

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF ATHENS, TEXAS
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

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SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
Chris M. Johnson, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**Unmodified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and Other Information**

Independent Auditor's Report

City Council
City of Athens, Texas
508 East Tyler Street
Athens, Texas 75751

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Athens, Texas (the "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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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* 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

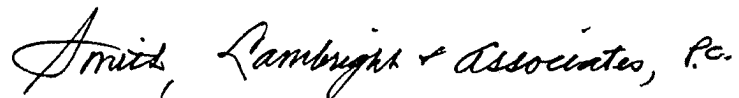
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards 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 June 1, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Smith, Lambright & Associates, P.C.".

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

June 1, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ATHENS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Athens, we offer readers of the City of Athens financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 13. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the City of Athens exceeded its liabilities at September 30, 2014 by \$22,491,845. Of this amount, unrestricted net position of \$5,650,086 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net position increased by \$178,379. Of this amount \$581,424 was associated with governmental and (\$403,045) with business type activities.
- As of the close of the current fiscal year, the City of Athens governmental funds reported combined ending fund balances of \$5,640,531. This was a increase of \$878,386 in comparison with the prior year.
- Sales taxes increased with a 2.63% increase above prior years' actual. Actual receipts were above budget projections by approximately 3.36%.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$3,790,183. The City Council has currently restricted \$800,000 or 8.5% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2013 tax rolls increased by \$10,060,859 (1.56%) compared to the prior tax year (2012).
- Property tax rate was increased to .645140/\$100 from .630387/\$100.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Athens basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Athens finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 government's net position changed during the most recent fiscal year. All changes in net position 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 fiscal periods.

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (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 of Athens include general government, public safety, parks and recreation, culture, community services, community development and other charges. The business type activities include Water and Sewer Operations.

The government-wide financial statements can be found on pages 13 through 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Athens can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains 12 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Charges in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other nine funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Athens adopts an annual budget for its General Fund, Debt Service, Capital Projects and certain Special Revenue Funds. Budgetary comparison statements have been provided for the General Fund, Debt Service Fund and Capital Projects Fund to demonstrate compliance with this budget and are presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary Funds

The City of Athens maintains one proprietary fund in the form of an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net position and the proprietary statement of revenues, expenses and changes in fund net position for the Utility fund which accounts for the City's water and sewer operations.

The basic proprietary fund financial statements can be found on pages 19 through 21 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 22 through 42 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information concerning budgetary comparisons, combining balance sheets for the other governmental funds, debt service schedules and miscellaneous statistical information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2014, the City's assets exceeded its liabilities by \$22,491,845. The largest portion of the City's net position (68%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,044,606	\$ 5,514,526	\$ 2,919,222	\$ 3,424,826	\$ 9,963,828	\$ 8,939,352
Capital assets	7,622,858	8,193,845	14,211,861	14,458,624	21,834,719	22,652,469
Total Assets	14,667,464	13,708,371	17,131,083	17,883,450	31,798,547	31,591,821
Long-term liabilities outstanding	3,353,154	3,621,621	4,282,019	4,658,846	7,635,173	8,280,467
Other liabilities	1,412,804	766,668	258,725	231,218	1,671,529	997,886
Total Liabilities	4,765,958	4,388,289	4,540,744	4,890,064	9,306,702	9,278,353
Net Position:						
Invested in capital assets, net of related debt	5,455,091	5,491,846	9,976,300	9,858,624	15,431,391	15,350,470
Restricted	639,336	755,008	771,032	1,283,263	1,410,368	2,038,271
Unrestricted	3,807,079	3,073,228	1,843,007	1,851,499	5,650,086	4,924,727
Total Net Position	\$ 9,901,506	\$ 9,320,082	\$12,590,339	\$12,993,386	\$22,491,845	\$22,313,468

An additional portion of net position (6.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$5,650,086) may be used to meet the government's ongoing obligations to citizens and creditors. The following chart shows the revenue and expenses of the total primary government.

City of Athens Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues:						
Charges for services	\$ 690,697	\$ 253,053	\$ 4,454,229	\$ 4,597,612	\$ 5,144,926	\$ 4,850,665
Operating grants and contributions	55,558	95,997	198,679	33,915	254,237	129,912
Capital grants and contributions					0	0
Total Program Revenues	<u>746,255</u>	<u>349,050</u>	<u>4,652,908</u>	<u>4,631,527</u>	<u>5,399,163</u>	<u>4,980,577</u>
General revenues:						
Taxes:						
Sales and use taxes	4,086,875	3,982,948			4,086,875	3,982,948
Property taxes	4,254,186	4,098,873			4,254,186	4,098,873
Franchise taxes	939,027	821,052			939,027	821,052
Unrestricted investment income	17,507	16,992	9,571	9,189	27,078	26,181
Donated Capital Assets					0	0
Miscellaneous	131,094	45,104			131,094	45,104
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(32,631)	(5,500)			(32,631)	(5,500)
Total General Revenue	<u>9,396,058</u>	<u>8,959,469</u>	<u>10,129</u>	<u>9,747</u>	<u>9,406,187</u>	<u>8,969,216</u>
Total Revenue	<u>10,142,313</u>	<u>9,308,519</u>	<u>4,663,037</u>	<u>4,641,274</u>	<u>14,805,350</u>	<u>13,949,793</u>
EXPENSES						
General	\$ 2,009,173	\$ 1,326,970			\$ 2,009,173	\$ 1,326,970
Public Safety:						
Police	2,873,467	2,821,021			2,873,467	2,821,021
Fire	2,591,153	2,468,443			2,591,153	2,468,443
Other	410,759	385,959			410,759	385,959
Public Services					0	0
Highways, Streets and Airport	1,440,260	1,469,664			1,440,260	1,469,664
Health	378,463	346,067			378,463	346,067
Culture and Recreation	744,707	725,988			744,707	725,988
Conservation and Development					0	0
Interest on long-term debt	93,514	113,632			93,514	113,632
Water Utilities			4,085,475	3,990,098	4,085,475	3,990,098
Total Expense	<u>10,541,496</u>	<u>9,657,744</u>	<u>4,085,475</u>	<u>3,990,098</u>	<u>14,626,971</u>	<u>13,647,842</u>
Increase in net position before transfers	(399,183)	(349,225)	577,562	651,176	178,379	301,951
Transfers	980,607	650,000	(980,607)	(650,000)	0	0
Change in net position	581,424	300,775	(403,045)	1,176	178,379	301,951
Net position October 1	<u>9,320,082</u>	<u>9,019,307</u>	<u>12,993,384</u>	<u>12,992,210</u>	<u>22,313,466</u>	<u>22,011,517</u>
Net position September 30	<u>\$ 9,901,506</u>	<u>\$ 9,320,082</u>	<u>\$ 12,590,339</u>	<u>\$ 12,993,386</u>	<u>\$ 22,491,845</u>	<u>\$ 22,313,468</u>

Governmental Activities. Governmental activities increased the City's net position by \$581,424 accounting for (100) percent of the total increase in net position. Increases in current assets and lower debt offset the decrease in capital assets. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

Business-type activities. Business type activities decreased the City's net position by (\$403,045) accounting for (0) percent of the net increase in the government's net position. The decrease was mostly due to transfers from cash reserves to the General Fund to cover legal expenses related to litigation with the Athens Municipal Water Authority. Other factors included current year revenue shortfall and depreciation in excess of capital investment.

Financial Analysis of the Governments' Funds

Governmental Funds

The focus of the City of Athens governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$5,640,531. Approximately 70.8% of this amount (\$3,995,549) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2014, unassigned fund balance of the General Fund was \$3,790,183, while total fund balance reached \$4,795,829.

The General Fund's fund balance increased during the current fiscal year \$840,113. Key factors in this increase are as follows:

- Net of allocation of prior year reserves, offset by excess revenues and under budget expenditures.
- Sales tax and Franchise fee revenue above budget.

Financial Highlights of the City's other major governmental funds are as follows:

The Debt Service Fund's fund balance decreased by (\$21,715) due to planned spending down of excess cash left from prior fiscal year as planned in the budget process.

The Capital Projects Fund's fund balance increased by \$386. The increase was due no spending of donations from prior years with only interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total net position of the Water and Sewer Fund at the end of the year amounted to \$12,590,339. This was an decrease of \$403,045. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was increased by \$363,292 (net) from the original budget to the final budget (an increase of 3.76%). These increases in revenue and (expenses) can be summarized as follows:

- 350,000 for Reimbursement of Legal fees For AMWA Dispute
- (4,577) for Fencing For Property Next To City Hall
- (350,000) for Legal Expenses For AMWA Litigation
- (26,109) for Remodel At City Hall
- (55,293) For City Secretary Separation Payment

\$277,313 was allocated from prior years reserves as a part of the original budget as approved by the City Council. As noted earlier fund balance increased by \$840,113 due to excess revenues and under budget expenditures.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2014 amounts to \$21,834,716 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, easements, equipment, computer hardware, vehicles, capitalized software, as well as infrastructure assets such as roads, sidewalks, water and sewer lines, water and wastewater treatment facilities. The total decrease in the City's investment in capital assets for the current fiscal year was \$817,752 (3.6%) net of accumulated depreciation.

Major capital assets events during the current fiscal year included the following:

- \$121,768 - Asphalt Cold Planer For Streets Department
- \$35,000 - 2007 Leeboy Asphalt Paver For Streets Department
- \$19,774 - Zetron Dispatch Console For Police Department
- \$20,013 - Zetron Dispatch Console For Police Department
- \$456,347 - Work in Progress on First Time Sewer Grant Project

Additional information on the City's capital assets can be found in note 3 on pages 31 and 32 of this report.

Long-term Debt

At the end of the current fiscal year, the City had \$7,635,173 in outstanding debt consisting of general obligation bonds, certificates of obligation, capital leases, compensated absences payable and post employment benefits. Additional information on the City's long term debt can be found in note 6 on pages 33 through 36.

Outstanding Debt at September 30, 2014

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 1,170,000		\$ 1,170,000
Certificates of Obligation		\$ 4,215,000	4,215,000
Notes Payable			0
Capital Leases Payable	997,767		997,767
Compensated Absences Payable	1,132,467	57,569	1,190,036
Post Employment Benefits	52,920	9,450	62,370
Total	<u>\$ 3,353,154</u>	<u>\$ 4,282,019</u>	<u>\$ 7,635,173</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values increase with the taxable valuations in 2014 increasing by (\$18,765,645). The property tax rate for 2014 was set at .645140 per \$100 valuation. (Same as prior year)
- Sales tax revenue increased above the previous year. Sales tax revenue were above the prior year by \$98,043 and above budget by \$124,367 in 2014. The 2015 budget anticipates a slight increase in sales tax revenue over the prior year. (\$3,812,647)
- All scheduled 2004 Bond Projects have been completed that were anticipated when bonds were sold. The City is now planning future projects to expend the remaining bond proceeds as well as interest earnings above any arbitrage payments. The current project includes using bond proceeds to match a first time sewer grant to obtain up to \$275,000 in grant revenue. This project is scheduled be completed in Fiscal Year 2015. It is anticipated that approximately \$1,000,000 in interest will still be available for future water and wastewater projects.
- The water and wastewater rate study delayed in the prior year is anticipated to begin early in the upcoming fiscal year to address the operating and capital needs in the Utility Fund and aline the rates with the actual cost of service.

