72,880	(107,175)	547,821
Accumulated depreciation	(4,890,974)	(90,596)	103,916	(4,877,654)
<i>Governmental Activities, net</i>	<u>1,200,645</u>	<u>256,808</u>	<u>(180,291)</u>	<u>1,277,162</u>
<i>Business-type Activities:</i>				
Non-depreciable assets:				
Land	50,201	-	-	50,201
Construction in Progress	36,301	-	(36,301)	-
Depreciable assets:				
Water and sewer system	5,821,802	322,127	-	6,143,929
Accumulated depreciation	(4,090,306)	(142,302)	-	(4,232,608)
<i>Business-type Activities, net</i>	<u>1,817,998</u>	<u>179,825</u>	<u>(36,301)</u>	<u>1,961,522</u>
Capital Assets, net	<u><u>\$ 3,018,643</u></u>	<u><u>\$ 436,633</u></u>	<u><u>\$ (216,592)</u></u>	<u><u>\$ 3,238,684</u></u>

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

Administration	\$ 17,067
Public safety	37,851
Public works	2,305
Social services	13,749
Parks and recreation	<u>19,624</u>
Total depreciation expense	<u><u>\$ 90,596</u></u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Inter-fund Receivables, Payables, and Transfers

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

Inter-fund Receivables and Payables

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

The composition of inter-fund balances as of September 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 369,388

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, 2014, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 415,087	\$ 29,839
Debt service	-	26,806
Grant	-	247,311
Other governmental	42,253	39,711
Governmental activities	457,340	343,667
Water and sewer	258,057	371,730
Total transfers	<u>\$ 715,397</u>	<u>\$ 715,397</u>

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

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 \$4,350,000.

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

Purpose	Interest Rates	Original Issue Amount
<i>Governmental Activities:</i>		
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%	<u>2,500,000</u>
Total Certificates of Obligation		<u>\$ 4,350,000</u>

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

Year Ending September 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 160,000	\$ 67,170	\$ 227,170	\$ 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	185,000	40,310	225,310	160,000	14,405	174,405
2019	185,000	30,755	215,755	175,000	7,525	182,525
2020 – 2028	480,000	38,152	518,152	-	-	-
Total	<u>\$ 1,360,000</u>	<u>\$ 284,612</u>	<u>\$ 1,644,612</u>	<u>\$ 760,000</u>	<u>\$ 102,770</u>	<u>\$ 862,770</u>

Notes Payable

The City obtained a loan in February 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 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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Debt – continued

Notes Payable – continued

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 October 2012 to finance the purchase of a lawn mower. Interest rate on the loan is 4.00% and the payments are due monthly for a total of 36 months.

The City obtained an interest-free loan from the OMDD in July 2011 to finance the purchase of a pump-vacuum truck and wastewater pumps. Payments are due annually for a term of 10 years.

The City obtained an interest-free loan from the OMDD in February 2013 to finance repairs and improvements to the ground storage tank at Well #5. Payments are due annually for a term of 10 years.

The City obtained a loan in February 2014 to finance the purchase of two police vehicles. Interest rate on the loan is 2.4% and the payments are due annually for a total of 3 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
2015	\$ 46,087	\$ 8,467	\$ 54,554	\$ 2,311	\$ 7	\$ 2,318
2016	32,520	5,903	38,423	9,500	-	9,500
2017	32,774	4,955	37,729	9,500	-	9,500
2018	9,736	3,975	13,711	9,500	-	9,500
2019	10,264	3,590	13,854	9,500	-	9,500
2020 – 2026	87,640	12,535	100,175	88,000	-	88,000
Total	<u>\$ 219,021</u>	<u>\$ 39,425</u>	<u>\$ 258,446</u>	<u>\$ 128,311</u>	<u>\$ 7</u>	<u>\$ 128,318</u>

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.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Debt – continued

Pollution Penalties Payable – continued

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

<u>Year Ending</u> <u>September 30</u>	<u>Business-Type</u> <u>Activities</u>
2015	20,275

Changes in Long-Term Debt

The changes in the general long-term debt as of September 30, 2014, are as follows:

	<u>Balance</u> <u>9/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2014</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental Activities:</i>					
Certificates of obligation	\$ 1,420,000	\$ -	\$ (60,000)	\$ 1,360,000	\$ 160,000
Notes payable	175,351	70,702	(27,032)	219,021	46,087
Compensated absences	23,333	7,397	-	30,730	-
Total governmental	<u>\$ 1,618,684</u>	<u>\$ 78,099</u>	<u>\$ (87,032)</u>	<u>\$ 1,609,751</u>	<u>\$ 206,087</u>
<i>Business-type Activities:</i>					
Certificates of obligation	\$ 965,000	\$ -	\$ (205,000)	\$ 760,000	\$ 130,000
Less: Unamortized bond discount	(782)	-	782	-	-
Notes payable	144,155	-	(15,844)	128,311	2,311
Pollution penalties payable	36,725	-	(16,450)	20,275	20,275
Customer deposits	46,884	-	(806)	46,078	-
Compensated absences	2,023	3,800	-	5,823	-
Total business-type	<u>\$ 1,194,005</u>	<u>\$ 3,800</u>	<u>\$ (237,318)</u>	<u>\$ 960,487</u>	<u>\$ 152,586</u>

Total

interest incurred and charged to expense for the year ended September 30, 2014, was \$122,235, of which \$80,606 related to governmental activities and \$41,629 related to business-type activities.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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 from 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 2013	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, 2014

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)
2012	\$ 1,906	\$ 1,906	100%	-
2013	2,126	2,126	100%	-
2014	3,953	3,953	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 30, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25.1 Years: closed period	24.9 Years: closed period	25.0 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*	7.0%	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%

The funded status as of December 31, 2013, is presented as follows:

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 1,143,260
Actuarial Accrued Liability	\$ 938,281
Percentage Funded	121.8%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ (204,979)
Annual Covered Payroll	\$ 555,269
UAAL as a Percentage of Covered Payroll	(36.9%)

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 3: OTHER INFORMATION – continued

Texas Municipal Retirement System Plan – continued

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, 2014.

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

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

No reportable litigation was pending against the City as of September 30, 2014.

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 the year ending September 30, 2014. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required.

**CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

NOTE 3: OTHER INFORMATION – continued

Subsequent Events

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.

In January 2019, the City renegotiated with Christus EMS (formerly Champion EMS) for a new contract with no subsidy from the City and Christus to pay a rental fee plus insurance to cover the City's cost of the loan and insurance on the EMS building.

In April 2019, the City approved a 10-year lease agreement with High Hill Farm to take over the management and operation of the golf course.

Capital Improvements Project

In the 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:

- 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.
- Proposition #2 – Up to \$250,000 for Street Network capital improvements, which include reconstruction and/or renovation of certain roads in Overton.
- 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.
- 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.
- 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.

In November 2015, the City awarded a contract in the amount of \$47,200 for improvements to the Wastewater Treatment Plant.

In August 2016, the OEDC approved a \$512,000 bid for street improvements relating to Propositions #1 and #2.

In January 2017, the City purchased \$19,500 in improvements for the Wastewater Treatment Plant and two wells.

In April 2019, the OEDC approved a contract to administer the construction of the dam/spillway project totaling \$128,640 and accepted a bid for construction of the dam/spillway project totaling \$367,750.

CITY OF OVERTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3: OTHER INFORMATION – continued

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.

In April 2016, the City obtained a 53-month loan from Texas Bank & Trust in the amount of \$120,000 to purchase new equipment for the Public Works and Utility departments. The interest rate on the loan is 3%, and the equipment is held as collateral on the loan.

Bonds

The OEDC closed a certificate of deposit account upon the maturity date of May 24, 2016 and transferred the balance of approximately \$60,000 to the operating fund.

In January 2017, the City obtained a 7-year loan from Texas Bank & Trust in the amount of \$490,000 for the purpose of refinancing the remaining principal and accrued interest on the Series 2003 General Obligation and Refunding bond dated July 15, 2003. This loan effectively extends the payments out five additional years. However, the payment is reduced to \$39,640 semi-annually, which will allow the City to increase its cash reserves and spend funds on other areas of need. The interest rate on the loan is 3.3%, which is 1% lower than the original debt being refinanced. No collateral secures this loan.