Requests for Information

This financial report is designed to provide a general overview of the City of Athens finances for all of Athens residents, taxpayers, customers, investors and creditors. This report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, 508 E. Tyler Athens, Texas 75751.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 4,171,710	\$ 1,504,284	\$ 5,675,994	\$ 1,111,910
Investments	14,857	8,817	23,674	862,800
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	200,011		200,011	1,829,563
Accounts	1,222,758	582,808	1,805,566	
Due from other governments	17,376	97,404	114,780	
Internal balances	591,371	(591,371)	0	
Deferred Inflows				644,311
Inventories	2,646	303,411	306,057	
Prepaid items	3,000	100	3,100	
Restricted assets:				
Cash	820,877	1,013,769	1,834,646	
Capital assets:				
Work in progress		491,152	491,152	
Land	2,445,876	152,200	2,598,076	1,156,753
Buildings	8,210,918	799,441	9,010,359	1,881,605
Improvements other than buildings	6,863,667	24,005,463	30,869,130	207,052
Machinery and equipment	6,861,478	1,325,435	8,186,913	49,613
Amortizable assets	93,403	243,082	336,485	
Accumulated depreciation	(16,759,081)	(12,593,122)	(29,352,203)	(624,779)
Accumulated amortization	(93,403)	(211,790)	(305,193)	
Total Assets	14,667,464	17,131,083	31,798,547	7,118,828
Liabilities				
Accounts payable	1,243,502	43,749	1,287,251	7,606
Wages and salaries payable	158,415		158,415	
Accrued interest	8,727	33,380	42,107	
Payable to other governments	0		0	
Deferred Outflows				564,311
Deposits	2,160	176,020	178,180	
Unearned revenue	0	5,576	5,576	96,871
Noncurrent liabilities:				
Due within one year	521,506	405,000	926,506	118,662
Due in more than one year	2,831,648	3,877,019	6,708,667	914,985
Total Liabilities	4,765,958	4,540,744	9,306,702	1,702,435
Net Position				
Invested in capital assets, net of related debt	5,455,091	9,976,300	15,431,391	
Restricted for:				
Debt service	68,375		68,375	
Capital projects	120,882	771,032	891,914	
Other special purposes	450,079		450,079	
Unrestricted	3,807,079	1,843,007	5,650,086	5,416,393
Total Net Position	\$ 9,901,506	\$ 12,590,339	\$ 22,491,845	\$ 5,416,393

See accompanying notes to the financial statements.

Program Activities	Expenses	Program Revenues	
		Fees, Fines & Charges for Services	Operating Grants and Contributions
Government Activities			
General Government	\$ 2,009,173	\$ 59,540	\$ 11,365
Police	2,873,467	545,148	5,980
Fire Protection	2,591,153		27,354
Other Public Safety	410,759		4,832
Highways Streets and Airport	1,440,260	86,009	6,027
Health	378,463		
Culture and Recreation	744,707		
Interest on Long-term Debt	93,514		
Total Government Activities	<u>10,541,496</u>	<u>690,697</u>	<u>55,558</u>
Business-type Activities			
Utility Fund	<u>4,085,475</u>	<u>4,454,229</u>	<u>198,679</u>
Total Primary Government	<u>\$ 14,626,971</u>	<u>\$ 5,144,926</u>	<u>\$ 254,237</u>
Component Unit:			
Athens Economic Development Corporation	<u>\$ 1,150,146</u>	<u>\$ 49,571</u>	<u>\$ _____</u>

General Revenue

Taxes:

Property

Sales

Franchise

Investment Earnings

Miscellaneous

Premium on Bonds Sold

Gain (Loss) on Sale of Capital Assets

Transfers

Other

Total General Revenues, Transfers and Other

Changes in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net (Expenses) Revenue and Changes in Net Position			Component Unit AEDC
Government Activities	Business-type Activities	Total	
\$ (1,938,268)	\$	\$ (1,938,268)	\$
(2,322,339)		(2,322,339)	
(2,563,799)		(2,563,799)	
(405,927)		(405,927)	
(1,348,224)		(1,348,224)	
(378,463)		(378,463)	
(744,707)		(744,707)	
(93,514)		(93,514)	
(9,795,241)	0	(9,795,241)	0
	567,433	567,433	
\$ (9,795,241)	\$ 567,433	\$ (9,227,808)	\$ 0
\$	\$	\$	\$ (1,100,575)
\$ 4,254,186	\$	\$ 4,254,186	\$ 1,274,820
4,086,875		4,086,875	
939,027		939,027	
17,507	9,571	27,078	17,185
131,094	558	131,652	
(32,631)		(32,631)	
980,607	(980,607)	0	
10,376,665	(970,478)	9,406,187	1,292,005
581,424	(403,045)	178,379	191,430
9,320,082	12,993,384	22,313,466	5,224,963
\$ 9,901,506	\$ 12,590,339	\$ 22,491,845	\$ 5,416,393

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 4,171,710	\$ 35,990	\$ 120,882	\$ 664,005	\$ 4,992,587
Investments - Current	14,857				14,857
Taxes Receivable (net of allow. for uncoll.)	167,626	32,385			200,011
Receivables (net of allowable for uncoll.)	1,222,593			166	1,222,759
Due from Other Governments	3,497			13,879	17,376
Intergovernmental Receivable	591,371				591,371
Due from Other Funds	20,505			5,751	26,256
Inventories	2,646				2,646
Prepaid Items	3,000				3,000
Total Assets	<u>\$ 6,197,805</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 683,801</u>	<u>\$ 7,070,863</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 1,243,501	\$	\$	\$	\$ 1,243,501
Wages and Salaries Payable	158,415				158,415
Due to Other Funds				26,256	26,256
Deposits Payable	60			2,100	2,160
Total Liabilities	<u>\$ 1,401,976</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,356</u>	<u>\$ 1,430,332</u>
Fund Balances:					
Non-spendable Fund Balance:					
Inventories and Prepaid Items	5,646				5,646
Restricted Fund Balance:					
Capital Acquisition			120,882		120,882
Retirement of Long-term Debt		68,375			68,375
Other Restricted Funds				450,079	450,079
Committed Fund Balance:					
Emergency Reserve	800,000				800,000
Capital Acquisition	200,000				200,000
Assigned Fund Balance:					
Other Assigned Fund Balance					0
Unassigned Fund Balance	<u>3,790,183</u>			<u>205,366</u>	<u>3,995,549</u>
Total Fund Balances	<u>4,795,829</u>	<u>68,375</u>	<u>120,882</u>	<u>655,445</u>	<u>5,640,531</u>
Total Liabilities and Fund Balances	<u>\$ 6,197,805</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 683,801</u>	<u>\$ 7,070,863</u>

See accompanying notes to basic financial statements.

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

Total Fund Balance - Total Governmental Funds	\$	5,640,531
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		7,622,856
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in Governmental Funds Balance Sheet.		(8,727)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet.		
Due within one year		(521,506)
Due in more than one year		<u>(2,831,648)</u>
Net Position of governmental activities	\$	<u>9,901,506</u>

See accompanying notes to basic financial statements.

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

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 3,587,473	\$ 598,086	\$	\$	\$ 4,185,559
General Sales and Use	3,852,642			234,233	4,086,875
Franchise	939,027				939,027
Penalty and Interest	58,284	10,344			68,628
Licenses and Permits	27,509				27,509
Intergovernmental Revenues and Grants	47,550			16,839	64,389
Charges for Services	36,167			2,456	38,623
Fines	540,636			5,016	545,652
Investment Income	14,287	878	386	1,956	17,507
Rents and Royalties	708			48,206	48,914
Contributions & Donations from Private Sources	11,365			9,804	21,169
Other Revenue	125,929			2,560	128,489
Total Revenues	9,241,577	609,308	386	321,070	10,172,341
EXPENDITURES:					
Current:					
General Government	1,772,946			7,735	1,780,681
Public Safety:					
Police	2,759,964			19,226	2,779,190
Fire	2,397,799			10,685	2,408,484
Other	401,589				401,589
Public Works:					
Highways, Streets and Airport	975,305			20,798	996,103
Health	363,737				363,737
Conservation and Development					0
Culture and Recreation	505,243			209,004	714,247
Debt Service:					
Principal		534,537			534,537
Interest		96,165			96,165
Fiscal Agent Fees		321			321
Capital Outlay:					
Capital Outlay	199,508				199,508
Total Expenditures	9,376,091	631,023	0	267,448	10,274,562
Excess (Deficiency) of Revenues Over (Under) Expenditures	(134,514)	(21,715)	386	53,622	(102,221)
OTHER FINANCING SOURCES (USES):					
Non-Current Loans					0
Transfers In	980,607			12,007	992,614
Transfers Out (Use)	(5,980)			(6,027)	(12,007)
Total Other Financing Sources (Uses)	974,627	0	0	5,980	980,607
Net Change in Fund Balances	840,113	(21,715)	386	59,602	878,386
Fund Balance - October 1 (Beginning)	3,955,716	90,090	120,496	595,843	4,762,145
Fund Balance - September 30 (Ending)	<u>\$ 4,795,829</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 655,445</u>	<u>\$ 5,640,531</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$	878,386
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		199,508
Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.		(735,149)
The issuance of long-term debt (e.g. bonds) 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 issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are unearned 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.		268,659
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.		
Loss of Sale of Capital Assets		(32,631)
Accrued Interest		<u>2,651</u>
Change in Net Position of Governmental Activities	\$	<u>581,424</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2014

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,504,284
Investments - Current	8,817
Accounts Receivable - Net of Uncollectible Allowance	582,808
Intergovernmental Receivables	97,404
Inventories	303,411
Prepaid Items	100
Restricted Assets:	
Cash and Cash Equivalents	<u>1,013,769</u>
Total Current Assets	<u>3,510,593</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	491,152
Land Purchase and Improvements	152,200
Buildings	799,441
Improvement Other Than Buildings	24,005,463
Machinery and Equipment	1,325,435
Amortizable Assets	243,082
Accumulated Depreciation	(12,593,122)
Accumulated Amortization	<u>(211,790)</u>
Total Non-Current Assets	<u>14,211,861</u>
Total Assets	<u>17,722,454</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	43,749
Accrued Interest Payable	33,380
Internal Balances	591,371
Certificates of Obligation Payable	405,000
Unearned Revenue	5,576
Deposits	<u>176,020</u>
Total Current Liabilities	<u>1,255,096</u>
Non-Current Liabilities	
Compensated Absences Payable	67,019
Certificates of Obligation Payable	<u>3,810,000</u>
Total Non-Current Liabilities	<u>3,877,019</u>
Total Liabilities	<u>5,132,115</u>
NET POSITION	
Investments in Capital Assets, Net of Debt	9,976,300
Restricted for Construction	771,032
Unrestricted Net Position	<u>1,843,007</u>
Total Net Position	<u>\$ 12,590,339</u>

See accompanying notes to basic financial statements.

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

OPERATING REVENUES	
Charges for Water Services	\$ 2,213,294
Charges for Waste Water Services	1,954,095
Fees	113,539
Other Revenue	<u>173,301</u>
Total Operating Revenues	<u>4,454,229</u>
OPERATING EXPENSES:	
Personnel Services	1,729,538
Supplies	492,218
Contractual Services	926,828
Depreciation	703,111
Bad Debt Expense	<u>40,240</u>
Total Operating Expenses	<u>3,891,935</u>
Operating Income	<u>562,294</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	9,571
Interest Expense - Non-Operating	(192,414)
Fiscal Agent Fees	(1,126)
Premium on Bonds Sold	558
Grants	<u>198,679</u>
Total Non-Operating Revenue (Expenses)	<u>15,268</u>
Income Before Transfers	577,562
Transfers Out	<u>(980,607)</u>
Change in Net Position	(403,045)
Total Net Position - October 1 (Beginning)	<u>12,993,384</u>
Total Net Position - September 20 (Ending)	<u><u>\$ 12,590,339</u></u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2014

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 4,258,318
Other Operating Revenues (uses)	173,301
Cash Payments to Employees for Services	(1,721,365)
Cash Payments to Suppliers	(1,270,347)
Net Cash Provided by Operating Activities	<u>1,439,907</u>
<u>Cash Flows from non-Capital Financing Activities:</u>	
Operating Transfers Out	(980,607)
Grants	198,679
Net Cash Provided by (Used for) Capital Financing Activities	<u>(781,928)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(456,347)
Interest Paid on Bonds	(194,138)
Retirement of Bonds	(385,000)
Fiscal Agent Fees	(1,127)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,036,612)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>9,571</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(369,062)
Cash and Cash Equivalents at Beginning of the Year	<u>2,895,931</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 2,526,869</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 562,294
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	703,111
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(30,800)
Decrease (Increase) in Inventories	(123,419)
Increase (Decrease) in Accounts Payable	21,597
Increase (Decrease) in Internal Balances	290,761
Increase (Decrease) in Deposits	8,190
Increase (Decrease) in Compensated Absences	<u>8,173</u>
Net Cash Provided by Operating Activities	<u>\$ 1,439,907</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Athens, Texas (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The City applied all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; in which case, GASB prevails.

A. The Reporting Entity

The City of Athens, Texas is a political subdivision of the State of Texas. The City was incorporated in 1902 under the provisions of the State of Texas. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire, animal control and inspection), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. Other services include utilities and airport operations.

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Athens, Texas has one component unit.

DISCRETELY PRESENTED COMPONENT UNIT:

ATHENS ECONOMIC DEVELOPMENT CORPORATION (AEDC) - The AEDC was authorized by the voters of Athens in an election on May 5, 1990. The corporation received its charter/certificate of authority on October 11, 1990, and immediately began operations. The AEDC is funded by a .5% sales tax. It also earns interest on funds temporarily invested pending expenditure on approved economic programs. The AEDC is separately managed and audited and issues its own financial statements. The City appoints directors and approves budgets.

Excluded from the reporting entity:

ATHENS MUNICIPAL WATER AUTHORITY - The Athens Municipal Water Authority (the Water Authority) was established by a special state act in 1958. The Water Authority's governing board (a separately elected board) selects management staff, sets user charges, establishes budgets and controls all aspects of general management and production of water from the Water Authority except for water purchases and what it contracts with the City of Athens. Additionally, the City does not hold title to any of the Water Authority's assets, nor does it have any right to the Water Authority's surpluses.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF ATHENS HOUSING AUTHORITY - This is the Section 8 Housing Assistance Payments Program. This entity receives federal grant funds and administers a housing/rent subsidy program inside the city limits of Athens. This entity is subject to the City's control and oversight through the City Council and City Administrator's office, but is audited as a separate program based upon an understanding with the federal funding agency (HUD). This entity operates on a calendar year basis and has been audited in prior years by other auditors without being combined with the City of Athens. Consequently, an audit of this entity was not included in the Request for Proposal for performing the September 30, 2014 audit of the City.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all nonmajor funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of government funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund -

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Capital Projects Fund -

The Capital Projects Fund is used to account for funds received and expended for construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund -

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to assure integrity of the funds.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The *government-wide* statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All governmental fund revenues are recognized when received.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

D. Budgetary Control

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major funds. All annual appropriations lapse at fiscal year end.

Before the first regular meeting in August, the proposed budget is presented to the City's council for review. The City's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's manager.

Amendments have been made to the budget during the fiscal year.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

E. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities one year or less from the date of acquisition.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

H. Restricted Assets

Certain assets of the City are classified as restricted assets because of ordinance or other legal restrictions such as funds set aside under provisions of bond covenants.

I. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

J. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2014, the City allocated \$650,000 as a transfer for such services.

K. Capital Assets

Capital assets, which include property, plant and infrastructure assets, are reported in the applicable governmental or business type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	25
Machinery & Equipment	3-20
System Infrastructure	20-40
Vehicles	5-10
Office Equipment	5
Computer Equipment	5

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for non-civil service employees' unpaid accumulated sick leave except when payment is authorized by the City Council. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are shown as non-current liabilities on the government-wide statement of net position and current expense for that portion of the debt incurred for the current year.

M. Nature and Purpose of Reservation and Designations of Fund Equity

The fund equity reserves for revenue bond retirement and construction, prepaid items and debt service are discussed in notes 6, 1(F), and 1(B) respectively. The fund equity designation for subsequent years' expenditures primarily represents Capital Projects Fund Balances specifically identified for capital outlays.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

N. Net Position

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

O. Fund Balance

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the City Council or by other officials to which the City Council has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the City Council delegates the responsibility to assign funds to the City Managers or their designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

P. Fund Balance

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

Fund Balance	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Nonspendable:					
Inventories & Prepaid	\$ 5,646	\$	\$	\$	\$ 5,646
Total Non-spendable	<u>5,646</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,646</u>
Restricted:					
Debt Service		68,375			68,375
Capital Projects			120,882		120,882
Other				450,079	450,079
Total Restricted	<u>0</u>	<u>68,375</u>	<u>120,882</u>	<u>450,079</u>	<u>639,336</u>
Committed:					
Emergency	800,000				800,000
Capital Items	200,000				200,000
Total Committed	<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>
Assigned:					
Other					0
Total Assigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unassigned	<u>3,790,183</u>			<u>205,366</u>	<u>3,995,549</u>
Total Fund Balances	<u>\$ 4,795,829</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 655,445</u>	<u>\$ 5,640,531</u>

CITY OF ATHENS, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2014

2. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City 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.

State statutes authorize the City to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) A securities lending program as permitted by Government Code 2256.0115; 5) Banker's acceptances as permitted by Government Code 2256.012; 6) Commercial paper as permitted by Government Code 2256.013; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the City has adopted an investment policy. The City is in substantial compliance with the requirements of the Act. The risks that the City may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the City's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2013-2014 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest, combined balances of cash, savings and time deposit accounts amounted to \$9,849,874 and occurred on February 18, 2014. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$10,088,252. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.
- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At September 30, 2014, the amount of the City's cash balance accounts was \$7,508,243. The cash balance in interest bearing accounts was \$7,508,243.

INVESTMENTS

The City's investments at September 30, 2014, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 7,508,243	7,508,243	.0833
TexPool	<u>23,674</u>	<u>23,676</u>	1.00009
Total Investments	<u>\$ 7,531,917</u>	<u>\$ 7,531,919</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/01/13	Additions	Retirements	Adjustments	Balance 9/30/2014
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2,445,876	\$	\$	\$	\$ 2,445,876
Construction in progress	0				0
Total capital assets not being depreciated	<u>2,445,876</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,445,876</u>
Capital asset being depreciated:					
Buildings	8,254,981		(44,063)		8,210,918
Equipment	6,803,105	196,792	(45,015)		6,954,882
Improvements	2,057,133				2,057,133
Infrastructure	4,806,534				4,806,534
Total capital assets being depreciated	<u>21,921,753</u>	<u>196,792</u>	<u>(89,078)</u>	<u>0</u>	<u>22,029,467</u>
Less: accumulated depreciation for:					
Buildings	(7,279,590)	(71,793)	19,828		(7,331,555)
Equipment	(4,697,078)	(297,287)	36,619		(4,957,746)
Improvements	(1,446,330)	(125,726)			(1,572,056)
Infrastructure	(2,750,787)	(240,343)			(2,991,130)
Total accumulated depreciation	<u>\$(16,173,785)</u>	<u>\$(735,149)</u>	<u>\$ 56,447</u>	<u>\$ 0</u>	<u>\$(16,852,487)</u>
Total capital assets being depreciated, net	<u>5,747,968</u>	<u>(538,357)</u>	<u>(32,631)</u>	<u>0</u>	<u>5,176,980</u>
Governmental activities capital assets, net	<u>\$ 8,193,844</u>	<u>\$(538,357)</u>	<u>\$(32,631)</u>	<u>\$ 0</u>	<u>\$ 7,622,856</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152,200	\$	\$	\$	\$ 152,200
Construction in progress	34,804	456,347			491,151
Total capital assets not being depreciated	<u>187,004</u>	<u>456,347</u>	<u>0</u>	<u>0</u>	<u>643,351</u>
Capital assets being depreciated:					
Buildings	799,441				799,441
Equipment	1,325,435				1,325,435
Amortizable assets	243,082				243,082
Improvements	1,454				1,454
Infrastructure	24,004,009				24,004,009
Total capital asset being depreciated	<u>26,373,421</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,373,421</u>
Less: accumulated depreciation for:					
Buildings	(710,682)	(10,787)			(721,469)
Equipment	(1,002,711)	(62,316)			(1,065,027)
Amortizable assets	(192,690)	(19,100)			(211,790)
Improvements	(1,454)				(1,454)
Infrastructure	(10,194,264)	(610,908)			(10,805,172)
Total accumulated depreciation	<u>(12,101,801)</u>	<u>(703,111)</u>	<u>0</u>	<u>0</u>	<u>(12,804,912)</u>
Total capital assets being depreciated, net	<u>14,271,620</u>	<u>(703,111)</u>	<u>0</u>	<u>0</u>	<u>13,568,509</u>
Business-type activities capital assets, net	<u>\$ 14,458,624</u>	<u>\$(246,764)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,211,860</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
General government and administration	\$ 353,817
Public safety	214,095
Public services	128,056
Culture and recreation	27,998
Health	11,183
Total depreciation expense-Governmental activities	<u>\$ 735,149</u>
Business-type activities:	
Water and sewer	<u>\$ 703,111</u>

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2014, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Law Enforcement Grant	5,980
General	Community Improvement	7,731
General	Homeland Security	4,832
General	Special Donations	900
General	Airport	682
General	Airport Grant	45
General	Municipal Court Technology	335
Airport	Airport Grant	5,751
Total		<u>\$ 26,256</u>

5. Operating Leases

The City has entered into operating lease agreements for equipment. Commitments under the agreements provide for future rental payments as of September 30, 2014 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2015	\$ 18,753
2016	18,642
2017	17,366
2018	4,768
2019	3,756
2020	144
Total	<u>\$ 63,429</u>

Rental expenditures in 2013-2014 were \$15,351.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

6. Long-term Debt

A. Capital Leases Payable

The City has entered into lease agreements as lessee for the acquisition of a fire engine pumper, police vehicles fire truck and a street sweeper. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 4.415%, 2.589%, 2.349% and 1.929%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2014:

	Balance 10/01/13	Issued	Retired	Balance 9/30/14
Fire Engine Pumper	156,143		29,027	127,116
Police Vehicles	31,706		31,706	0
Fire Truck	819,898		82,830	737,068
Street Sweeper	169,252		35,669	133,583
	<u>\$ 1,176,999</u>	<u>\$ 0</u>	<u>\$ 179,232</u>	<u>\$ 997,767</u>

Debt service requirements for the capital leases payable are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
2015	\$ 151,506	\$ 23,660	\$ 175,166
2016	155,607	19,559	175,166
2017	159,833	15,332	175,165
2018	145,097	11,028	156,125
2019	93,082	8,018	101,100
2020-2022	<u>292,642</u>	<u>10,659</u>	<u>303,301</u>
Total	<u>\$ 997,767</u>	<u>\$ 88,256</u>	<u>\$ 1,086,023</u>

B. Long-term Debt - Notes Payable

As of September 30, 2014 the City had no notes payable.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

C. General Obligation Bonds Payable

The City issues general obligation bonds to provide funds for acquisition and construction of major capital facilities for general government activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The following is a summary of changes in long-term debt for the general obligation bonds for the year ended September 30, 2014:

	<u>Balance 10/01/13</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/14</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 1,525,000	\$	\$ 355,000	\$ 1,170,000
Totals	<u>\$ 1,525,000</u>	<u>\$ 0</u>	<u>\$ 355,000</u>	<u>\$ 1,170,000</u>

Debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2015	\$ 370,000	\$ 52,650	\$ 422,650
2016	390,000	36,000	426,000
2017	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
Total	<u>\$ 1,170,000</u>	<u>\$ 107,100</u>	<u>\$ 1,277,100</u>

Detailed debt service requirement data may be found in Table 2 in the Statistical Section of this report.

D. Revenue Bonds Payable

The City issues bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service.

As of September 30, 2014 the City had no revenue bonds outstanding.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

E. Prior year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements of the City of Athens. As of September 30, 2014, none of the general obligation bonds considered defeased are still outstanding.