In March 2017, the OMDD forgave the outstanding balances of all loans given to the City for a total amount forgiven of \$147,500.

In March 2018, the City issued CO Bonds Series 2018 in the amount of \$217,000. The use of the funds is bookkeeping catch up, audit catch up, one water tank rehab, new financial software, bond counsel and issuance costs.

In April 2018, the City issued GO Bonds Series 2018 in the amount of \$50,000. The use of the funds is to redeem all outstanding 2003 CO Certificates.

In June 2018, the City underwent an audit by the Comptroller for criminal costs and fees payable. It was determined that additional fees in the amount of \$63,017 were payable beginning in 2014 through 2018. An amount of \$8,402 has been accrued for the year ended September 30, 2014.

Management has evaluated subsequent events through May 7, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF OVERTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2011	\$ 1,006,881	\$ 763,896	131.8 %	\$ (242,985)	\$ 564,005	(43.1) %
12/31/2012	1,076,174	821,913	130.9	(254,261)	518,818	(49.0)
12/31/2013	1,143,260	938,281	121.8	(204,979)	555,269	(36.9)

ADDITIONAL SUPPLEMENTAL INFORMATION

EXHIBIT 12

**CITY OF OVERTON, TEXAS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	POLICE FUND	BLUEGRASS FUND	COURT TECHNOLOGY FUND	COURT SECURITY FUNDS	CONSTRUCTION FUND	400k CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	CEMETERY FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
ASSETS										
Cash and cash equivalents	\$ 22,648	\$ -	\$ 2,604	\$ 1,702	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 26,955
Receivables (net of allowances):										
Accounts	-	80	-	-	-	-	-	-	1,730	1,810
Due from other funds	-	-	2,567	1,301	16,662	-	-	-	6,017	26,547
Total assets	\$ 22,648	\$ 80	\$ 5,171	\$ 3,003	\$ 16,663	\$ -	\$ -	\$ -	\$ 7,747	\$ 55,312
LIABILITIES AND FUND BALANCE										
Liabilities:										
Accounts payable	\$ -	\$ 350	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350
Due to other funds	632	-	-	-	-	-	-	1,100	-	1,732
Due to other governments	-	-	-	-	-	-	-	-	-	-
Deferred revenues	-	-	-	-	-	-	-	-	-	-
Total liabilities	632	350	-	-	-	-	-	1,100	-	2,082
Fund balances:										
Restricted:										
Law enforcement	22,016	-	-	-	-	-	-	-	-	22,016
Construction of capital assets	-	-	-	-	16,663	-	-	(1,100)	-	15,563
Other	-	(270)	5,171	3,003	-	-	-	-	7,747	15,631
Total fund balance	22,016	(270)	5,171	3,003	16,663	-	-	(1,100)	7,747	53,230
Total liabilities and fund balance	\$ 22,648	\$ 80	\$ 5,171	\$ 3,003	\$ 16,663	\$ -	\$ -	\$ -	\$ 7,747	\$ 55,312