F. Certificates of Obligation

On April 10, 2000, the City issued \$2,000,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000. Proceeds from the sale of the Certificates will be used to pay for improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

On October 15, 2004 the City issued \$5,500,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2004. Proceeds from the sale of the Certificates will be used for (1) the construction of public works, to wit, improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and (2) to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2014:

	<u>Balance</u> 10/01/13	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> 9/30/14
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,065,000	\$	\$ 125,000	\$ 940,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	3,535,000		260,000	3,275,000
	<u>\$ 4,600,000</u>	<u>\$ 0</u>	<u>\$ 385,000</u>	<u>\$ 4,215,000</u>

Debt service requirements for the Certificates of Obligation are as follows:

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2015	\$ 405,000	\$ 177,487	\$ 582,487
2016	430,000	161,288	591,288
2017	445,000	143,635	588,635
2018	465,000	125,073	590,073
2019	485,000	105,330	590,330
2020 - 2024	<u>1,985,000</u>	<u>244,524</u>	<u>2,229,524</u>
Total	<u>\$ 4,215,000</u>	<u>\$ 957,337</u>	<u>\$ 5,172,337</u>

Detailed debt service requirement data may be found in Table 3 and Table 4 in the Statistical Section of this report.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	<u>\$ 1,525,000</u>	<u>\$ _____</u>	<u>\$ 355,000</u>	<u>\$ 1,170,000</u>	<u>\$ 370,000</u>
Capital Leases Payable:					
Vehicles and Equipment	<u>1,176,999</u>	<u>_____</u>	<u>179,232</u>	<u>997,767</u>	<u>151,506</u>
Compensated Absences	<u>884,088</u>	<u>248,379</u>	<u>_____</u>	<u>1,132,467</u>	<u>_____</u>
Post Employment Benefits	<u>35,534</u>	<u>17,386</u>	<u>_____</u>	<u>52,920</u>	<u>_____</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 3,621,621</u>	<u>\$ 265,765</u>	<u>\$ 534,232</u>	<u>\$ 3,353,154</u>	<u>\$ 521,506</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	<u>\$ 4,600,000</u>	<u>\$ _____</u>	<u>\$ 385,000</u>	<u>\$ 4,215,000</u>	<u>\$ 405,000</u>
Compensated Absences	<u>48,694</u>	<u>8,875</u>	<u>_____</u>	<u>57,569</u>	<u>_____</u>
Post Employment Benefits	<u>10,153</u>	<u>_____</u>	<u>703</u>	<u>9,450</u>	<u>_____</u>
Total Business Type Activities Long-term Liabilities	<u>\$ 4,658,847</u>	<u>\$ 8,875</u>	<u>\$ 385,703</u>	<u>\$ 4,282,019</u>	<u>\$ 405,000</u>

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

7. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

B. Segment Information - Enterprise Funds

The City maintains one enterprise fund. The City accounts for the provision of basic utility service to all citizens through its Water and Sewer fund. Selected segment information for the year ended September 30, 2014 is as follows:

Operating Revenues	\$ 4,454,229
Depreciation Expense	703,111
Operating Income	562,294
Operating Transfers (Out)	(980,607)
Change in Net Position	(403,045)
Fixed Asset Additions	456,347
Net Working Capital (Deficiency)	2,255,497
Total Assets	17,722,454
Total Net Position	12,590,339
Certificates of Obligation Payable	4,215,000

C. Pension Benefits 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 state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The plan provisions are adopted by the governing body of the City, within the options available in the Texas state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7.0%	7.0%
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)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

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

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

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC Contributed	Cumulative Net Pension Obligation/ (Asset)
2012	1,297,549	1,104,643	85%	1,019,952
2013	1,314,398	1,178,258	89%	1,156,089
2014	1,365,587	1,267,594	93%	1,254,083

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	26.2 Closed Period	25.2 Closed Period	24.0 Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Method	10-year Smoothed Method	10-year Smoothed Method
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	2.1%	2.1%	2.1%

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

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)
12/31/2013	\$19,873,187	\$31,149,019	63.8%	\$11,275,832	\$6,116,818	184.3%

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 Required Supplementary Information 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.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

D. Life Insurance Benefits Plan

Plan Description

The City also participated in the cost sharing multiple-employer defined benefit group-term insurance plan operated by the Texas Municipal Retirement System (TMRS) know as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to the effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

Contributions

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the year ended 2013, 2012, and 2011 were \$1,859, \$1,823 and \$1,690, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
 (RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.03%	0.03%	100.0%
2011	0.03%	0.03%	100.0%
2012	0.03%	0.03%	100.0%

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

9. EXPENDITURES OF FEDERAL AND STATE AWARDS

A “Single Audit” of Federal Grant Awards under Circular A-133 was not required for the fiscal year ended September 30, 2014.

A “Single Audit” of State of Texas Grant Award Programs was not required by the State of Texas Single Audit Circular for the fiscal year ended September 30, 2014.

10. LITIGATION

The City of Athens is involved in one instance of pending litigation the outcome of which is unknown as of the audit report date. The primary reason for the large increase in legal expense was due to litigation of a lawsuit by the Athens Municipal Water Authority over a contractual dispute.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ATHENS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2014

	Airport Fund	Community Improvement Fund	Law Enforcement Grant	Airport Grant Fund	Special Donations Fund
ASSETS					
Cash and Cash Equivalents	\$ 202,231	\$ 341,950	\$	\$ 2,729	\$ 79,093
Receivables (net of allowance for uncollectibles)	166				
Intergovernmental Receivables			5,980	3,067	
Infrastructure - WIP					
Due from Other Funds	5,751				
Total Assets	\$ 208,148	\$ 341,950	\$ 5,980	\$ 5,796	\$ 79,093
LIABILITIES AND FUND BALANCES					
Due to Other Funds	\$ 682	\$ 7,732	\$ 5,980	\$ 5,796	\$ 899
Deposits	2,100				
Total Liabilities	\$ 2,782	\$ 7,732	\$ 5,980	\$ 5,796	\$ 899
FUND BALANCES					
Restricted Fund Balance:					
Capital Acquisition					
Other Restricted Fund Balance		334,218			78,194
Assigned Fund Balance:					
Other Assigned Fund Balance	205,366				
Total Fund Balances	205,366	334,218	0	0	78,194
Total Liabilities and Fund Balances	\$ 208,148	\$ 341,950	\$ 5,980	\$ 5,796	\$ 79,093

The accompanying notes are an integral part of this statement.

EXHIBIT A

Homeland Security Fund	Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$	\$ 209	\$ 9,038	\$ 28,755	\$ 664,005
4,832				166
				13,879
				5,751
<u>4,832</u>	<u>\$ 209</u>	<u>\$ 9,038</u>	<u>\$ 28,755</u>	<u>\$ 683,801</u>
4,832		\$ 335		\$ 26,256
				2,100
<u>4,832</u>	<u>\$ 0</u>	<u>\$ 335</u>	<u>\$ 0</u>	<u>\$ 28,356</u>
	209	8,703	28,755	450,079
				205,366
<u>0</u>	<u>209</u>	<u>8,703</u>	<u>28,755</u>	<u>655,445</u>
<u>4,832</u>	<u>\$ 209</u>	<u>\$ 9,038</u>	<u>\$ 28,755</u>	<u>\$ 683,801</u>

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

	Airport Fund	Community Improvement Fund	Law Enforcement Grant	Airport Grant Funds	Special Donations Fund
REVENUES:					
Taxes:					
General Sales and Use Taxes	\$	\$ 234,233	\$	\$	\$
Intergovernmental Revenue and Grants			5,980	6,027	
Charges for Services	2,456				
Fines					
Investment Earnings	561	1,042			240
Rents and Royalties	48,206				
Miscellaneous Revenue					2,560
Contributions & Donation from Private Sources					9,804
Total Revenues	51,223	235,275	5,980	6,027	12,604
EXPENDITURES:					
Current:					
General Government					
Public Safety - Police			11,960		2,434
Public Safety - Fire					10,685
Public Works:					
Highways and Streets	8,744			12,054	
Conservation and Development					
Culture and Recreation		209,004			
Debt Service:					
Principal					
Interest					
Capital Outlay:					
Capital Outlay					
Total Expenditures	8,744	209,004	11,960	12,054	13,119
Excess (Deficiency) of Revenues Over (Under) Expenditures	42,479	26,271	(5,980)	(6,027)	(515)
OTHER FINANCING SOURCES (USES):					
Transfers In			5,980	6,027	
Transfers Out (Use)	(6,027)				
Total Other Financing Sources(Uses)	(6,027)	0	5,980	6,027	0
Net Change in Fund Balance	36,452	26,271	0	0	(515)
Fund Balance - October 1 (Beginning)	168,914	307,947			78,709
Fund Balance - September 30 (Ending)	\$ 205,366	\$ 334,218	\$ 0	\$ 0	\$ 78,194

The accompanying notes are an integral part of this statement.

Homeland Security Fund	Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
	\$	\$	\$	\$
4,832				234,233
				16,839
		5,016		2,456
		21	92	5,016
				1,956
				48,206
				2,560
				9,804
4,832	0	5,037	92	321,070
4,832		7,735		7,735
				19,226
				10,685
				20,798
				209,004
4,832	0	7,735	0	267,448
0	0	(2,698)	92	53,622
				12,007
				(6,027)
0	0	0	0	5,980
0	0	(2,698)	92	59,602
	209	11,401	28,663	595,843
0 \$	209 \$	8,703	\$ 28,755	\$ 655,445

CITY OF ATHENS, TEXAS
 COMBINING BALANCE SHEET
 PROPRIETARY FUNDS
 SEPTEMBER 30,2014

	Water/Sewer Bond Projects Fund	Utilities Fund	TDCP- First Time Sewer Fund	Total Proprietary Funds
ASSETS				
Cash and Cash Equivalents	\$	\$ 1,504,284	\$	\$ 1,504,284
Investments - Current		8,817		8,817
Accounts Receivable Net of Uncoll. Allow.		582,808		582,808
Intergovernmental Receivables	63,395	269,573	32,717	365,685
Due from Other Governments		31,508	65,896	97,404
Inventories		303,411		303,411
Prepaid Items		100		100
Restricted Assets:				
Cash and Cash Equivalents	1,013,769			1,013,769
Total Current Assets	<u>1,077,164</u>	<u>2,700,501</u>	<u>98,613</u>	<u>3,876,278</u>
Non-Current Assets:				
Capital Assets:				
Work in Progress	24,213		466,939	491,152
Land Purchase and Improvements		152,200		152,200
Buildings		799,441		799,441
Improvement other than Buildings		24,005,463		24,005,463
Machinery and Equipment		1,325,435		1,325,435
Amortizable Assets		243,082		243,082
Accumulated Depreciation		(12,593,122)		(12,593,122)
Accumulated Amortization		(211,790)		(211,790)
Total Non-Current Assets	<u>24,213</u>	<u>13,720,709</u>	<u>466,939</u>	<u>14,211,861</u>
Total Assets	<u>\$ 1,101,377</u>	<u>\$ 16,421,210</u>	<u>\$ 565,552</u>	<u>\$ 18,088,139</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 3,842	\$ 19,345	\$ 20,562	\$ 43,749
Accrued Interest Payable		33,380		33,380
Internal Balances	302,290	556,154	98,612	957,056
Certificates of Obligation Payable		405,000		405,000
Unearned Revenue		5,576		5,576
Deposits		176,020		176,020
Total Current Liabilities	<u>306,132</u>	<u>1,195,475</u>	<u>119,174</u>	<u>1,620,781</u>
Non-Current Liabilities				
Compensate Absences Payable		67,019		67,019
Certificates of Obligation Payable		3,810,000		3,810,000
Total Non-Current Liabilities	<u>0</u>	<u>3,877,019</u>	<u>0</u>	<u>3,877,019</u>
Total Liabilities	<u>\$ 306,132</u>	<u>\$ 5,072,494</u>	<u>\$ 119,174</u>	<u>\$ 5,497,800</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 24,213	\$ 9,505,709	\$ 446,378	\$ 9,976,300
Restricted for:				
Capital Projects	771,032			771,032
Other Special Purposes				0
Unrestricted		1,843,007		1,843,007
Total Net Position	<u>\$ 795,245</u>	<u>\$ 11,348,716</u>	<u>\$ 446,378</u>	<u>\$ 12,590,339</u>

CITY OF ATHENS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30,2014

	Water/Sewer Bond Projects Fund	Utilities Fund	TDCP- First Time Sewer Fund	Total Proprietary Funds
Operating Revenues:				
Charges for Water Services	\$	\$ 2,213,294	\$	\$ 2,213,294
Charges for Waste Water Services		1,954,095		1,954,095
Fees		113,539		113,539
Other Revenue		173,301		173,301
Total Operating Revenue	<u>0</u>	<u>4,454,229</u>	<u>0</u>	<u>4,454,229</u>
Operating Expenses:				
Personal Services		1,729,538		1,729,538
Supplies		492,218		492,218
Contractual Services		926,828		926,828
Depreciation		703,111		703,111
Bad Debt Expense		40,240		40,240
Total Operating Expenses	<u>0</u>	<u>3,891,935</u>	<u>0</u>	<u>3,891,935</u>
Operating Income	<u>\$ 0</u>	<u>\$ 562,294</u>	<u>\$ 0</u>	<u>\$ 562,294</u>
LIABILITIES				
Non-Operating Revenues (Expenses):				
Investment Earnings	\$ 3,639	\$ 5,932	\$	\$ 9,571
Interest Expenses-Non-operating		(192,414)		(192,414)
Fiscal Agent Fees		(1,126)		(1,126)
Premium on Bonds Sold		558		558
Grants			198,679	198,679
Total Non-operating Revenues (Expenses)	<u>3,639</u>	<u>(187,050)</u>	<u>198,679</u>	<u>15,268</u>
Income Before Transfers	3,639	375,244	198,679	577,562
Transfers In(Out)	<u>(212,895)</u>	<u>(980,607)</u>	<u>212,895</u>	<u>(980,607)</u>
Change in Net Position	<u>\$ (209,256)</u>	<u>\$ (605,363)</u>	<u>\$ 411,574</u>	<u>\$ (403,045)</u>
Total Net Position - October 1, (Beginning)	<u>\$ 1,004,501</u>	<u>\$ 11,954,079</u>	<u>\$ 34,804</u>	<u>\$ 12,993,384</u>
Total Net Position	<u>\$ 795,245</u>	<u>\$ 11,348,716</u>	<u>\$ 446,378</u>	<u>\$ 12,590,339</u>

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

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 3,650,123	\$ 3,650,123	\$ 3,587,473	\$ (62,650)
General Sales and Use	3,724,779	3,724,779	3,852,642	127,863
Franchise	876,638	876,638	939,027	62,389
Penalty and Interest	45,000	45,000	58,284	13,284
Licenses and Permits	35,865	35,865	27,509	(8,356)
Intergovernmental Revenues and Grants	40,522	40,522	47,550	7,028
Charges for Services	36,500	36,500	36,167	(333)
Fines	191,450	191,450	540,636	349,186
Investment Income	12,000	12,000	14,287	2,287
Rents and Royalties	1,200	1,200	708	(492)
Contributions & Donations from Private Sources	9,000	9,000	11,365	2,365
Other Revenue	20,525	20,525	125,929	105,404
Total Revenues	8,643,602	8,643,602	9,241,577	597,975
EXPENDITURES:				
Current:				
General Government	1,416,290	1,416,290	1,772,946	(356,656)
Public Safety:				
Police	3,055,152	3,055,152	2,759,964	295,188
Fire	2,500,083	2,500,083	2,397,799	102,284
Other	422,197	422,197	401,589	20,608
Public Works:				
Highways and Streets	865,746	865,746	975,305	(109,559)
Health	401,898	401,898	363,737	38,161
Culture and Recreation	548,399	548,399	505,243	43,156
Capital Outlay:				
Capital Outlay	354,000	354,000	199,508	154,492
Total Expenditures	9,563,765	9,563,765	9,376,091	187,674
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(920,163)	(920,163)	(134,514)	785,649
OTHER FINANCING SOURCES (USES):				
Non-current Loans				0
Transfers In	650,000	1,000,000	980,607	(19,393)
Transfers Out (Use)	(5,950)	(5,950)	(5,980)	(30)
Total Other Financing Sources (Uses)	644,050	994,050	974,627	(19,423)
Net Change in Fund Balances	(276,113)	73,887	840,113	766,226
Fund Balance - October 1 (Beginning)	3,955,716	3,955,716	3,955,716	0
Fund Balance - September 30 (Ending)	\$ 3,679,603	\$ 4,029,603	\$ 4,795,829	\$ 766,226

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 610,199	\$ 610,199	\$ 598,086	\$ (12,113)
Penalty and Interest	8,000	8,000	10,344	2,344
Investment Income	702	702	878	176
Total Revenues	618,901	618,901	609,308	(9,593)
EXPENDITURES:				
General Government:				
Debt Service:				
Principal	534,232	534,232	534,537	(305)
Interest	96,469	96,469	96,165	304
Fiscal Agent Fees	700	700	321	379
Total Expenditures	631,401	631,401	631,023	378
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,500)	(12,500)	(21,715)	(9,215)
OTHER FINANCING SOURCES (USES)				
Transfers In				
Net Change in fund Balances	(12,500)	(12,500)	(21,715)	(9,215)
Fund Balance - October 01 (Beginning)	90,090	90,090	90,090	0
Fund Balance - September 30 (Ending)	\$ 77,590	\$ 77,590	\$ 68,375	\$ (9,215)

See accompanying notes to the basic financial statements.

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	\$16,085,459	\$25,395,397	63.3	\$9,309,938	\$5,707,979	163.1
12/31/2012	\$17,902,602	\$27,260,649	65.7	\$9,358,047	\$5,899,862	158.6
12/31/2013	\$19,873,187	\$31,149,019	63.8	\$11,275,832	\$6,116,818	184.3

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
Chris M. Johnson, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**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***

Independent Auditor's Report

City Council
City of Athens, Texas
508 East Tyler Street
Athens, Texas 75751

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the 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 June 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 opinion 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

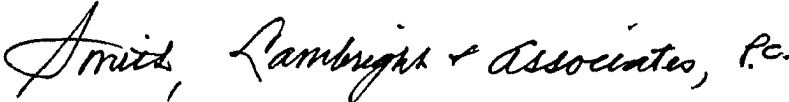
Compliance and Other Matters

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

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.

Respectfully submitted,



SMITH, LAMBRIGHT AND ASSOCIATES, P. C.
Certified Public Accountants

June 1, 2015

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2014
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2014</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
2004	1,658,588	1,654,495	100
2005	1,747,353	1,743,392	100
2006	2,278,403	2,272,124	100
2007	2,469,898	2,402,753	100
2008	2,622,686	2,615,729	100
2009	2,946,236	2,932,080	100
2010	3,263,140	3,253,350	100
2011	3,483,041	3,454,459	99
2012	3,804,103	3,738,443	99
2013	4,042,455	3,948,118	99
2014	4,195,356	4,112,908	98
	<u>\$ 32,511,259</u>	<u>\$ 32,127,851</u>	

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

TABLE 2

CITY OF ATHENS, TEXAS
 SCHEDULE OF GENERAL OBLIGATION BONDS
 AND INTEREST REQUIREMENTS
 BONDS OUTSTANDING AT SEPTEMBER 30, 2014

Series 1998 General Obligation Improvement and Refunding Bonds				
Original Bond Issue \$5,060,000				
<u>Requirements for Fiscal Year Ended</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-15	4.50%	370,000	52,650	422,650
9-30-16	4.50%	390,000	36,000	426,000
9-30-17	4.50%	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
TOTAL		<u>\$ 1,170,000</u>	<u>\$ 107,100</u>	<u>\$ 1,277,100</u>

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

TABLE 3

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2014

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			Total Requirements
	Annual Rate	Principal	Interest	
9-30-15	5.00%	135,000	47,000	182,000
9-30-16	5.00%	145,000	40,250	185,250
9-30-17	5.00%	150,000	33,000	183,000
9-30-18	5.00%	160,000	25,500	185,500
9-30-19	5.00%	170,000	17,500	187,500
9-30-20	5.00%	180,000	9,000	189,000
TOTAL		<u>\$ 940,000</u>	<u>\$ 172,250</u>	<u>\$ 1,112,250</u>

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

TABLE 4

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2014

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004			
	Annual Rate	Principal	Interest	Total Requirements
9-30-15	3.50%	270,000	130,487	400,487
9-30-16	3.65%	285,000	121,038	406,038
9-30-17	3.75%	295,000	110,635	405,635
9-30-18	3.85%	305,000	99,573	404,573
9-30-19	3.95%	315,000	87,830	402,830
9-30-20	4.00%	330,000	75,387	405,387
9-30-21	4.10%	345,000	62,188	407,188
9-30-22	4.20%	360,000	48,042	408,042
9-30-23	4.25%	375,000	32,922	407,922
9-30-24	4.30%	<u>395,000</u>	<u>16,985</u>	<u>411,985</u>
TOTAL		<u>\$ 3,275,000</u>	<u>\$ 785,087</u>	<u>\$ 4,060,087</u>

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

TABLE 5

CITY OF ATHENS, TEXAS
 MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION
 SEPTEMBER 30, 2014
 UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Jerry Don Vaught, Mayor Tres Winn, Monte Montgomery, Charles Elliott, Joe Whatley	
Other Officials	City Administrator - Pam Burton. Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA Assistant City Administrator & City Secretary - Pam Watson Director of Public Works/Utilities - Glen Herriage Chief of Police - Michael Hill Fire Chief - John McQueary Director of Planning and Development - Gary Crecelius Director of Human Resources - Haven Cox City Judge - Steven R. Green City Attorney - Conner Bateman	
City Area	19.6 Square Miles	
Miles of Streets	Paved	100
	Graded	2
Fire Protection	Number of Stations	2
	Number of Employees	27
Police Protection	Number of Stations	1
	Number of Policemen	34
Education	Community College	1
	High School	1
	Middle School	2
	Elementary School	4
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	1920	3 176
	1930	4 342
	1940	4 765
	1950	5 194
	1960	7 086
	1970	9 553
	1980	10 197
	1990	10 818
	2000	11 297
	2010	12 710

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF ATHENS, TEXAS
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 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

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SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
Chris M. Johnson, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**Unmodified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and Other Information**

Independent Auditor's Report

City Council
City of Athens, Texas
508 East Tyler Street
Athens, Texas 75751

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Athens, Texas (the "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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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* 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

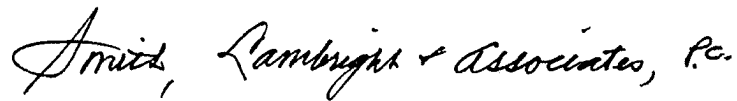
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards 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 June 1, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Smith, Lambright & Associates, P.C.".

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

June 1, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ATHENS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Athens, we offer readers of the City of Athens financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 13. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the City of Athens exceeded its liabilities at September 30, 2014 by \$22,491,845. Of this amount, unrestricted net position of \$5,650,086 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net position increased by \$178,379. Of this amount \$581,424 was associated with governmental and (\$403,045) with business type activities.
- As of the close of the current fiscal year, the City of Athens governmental funds reported combined ending fund balances of \$5,640,531. This was a increase of \$878,386 in comparison with the prior year.
- Sales taxes increased with a 2.63% increase above prior years' actual. Actual receipts were above budget projections by approximately 3.36%.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$3,790,183. The City Council has currently restricted \$800,000 or 8.5% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2013 tax rolls increased by \$10,060,859 (1.56%) compared to the prior tax year (2012).
- Property tax rate was increased to .645140/\$100 from .630387/\$100.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Athens basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Athens finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 government's net position changed during the most recent fiscal year. All changes in net position 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 fiscal periods.

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (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 of Athens include general government, public safety, parks and recreation, culture, community services, community development and other charges. The business type activities include Water and Sewer Operations.

The government-wide financial statements can be found on pages 13 through 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Athens can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government -wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains 12 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Charges in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other nine funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Athens adopts an annual budget for its General Fund, Debt Service, Capital Projects and certain Special Revenue Funds. Budgetary comparison statements have been provided for the General Fund, Debt Service Fund and Capital Projects Fund to demonstrate compliance with this budget and are presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary Funds

The City of Athens maintains one proprietary fund in the form of an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net position and the proprietary statement of revenues, expenses and changes in fund net position for the Utility fund which accounts for the City's water and sewer operations.