CITY OF OVERTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	POLICE FUND	BLUEGRASS FUND	COURT TECHNOLOGY FUND	COURT SECURITY FUNDS	CONSTRUCTION FUND	400K CONSTR. FUND	STARS & STRIPES FUND	EMS CONSTRUCTION FUND	CEMETERY FUND	TOTAL OTHER NON-MAJOR GOVERNMENTAL FUNDS
REVENUES										
Charges for services	\$ -	\$ 12	\$ 5,171	\$ 2,985	\$ -	\$ -	\$ -	\$ 13,790	\$ 12,016	\$ 33,974
Grant	-	-	-	-	68,428	-	-	-	-	68,428
Investment earnings	21	-	-	-	36	10	-	-	22	89
Donations	11,338	-	-	-	-	-	-	-	385	11,723
Miscellaneous	2,375	-	-	-	-	-	-	-	-	2,375
Total revenues	13,734	12	5,171	2,985	68,464	10	-	13,790	12,423	116,589
EXPENDITURES										
Administration	-	-	-	-	-	-	-	-	15,000	15,000
Public safety	632	-	-	-	-	-	-	-	-	632
Parks and recreation	-	856	-	-	-	-	-	-	-	856
Capital outlay	-	-	-	-	76,654	-	-	-	-	76,654
Debt service - Principal	-	-	-	-	-	35,000	-	7,880	-	42,880
Debt service - Interest and other charges	-	-	-	-	-	6,665	-	5,320	-	11,985
Total expenditures	632	856	-	-	76,654	41,665	-	13,200	15,000	148,007
Excess (deficiency) of revenues over (under) expenditures	13,102	(844)	5,171	2,985	(8,190)	(41,655)	-	590	(2,577)	(31,418)
OTHER FINANCING SOURCES (USES)										
Transfers from other funds	-	570	-	18	-	41,665	-	-	-	42,253
Transfers to other funds	-	(31)	-	-	(7,183)	(11,725)	(125)	(2,083)	(18,514)	(39,711)
Total other financing sources (uses)	-	539	-	18	(7,183)	29,940	(125)	(2,083)	(18,514)	2,542
Net change in fund balances	13,102	(305)	5,171	3,003	(15,373)	(11,765)	(125)	(1,493)	(21,091)	(28,876)
Fund balances - beginning of year	8,914	35	-	-	32,036	11,765	125	393	28,838	82,106
Fund balances - end of year	\$ 22,016	\$ (270)	\$ 5,171	\$ 3,003	\$ 16,663	\$ -	\$ -	\$ (1,100)	\$ 7,747	\$ 53,230

COMPLIANCE AND INTERNAL CONTROL

**INDEPENDENT AUDITORS' 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 7, 2019.

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 *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 2014-2 and 2014-3 to be *material weaknesses*.

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. We consider item 2014-1 to be a *significant deficiency*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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, WILHELM AND COMPANY, PLLC

Tyler, TX
May 7, 2019

**CITY OF OVERTON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

SIGNIFICANT DEFICIENCIES:

2014-1

Condition:

(Repeat from prior year) Multiple instances were noted where no documentation was maintained to support judicial approval to dismiss citations. Verbal approvals are provided to the court clerk who has the authority to both accept payments for citations and mark citations as dismissed in the ticket system.

Criteria:

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

Cause:

No formal documentation is required by any written policy, so currently, the judge is only providing verbal approval of dismissals to the court clerk.

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 update or prepare a written citation dismissal policy to require signed documentation of judicial approval for dismissal of citations. The documentation should include both the judge's signature and the date of the approval.

Management's Response:

Compliance dismissals are processed solely by the Court Clerk since state law authorizes these dismissals once proof of compliance is provided to the Court. The proof of compliance is included in the defendant's docket. For City Ordinance violations that have been resolved and verified by the Code Enforcement Officer between the citation date and the court date, the Judge will dismiss the violation and sign the docket form. For all other dismissals (by 2015 at the latest), the Judge and/or the City Attorney sign a Motion and Order to Dismiss Form which is added to the defendant's docket. The City is formalizing procedures in the form of an administrative manual that will cover all departments. A dismissal policy will be included in the section for Municipal Court.

MATERIAL WEAKNESSES:

2014-2

Condition:

(Repeat from prior year) 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:

During this time period the audit adjusting entries as well as the accruals were being made by the Finance Director, which were 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.

2014-3**Condition:**

Bank reconciliations were not prepared properly or timely and lacked appropriate review.

Criteria:

Timely and accurate bank reconciliations 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 subsequent to audit fieldwork to properly reconcile bank accounts.

Effect:

The City's year-end financial statements were misstated prior to complete and accurate bank reconciliations being prepared.

Recommendation:

Additional training for bank reconciliation should be attained.

Management's Response:

Since this issue, there have been staffing changes to bring in experienced personnel and procedures have been revised to include review of reconciliations. This condition will be monitored going forward.