The basic proprietary fund financial statements can be found on pages 19 through 21 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 22 through 42 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information concerning budgetary comparisons, combining balance sheets for the other governmental funds, debt service schedules and miscellaneous statistical information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2014, the City's assets exceeded its liabilities by \$22,491,845. The largest portion of the City's net position (68%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,044,606	\$ 5,514,526	\$ 2,919,222	\$ 3,424,826	\$ 9,963,828	\$ 8,939,352
Capital assets	7,622,858	8,193,845	14,211,861	14,458,624	21,834,719	22,652,469
Total Assets	14,667,464	13,708,371	17,131,083	17,883,450	31,798,547	31,591,821
Long-term liabilities outstanding	3,353,154	3,621,621	4,282,019	4,658,846	7,635,173	8,280,467
Other liabilities	1,412,804	766,668	258,725	231,218	1,671,529	997,886
Total Liabilities	4,765,958	4,388,289	4,540,744	4,890,064	9,306,702	9,278,353
Net Position:						
Invested in capital assets, net of related debt	5,455,091	5,491,846	9,976,300	9,858,624	15,431,391	15,350,470
Restricted	639,336	755,008	771,032	1,283,263	1,410,368	2,038,271
Unrestricted	3,807,079	3,073,228	1,843,007	1,851,499	5,650,086	4,924,727
Total Net Position	\$ 9,901,506	\$ 9,320,082	\$12,590,339	\$12,993,386	\$22,491,845	\$22,313,468

An additional portion of net position (6.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$5,650,086) may be used to meet the government's ongoing obligations to citizens and creditors. The following chart shows the revenue and expenses of the total primary government.

City of Athens Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues:						
Charges for services	\$ 690,697	\$ 253,053	\$ 4,454,229	\$ 4,597,612	\$ 5,144,926	\$ 4,850,665
Operating grants and contributions	55,558	95,997	198,679	33,915	254,237	129,912
Capital grants and contributions					0	0
Total Program Revenues	<u>746,255</u>	<u>349,050</u>	<u>4,652,908</u>	<u>4,631,527</u>	<u>5,399,163</u>	<u>4,980,577</u>
General revenues:						
Taxes:						
Sales and use taxes	4,086,875	3,982,948			4,086,875	3,982,948
Property taxes	4,254,186	4,098,873			4,254,186	4,098,873
Franchise taxes	939,027	821,052			939,027	821,052
Unrestricted investment income	17,507	16,992	9,571	9,189	27,078	26,181
Donated Capital Assets					0	0
Miscellaneous	131,094	45,104			131,094	45,104
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(32,631)	(5,500)			(32,631)	(5,500)
Total General Revenue	<u>9,396,058</u>	<u>8,959,469</u>	<u>10,129</u>	<u>9,747</u>	<u>9,406,187</u>	<u>8,969,216</u>
Total Revenue	<u>10,142,313</u>	<u>9,308,519</u>	<u>4,663,037</u>	<u>4,641,274</u>	<u>14,805,350</u>	<u>13,949,793</u>
EXPENSES						
General	\$ 2,009,173	\$ 1,326,970			\$ 2,009,173	\$ 1,326,970
Public Safety:						
Police	2,873,467	2,821,021			2,873,467	2,821,021
Fire	2,591,153	2,468,443			2,591,153	2,468,443
Other	410,759	385,959			410,759	385,959
Public Services					0	0
Highways, Streets and Airport	1,440,260	1,469,664			1,440,260	1,469,664
Health	378,463	346,067			378,463	346,067
Culture and Recreation	744,707	725,988			744,707	725,988
Conservation and Development					0	0
Interest on long-term debt	93,514	113,632			93,514	113,632
Water Utilities			4,085,475	3,990,098	4,085,475	3,990,098
Total Expense	<u>10,541,496</u>	<u>9,657,744</u>	<u>4,085,475</u>	<u>3,990,098</u>	<u>14,626,971</u>	<u>13,647,842</u>
Increase in net position before transfers	(399,183)	(349,225)	577,562	651,176	178,379	301,951
Transfers	980,607	650,000	(980,607)	(650,000)	0	0
Change in net position	581,424	300,775	(403,045)	1,176	178,379	301,951
Net position October 1	<u>9,320,082</u>	<u>9,019,307</u>	<u>12,993,384</u>	<u>12,992,210</u>	<u>22,313,466</u>	<u>22,011,517</u>
Net position September 30	<u>\$ 9,901,506</u>	<u>\$ 9,320,082</u>	<u>\$ 12,590,339</u>	<u>\$ 12,993,386</u>	<u>\$ 22,491,845</u>	<u>\$ 22,313,468</u>

Governmental Activities. Governmental activities increased the City's net position by \$581,424 accounting for (100) percent of the total increase in net position. Increases in current assets and lower debt offset the decrease in capital assets. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

Business-type activities. Business type activities decreased the City's net position by (\$403,045) accounting for (0) percent of the net increase in the government's net position. The decrease was mostly due to transfers from cash reserves to the General Fund to cover legal expenses related to litigation with the Athens Municipal Water Authority. Other factors included current year revenue shortfall and depreciation in excess of capital investment.

Financial Analysis of the Governments' Funds

Governmental Funds

The focus of the City of Athens governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$5,640,531. Approximately 70.8% of this amount (\$3,995,549) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2014, unassigned fund balance of the General Fund was \$3,790,183, while total fund balance reached \$4,795,829.

The General Fund's fund balance increased during the current fiscal year \$840,113. Key factors in this increase are as follows:

- Net of allocation of prior year reserves, offset by excess revenues and under budget expenditures.
- Sales tax and Franchise fee revenue above budget.

Financial Highlights of the City's other major governmental funds are as follows:

The Debt Service Fund's fund balance decreased by (\$21,715) due to planned spending down of excess cash left from prior fiscal year as planned in the budget process.

The Capital Projects Fund's fund balance increased by \$386. The increase was due no spending of donations from prior years with only interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total net position of the Water and Sewer Fund at the end of the year amounted to \$12,590,339. This was an decrease of \$403,045. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was increased by \$363,292 (net) from the original budget to the final budget (an increase of 3.76%). These increases in revenue and (expenses) can be summarized as follows:

- 350,000 for Reimbursement of Legal fees For AMWA Dispute
- (4,577) for Fencing For Property Next To City Hall
- (350,000) for Legal Expenses For AMWA Litigation
- (26,109) for Remodel At City Hall
- (55,293) For City Secretary Separation Payment

\$277,313 was allocated from prior years reserves as a part of the original budget as approved by the City Council. As noted earlier fund balance increased by \$840,113 due to excess revenues and under budget expenditures.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2014 amounts to \$21,834,716 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, easements, equipment, computer hardware, vehicles, capitalized software, as well as infrastructure assets such as roads, sidewalks, water and sewer lines, water and wastewater treatment facilities. The total decrease in the City's investment in capital assets for the current fiscal year was \$817,752 (3.6%) net of accumulated depreciation.

Major capital assets events during the current fiscal year included the following:

- \$121,768 - Asphalt Cold Planer For Streets Department
- \$35,000 - 2007 Leeboy Asphalt Paver For Streets Department
- \$19,774 - Zetron Dispatch Console For Police Department
- \$20,013 - Zetron Dispatch Console For Police Department
- \$456,347 - Work in Progress on First Time Sewer Grant Project

Additional information on the City's capital assets can be found in note 3 on pages 31 and 32 of this report.

Long-term Debt

At the end of the current fiscal year, the City had \$7,635,173 in outstanding debt consisting of general obligation bonds, certificates of obligation, capital leases, compensated absences payable and post employment benefits. Additional information on the City's long term debt can be found in note 6 on pages 33 through 36.

Outstanding Debt at September 30, 2014

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 1,170,000		\$ 1,170,000
Certificates of Obligation		\$ 4,215,000	4,215,000
Notes Payable			0
Capital Leases Payable	997,767		997,767
Compensated Absences Payable	1,132,467	57,569	1,190,036
Post Employment Benefits	52,920	9,450	62,370
Total	<u>\$ 3,353,154</u>	<u>\$ 4,282,019</u>	<u>\$ 7,635,173</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values increase with the taxable valuations in 2014 increasing by (\$18,765,645). The property tax rate for 2014 was set at .645140 per \$100 valuation. (Same as prior year)
- Sales tax revenue increased above the previous year. Sales tax revenue were above the prior year by \$98,043 and above budget by \$124,367 in 2014. The 2015 budget anticipates a slight increase in sales tax revenue over the prior year. (\$3,812,647)
- All scheduled 2004 Bond Projects have been completed that were anticipated when bonds were sold. The City is now planning future projects to expend the remaining bond proceeds as well as interest earnings above any arbitrage payments. The current project includes using bond proceeds to match a first time sewer grant to obtain up to \$275,000 in grant revenue. This project is scheduled be completed in Fiscal Year 2015. It is anticipated that approximately \$1,000,000 in interest will still be available for future water and wastewater projects.
- The water and wastewater rate study delayed in the prior year is anticipated to begin early in the upcoming fiscal year to address the operating and capital needs in the Utility Fund and aline the rates with the actual cost of service.

Requests for Information

This financial report is designed to provide a general overview of the City of Athens finances for all of Athens residents, taxpayers, customers, investors and creditors. This report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, 508 E. Tyler Athens, Texas 75751.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 4,171,710	\$ 1,504,284	\$ 5,675,994	\$ 1,111,910
Investments	14,857	8,817	23,674	862,800
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	200,011		200,011	1,829,563
Accounts	1,222,758	582,808	1,805,566	
Due from other governments	17,376	97,404	114,780	
Internal balances	591,371	(591,371)	0	
Deferred Inflows				644,311
Inventories	2,646	303,411	306,057	
Prepaid items	3,000	100	3,100	
Restricted assets:				
Cash	820,877	1,013,769	1,834,646	
Capital assets:				
Work in progress		491,152	491,152	
Land	2,445,876	152,200	2,598,076	1,156,753
Buildings	8,210,918	799,441	9,010,359	1,881,605
Improvements other than buildings	6,863,667	24,005,463	30,869,130	207,052
Machinery and equipment	6,861,478	1,325,435	8,186,913	49,613
Amortizable assets	93,403	243,082	336,485	
Accumulated depreciation	(16,759,081)	(12,593,122)	(29,352,203)	(624,779)
Accumulated amortization	(93,403)	(211,790)	(305,193)	
Total Assets	14,667,464	17,131,083	31,798,547	7,118,828
Liabilities				
Accounts payable	1,243,502	43,749	1,287,251	7,606
Wages and salaries payable	158,415		158,415	
Accrued interest	8,727	33,380	42,107	
Payable to other governments	0		0	
Deferred Outflows				564,311
Deposits	2,160	176,020	178,180	
Unearned revenue	0	5,576	5,576	96,871
Noncurrent liabilities:				
Due within one year	521,506	405,000	926,506	118,662
Due in more than one year	2,831,648	3,877,019	6,708,667	914,985
Total Liabilities	4,765,958	4,540,744	9,306,702	1,702,435
Net Position				
Invested in capital assets, net of related debt	5,455,091	9,976,300	15,431,391	
Restricted for:				
Debt service	68,375		68,375	
Capital projects	120,882	771,032	891,914	
Other special purposes	450,079		450,079	
Unrestricted	3,807,079	1,843,007	5,650,086	5,416,393
Total Net Position	\$ 9,901,506	\$ 12,590,339	\$ 22,491,845	\$ 5,416,393

See accompanying notes to the financial statements.

Program Activities	Expenses	Program Revenues	
		Fees, Fines & Charges for Services	Operating Grants and Contributions
Government Activities			
General Government	\$ 2,009,173	\$ 59,540	\$ 11,365
Police	2,873,467	545,148	5,980
Fire Protection	2,591,153		27,354
Other Public Safety	410,759		4,832
Highways Streets and Airport	1,440,260	86,009	6,027
Health	378,463		
Culture and Recreation	744,707		
Interest on Long-term Debt	93,514		
Total Government Activities	<u>10,541,496</u>	<u>690,697</u>	<u>55,558</u>
Business-type Activities			
Utility Fund	<u>4,085,475</u>	<u>4,454,229</u>	<u>198,679</u>
Total Primary Government	<u>\$ 14,626,971</u>	<u>\$ 5,144,926</u>	<u>\$ 254,237</u>
Component Unit:			
Athens Economic Development Corporation	<u>\$ 1,150,146</u>	<u>\$ 49,571</u>	<u>\$ _____</u>

General Revenue

Taxes:

Property

Sales

Franchise

Investment Earnings

Miscellaneous

Premium on Bonds Sold

Gain (Loss) on Sale of Capital Assets

Transfers

Other

Total General Revenues, Transfers and Other

Changes in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net (Expenses) Revenue and Changes in Net Position			Component Unit
Government Activities	Business-type Activities	Total	AEDC
\$ (1,938,268)	\$	\$ (1,938,268)	\$
(2,322,339)		(2,322,339)	
(2,563,799)		(2,563,799)	
(405,927)		(405,927)	
(1,348,224)		(1,348,224)	
(378,463)		(378,463)	
(744,707)		(744,707)	
(93,514)		(93,514)	
(9,795,241)	0	(9,795,241)	0
	567,433	567,433	
\$ (9,795,241)	\$ 567,433	\$ (9,227,808)	\$ 0
\$	\$	\$	\$ (1,100,575)
\$ 4,254,186	\$	\$ 4,254,186	\$ 1,274,820
4,086,875		4,086,875	
939,027		939,027	
17,507	9,571	27,078	17,185
131,094	558	131,652	
		0	
(32,631)		(32,631)	
980,607	(980,607)	0	
10,376,665	(970,478)	9,406,187	1,292,005
581,424	(403,045)	178,379	191,430
9,320,082	12,993,384	22,313,466	5,224,963
\$ 9,901,506	\$ 12,590,339	\$ 22,491,845	\$ 5,416,393

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 4,171,710	\$ 35,990	\$ 120,882	\$ 664,005	\$ 4,992,587
Investments - Current	14,857				14,857
Taxes Receivable (net of allow. for uncoll.)	167,626	32,385			200,011
Receivables (net of allowable for uncoll.)	1,222,593			166	1,222,759
Due from Other Governments	3,497			13,879	17,376
Intergovernmental Receivable	591,371				591,371
Due from Other Funds	20,505			5,751	26,256
Inventories	2,646				2,646
Prepaid Items	3,000				3,000
Total Assets	<u>\$ 6,197,805</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 683,801</u>	<u>\$ 7,070,863</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 1,243,501	\$	\$	\$	\$ 1,243,501
Wages and Salaries Payable	158,415				158,415
Due to Other Funds				26,256	26,256
Deposits Payable	60			2,100	2,160
Total Liabilities	<u>\$ 1,401,976</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,356</u>	<u>\$ 1,430,332</u>
Fund Balances:					
Non-spendable Fund Balance:					
Inventories and Prepaid Items	5,646				5,646
Restricted Fund Balance:					
Capital Acquisition			120,882		120,882
Retirement of Long-term Debt		68,375			68,375
Other Restricted Funds				450,079	450,079
Committed Fund Balance:					
Emergency Reserve	800,000				800,000
Capital Acquisition	200,000				200,000
Assigned Fund Balance:					
Other Assigned Fund Balance					0
Unassigned Fund Balance	<u>3,790,183</u>			<u>205,366</u>	<u>3,995,549</u>
Total Fund Balances	<u>4,795,829</u>	<u>68,375</u>	<u>120,882</u>	<u>655,445</u>	<u>5,640,531</u>
Total Liabilities and Fund Balances	<u>\$ 6,197,805</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 683,801</u>	<u>\$ 7,070,863</u>

See accompanying notes to basic financial statements.

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

Total Fund Balance - Total Governmental Funds	\$	5,640,531
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		7,622,856
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in Governmental Funds Balance Sheet.		(8,727)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet.		
Due within one year		(521,506)
Due in more than one year		<u>(2,831,648)</u>
Net Position of governmental activities	\$	<u>9,901,506</u>

See accompanying notes to basic financial statements.

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

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 3,587,473	\$ 598,086	\$	\$	\$ 4,185,559
General Sales and Use	3,852,642			234,233	4,086,875
Franchise	939,027				939,027
Penalty and Interest	58,284	10,344			68,628
Licenses and Permits	27,509				27,509
Intergovernmental Revenues and Grants	47,550			16,839	64,389
Charges for Services	36,167			2,456	38,623
Fines	540,636			5,016	545,652
Investment Income	14,287	878	386	1,956	17,507
Rents and Royalties	708			48,206	48,914
Contributions & Donations from Private Sources	11,365			9,804	21,169
Other Revenue	125,929			2,560	128,489
Total Revenues	9,241,577	609,308	386	321,070	10,172,341
EXPENDITURES:					
Current:					
General Government	1,772,946			7,735	1,780,681
Public Safety:					
Police	2,759,964			19,226	2,779,190
Fire	2,397,799			10,685	2,408,484
Other	401,589				401,589
Public Works:					
Highways, Streets and Airport	975,305			20,798	996,103
Health	363,737				363,737
Conservation and Development					0
Culture and Recreation	505,243			209,004	714,247
Debt Service:					
Principal		534,537			534,537
Interest		96,165			96,165
Fiscal Agent Fees		321			321
Capital Outlay:					
Capital Outlay	199,508				199,508
Total Expenditures	9,376,091	631,023	0	267,448	10,274,562
Excess (Deficiency) of Revenues Over (Under) Expenditures	(134,514)	(21,715)	386	53,622	(102,221)
OTHER FINANCING SOURCES (USES):					
Non-Current Loans					0
Transfers In	980,607			12,007	992,614
Transfers Out (Use)	(5,980)			(6,027)	(12,007)
Total Other Financing Sources (Uses)	974,627	0	0	5,980	980,607
Net Change in Fund Balances	840,113	(21,715)	386	59,602	878,386
Fund Balance - October 1 (Beginning)	3,955,716	90,090	120,496	595,843	4,762,145
Fund Balance - September 30 (Ending)	<u>\$ 4,795,829</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 655,445</u>	<u>\$ 5,640,531</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$	878,386
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		
		199,508
Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.		
		(735,149)
The issuance of long-term debt (e.g. bonds) 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 issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are unearned 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.		
		268,659
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.		
Loss of Sale of Capital Assets		(32,631)
Accrued Interest		2,651
		2,651
Change in Net Position of Governmental Activities	\$	581,424

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2014

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,504,284
Investments - Current	8,817
Accounts Receivable - Net of Uncollectible Allowance	582,808
Intergovernmental Receivables	97,404
Inventories	303,411
Prepaid Items	100
Restricted Assets:	
Cash and Cash Equivalents	<u>1,013,769</u>
Total Current Assets	<u>3,510,593</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	491,152
Land Purchase and Improvements	152,200
Buildings	799,441
Improvement Other Than Buildings	24,005,463
Machinery and Equipment	1,325,435
Amortizable Assets	243,082
Accumulated Depreciation	(12,593,122)
Accumulated Amortization	<u>(211,790)</u>
Total Non-Current Assets	<u>14,211,861</u>
Total Assets	<u>17,722,454</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	43,749
Accrued Interest Payable	33,380
Internal Balances	591,371
Certificates of Obligation Payable	405,000
Unearned Revenue	5,576
Deposits	<u>176,020</u>
Total Current Liabilities	<u>1,255,096</u>
Non-Current Liabilities	
Compensated Absences Payable	67,019
Certificates of Obligation Payable	<u>3,810,000</u>
Total Non-Current Liabilities	<u>3,877,019</u>
Total Liabilities	<u>5,132,115</u>
NET POSITION	
Investments in Capital Assets, Net of Debt	9,976,300
Restricted for Construction	771,032
Unrestricted Net Position	<u>1,843,007</u>
Total Net Position	<u>\$ 12,590,339</u>

See accompanying notes to basic financial statements.

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

OPERATING REVENUES	
Charges for Water Services	\$ 2,213,294
Charges for Waste Water Services	1,954,095
Fees	113,539
Other Revenue	<u>173,301</u>
 Total Operating Revenues	 <u>4,454,229</u>
OPERATING EXPENSES:	
Personnel Services	1,729,538
Supplies	492,218
Contractual Services	926,828
Depreciation	703,111
Bad Debt Expense	<u>40,240</u>
 Total Operating Expenses	 <u>3,891,935</u>
 Operating Income	 <u>562,294</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	9,571
Interest Expense - Non-Operating	(192,414)
Fiscal Agent Fees	(1,126)
Premium on Bonds Sold	558
Grants	<u>198,679</u>
 Total Non-Operating Revenue (Expenses)	 <u>15,268</u>
 Income Before Transfers	 577,562
Transfers Out	<u>(980,607)</u>
 Change in Net Position	 (403,045)
Total Net Position - October 1 (Beginning)	<u>12,993,384</u>
Total Net Position - September 20 (Ending)	<u>\$ 12,590,339</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2014

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 4,258,318
Other Operating Revenues (uses)	173,301
Cash Payments to Employees for Services	(1,721,365)
Cash Payments to Suppliers	(1,270,347)
Net Cash Provided by Operating Activities	<u>1,439,907</u>
<u>Cash Flows from non-Capital Financing Activities:</u>	
Operating Transfers Out	(980,607)
Grants	198,679
Net Cash Provided by (Used for) Capital Financing Activities	<u>(781,928)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(456,347)
Interest Paid on Bonds	(194,138)
Retirement of Bonds	(385,000)
Fiscal Agent Fees	(1,127)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,036,612)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>9,571</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(369,062)
Cash and Cash Equivalents at Beginning of the Year	<u>2,895,931</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 2,526,869</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 562,294
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	703,111
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(30,800)
Decrease (Increase) in Inventories	(123,419)
Increase (Decrease) in Accounts Payable	21,597
Increase (Decrease) in Internal Balances	290,761
Increase (Decrease) in Deposits	8,190
Increase (Decrease) in Compensated Absences	<u>8,173</u>
Net Cash Provided by Operating Activities	<u>\$ 1,439,907</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Athens, Texas (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The City applied all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; in which case, GASB prevails.

A. The Reporting Entity

The City of Athens, Texas is a political subdivision of the State of Texas. The City was incorporated in 1902 under the provisions of the State of Texas. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire, animal control and inspection), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. Other services include utilities and airport operations.

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Athens, Texas has one component unit.

DISCRETELY PRESENTED COMPONENT UNIT:

ATHENS ECONOMIC DEVELOPMENT CORPORATION (AEDC) - The AEDC was authorized by the voters of Athens in an election on May 5, 1990. The corporation received its charter/certificate of authority on October 11, 1990, and immediately began operations. The AEDC is funded by a .5% sales tax. It also earns interest on funds temporarily invested pending expenditure on approved economic programs. The AEDC is separately managed and audited and issues its own financial statements. The City appoints directors and approves budgets.

Excluded from the reporting entity:

ATHENS MUNICIPAL WATER AUTHORITY - The Athens Municipal Water Authority (the Water Authority) was established by a special state act in 1958. The Water Authority's governing board (a separately elected board) selects management staff, sets user charges, establishes budgets and controls all aspects of general management and production of water from the Water Authority except for water purchases and what it contracts with the City of Athens. Additionally, the City does not hold title to any of the Water Authority's assets, nor does it have any right to the Water Authority's surpluses.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF ATHENS HOUSING AUTHORITY - This is the Section 8 Housing Assistance Payments Program. This entity receives federal grant funds and administers a housing/rent subsidy program inside the city limits of Athens. This entity is subject to the City's control and oversight through the City Council and City Administrator's office, but is audited as a separate program based upon an understanding with the federal funding agency (HUD). This entity operates on a calendar year basis and has been audited in prior years by other auditors without being combined with the City of Athens. Consequently, an audit of this entity was not included in the Request for Proposal for performing the September 30, 2014 audit of the City.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all nonmajor funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of government funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund -

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Capital Projects Fund -

The Capital Projects Fund is used to account for funds received and expended for construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund -

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to assure integrity of the funds.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The *government-wide* statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All governmental fund revenues are recognized when received.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

D. Budgetary Control

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major funds. All annual appropriations lapse at fiscal year end.

Before the first regular meeting in August, the proposed budget is presented to the City's council for review. The City's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's manager.

Amendments have been made to the budget during the fiscal year.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

E. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities one year or less from the date of acquisition.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

H. Restricted Assets

Certain assets of the City are classified as restricted assets because of ordinance or other legal restrictions such as funds set aside under provisions of bond covenants.

I. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

J. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2014, the City allocated \$650,000 as a transfer for such services.

K. Capital Assets

Capital assets, which include property, plant and infrastructure assets, are reported in the applicable governmental or business type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	25
Machinery & Equipment	3-20
System Infrastructure	20-40
Vehicles	5-10
Office Equipment	5
Computer Equipment	5

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for non-civil service employees' unpaid accumulated sick leave except when payment is authorized by the City Council. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are shown as non-current liabilities on the government-wide statement of net position and current expense for that portion of the debt incurred for the current year.

M. Nature and Purpose of Reservation and Designations of Fund Equity

The fund equity reserves for revenue bond retirement and construction, prepaid items and debt service are discussed in notes 6, 1(F), and 1(B) respectively. The fund equity designation for subsequent years' expenditures primarily represents Capital Projects Fund Balances specifically identified for capital outlays.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

N. Net Position

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

O. Fund Balance

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the City Council or by other officials to which the City Council has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the City Council delegates the responsibility to assign funds to the City Managers or their designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

P. Fund Balance

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

Fund Balance	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Nonspendable:					
Inventories & Prepaid	\$ 5,646	\$	\$	\$	\$ 5,646
Total Non-spendable	<u>5,646</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,646</u>
Restricted:					
Debt Service		68,375			68,375
Capital Projects			120,882		120,882
Other				450,079	450,079
Total Restricted	<u>0</u>	<u>68,375</u>	<u>120,882</u>	<u>450,079</u>	<u>639,336</u>
Committed:					
Emergency	800,000				800,000
Capital Items	200,000				200,000
Total Committed	<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>
Assigned:					
Other					0
Total Assigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unassigned	<u>3,790,183</u>			<u>205,366</u>	<u>3,995,549</u>
Total Fund Balances	<u>\$ 4,795,829</u>	<u>\$ 68,375</u>	<u>\$ 120,882</u>	<u>\$ 655,445</u>	<u>\$ 5,640,531</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

2. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City 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.

State statutes authorize the City to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) A securities lending program as permitted by Government Code 2256.0115; 5) Banker's acceptances as permitted by Government Code 2256.012; 6) Commercial paper as permitted by Government Code 2256.013; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the City has adopted an investment policy. The City is in substantial compliance with the requirements of the Act. The risks that the City may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the City's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2013-2014 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest, combined balances of cash, savings and time deposit accounts amounted to \$9,849,874 and occurred on February 18, 2014. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$10,088,252. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.
- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At September 30, 2014, the amount of the City's cash balance accounts was \$7,508,243. The cash balance in interest bearing accounts was \$7,508,243.

INVESTMENTS

The City's investments at September 30, 2014, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 7,508,243	7,508,243	.0833
TexPool	<u>23,674</u>	<u>23,676</u>	1.00009
Total Investments	<u>\$ 7,531,917</u>	<u>\$ 7,531,919</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Balance 10/01/13	Additions	Retirements	Adjustments	Balance 9/30/2014
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2,445,876	\$	\$	\$	\$ 2,445,876
Construction in progress	0				0
Total capital assets not being depreciated	<u>2,445,876</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,445,876</u>
Capital asset being depreciated:					
Buildings	8,254,981		(44,063)		8,210,918
Equipment	6,803,105	196,792	(45,015)		6,954,882
Improvements	2,057,133				2,057,133
Infrastructure	4,806,534				4,806,534
Total capital assets being depreciated	<u>21,921,753</u>	<u>196,792</u>	<u>(89,078)</u>	<u>0</u>	<u>22,029,467</u>
Less: accumulated depreciation for:					
Buildings	(7,279,590)	(71,793)	19,828		(7,331,555)
Equipment	(4,697,078)	(297,287)	36,619		(4,957,746)
Improvements	(1,446,330)	(125,726)			(1,572,056)
Infrastructure	(2,750,787)	(240,343)			(2,991,130)
Total accumulated depreciation	<u>\$(16,173,785)</u>	<u>\$ (735,149)</u>	<u>\$ 56,447</u>	<u>\$ 0</u>	<u>\$(16,852,487)</u>
Total capital assets being depreciated, net	<u>5,747,968</u>	<u>(538,357)</u>	<u>(32,631)</u>	<u>0</u>	<u>5,176,980</u>
Governmental activities capital assets, net	<u>\$ 8,193,844</u>	<u>\$ (538,357)</u>	<u>\$ (32,631)</u>	<u>\$ 0</u>	<u>\$ 7,622,856</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152,200	\$	\$	\$	\$ 152,200
Construction in progress	34,804	456,347			491,151
Total capital assets not being depreciated	<u>187,004</u>	<u>456,347</u>	<u>0</u>	<u>0</u>	<u>643,351</u>
Capital assets being depreciated:					
Buildings	799,441				799,441
Equipment	1,325,435				1,325,435
Amortizable assets	243,082				243,082
Improvements	1,454				1,454
Infrastructure	24,004,009				24,004,009
Total capital asset being depreciated	<u>26,373,421</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,373,421</u>
Less: accumulated depreciation for:					
Buildings	(710,682)	(10,787)			(721,469)
Equipment	(1,002,711)	(62,316)			(1,065,027)
Amortizable assets	(192,690)	(19,100)			(211,790)
Improvements	(1,454)				(1,454)
Infrastructure	(10,194,264)	(610,908)			(10,805,172)
Total accumulated depreciation	<u>(12,101,801)</u>	<u>(703,111)</u>	<u>0</u>	<u>0</u>	<u>(12,804,912)</u>
Total capital assets being depreciated, net	<u>14,271,620</u>	<u>(703,111)</u>	<u>0</u>	<u>0</u>	<u>13,568,509</u>
Business-type activities capital assets, net	<u>\$ 14,458,624</u>	<u>\$ (246,764)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,211,860</u>

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
General government and administration	\$ 353,817
Public safety	214,095
Public services	128,056
Culture and recreation	27,998
Health	11,183
Total depreciation expense-Governmental activities	<u>\$ 735,149</u>
Business-type activities:	
Water and sewer	<u>\$ 703,111</u>

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2014, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Law Enforcement Grant	5,980
General	Community Improvement	7,731
General	Homeland Security	4,832
General	Special Donations	900
General	Airport	682
General	Airport Grant	45
General	Municipal Court Technology	335
Airport	Airport Grant	5,751
Total		<u>\$ 26,256</u>

5. Operating Leases

The City has entered into operating lease agreements for equipment. Commitments under the agreements provide for future rental payments as of September 30, 2014 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2015	\$ 18,753
2016	18,642
2017	17,366
2018	4,768
2019	3,756
2020	144
Total	<u>\$ 63,429</u>

Rental expenditures in 2013-2014 were \$15,351.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

6. Long-term Debt

A. Capital Leases Payable

The City has entered into lease agreements as lessee for the acquisition of a fire engine pumper, police vehicles fire truck and a street sweeper. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 4.415%, 2.589%, 2.349% and 1.929%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2014:

	<u>Balance</u> <u>10/01/13</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/14</u>
Fire Engine Pumper	156,143		29,027	127,116
Police Vehicles	31,706		31,706	0
Fire Truck	819,898		82,830	737,068
Street Sweeper	<u>169,252</u>		<u>35,669</u>	<u>133,583</u>
	<u>\$ 1,176,999</u>	<u>\$ 0</u>	<u>\$ 179,232</u>	<u>\$ 997,767</u>

Debt service requirements for the capital leases payable are as follows:

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2015	\$ 151,506	\$ 23,660	\$ 175,166
2016	155,607	19,559	175,166
2017	159,833	15,332	175,165
2018	145,097	11,028	156,125
2019	93,082	8,018	101,100
2020-2022	<u>292,642</u>	<u>10,659</u>	<u>303,301</u>
Total	<u>\$ 997,767</u>	<u>\$ 88,256</u>	<u>\$ 1,086,023</u>

B. Long-term Debt - Notes Payable

As of September 30, 2014 the City had no notes payable.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

C. General Obligation Bonds Payable

The City issues general obligation bonds to provide funds for acquisition and construction of major capital facilities for general government activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The following is a summary of changes in long-term debt for the general obligation bonds for the year ended September 30, 2014:

	<u>Balance</u> <u>10/01/13</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/14</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 1,525,000	\$	\$ 355,000	\$ 1,170,000
Totals	<u>\$ 1,525,000</u>	<u>\$ 0</u>	<u>\$ 355,000</u>	<u>\$ 1,170,000</u>

Debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2015	\$ 370,000	\$ 52,650	\$ 422,650
2016	390,000	36,000	426,000
2017	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
Total	<u>\$ 1,170,000</u>	<u>\$ 107,100</u>	<u>\$ 1,277,100</u>

Detailed debt service requirement data may be found in Table 2 in the Statistical Section of this report.

D. Revenue Bonds Payable

The City issues bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service.

As of September 30, 2014 the City had no revenue bonds outstanding.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

E. Prior year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements of the City of Athens. As of September 30, 2014, none of the general obligation bonds considered defeased are still outstanding.

F. Certificates of Obligation

On April 10, 2000, the City issued \$2,000,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000. Proceeds from the sale of the Certificates will be used to pay for improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

On October 15, 2004 the City issued \$5,500,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2004. Proceeds from the sale of the Certificates will be used for (1) the construction of public works, to wit, improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and (2) to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2014:

	<u>Balance</u> 10/01/13	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> 9/30/14
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,065,000	\$	\$ 125,000	\$ 940,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	3,535,000		260,000	3,275,000
	<u>\$ 4,600,000</u>	<u>\$ 0</u>	<u>\$ 385,000</u>	<u>\$ 4,215,000</u>

Debt service requirements for the Certificates of Obligation are as follows:

<u>Fiscal Year Ending</u> September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2015	\$ 405,000	\$ 177,487	\$ 582,487
2016	430,000	161,288	591,288
2017	445,000	143,635	588,635
2018	465,000	125,073	590,073
2019	485,000	105,330	590,330
2020 - 2024	<u>1,985,000</u>	<u>244,524</u>	<u>2,229,524</u>
Total	<u>\$ 4,215,000</u>	<u>\$ 957,337</u>	<u>\$ 5,172,337</u>

Detailed debt service requirement data may be found in Table 3 and Table 4 in the Statistical Section of this report.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 1,525,000	\$ _____	\$ 355,000	\$ 1,170,000	\$ 370,000
Capital Leases Payable:					
Vehicles and Equipment	1,176,999	_____	179,232	997,767	151,506
Compensated Absences	884,088	248,379	_____	1,132,467	_____
Post Employment Benefits	35,534	17,386	_____	52,920	_____
Total Governmental Activities Long-term Liabilities	<u>\$ 3,621,621</u>	<u>\$ 265,765</u>	<u>\$ 534,232</u>	<u>\$ 3,353,154</u>	<u>\$ 521,506</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	\$ 4,600,000	\$ _____	\$ 385,000	\$ 4,215,000	\$ 405,000
Compensated Absences	48,694	8,875	_____	57,569	_____
Post Employment Benefits	10,153	_____	703	9,450	_____
Total Business Type Activities Long-term Liabilities	<u>\$ 4,658,847</u>	<u>\$ 8,875</u>	<u>\$ 385,703</u>	<u>\$ 4,282,019</u>	<u>\$ 405,000</u>

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

7. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

B. Segment Information - Enterprise Funds

The City maintains one enterprise fund. The City accounts for the provision of basic utility service to all citizens through its Water and Sewer fund. Selected segment information for the year ended September 30, 2014 is as follows:

Operating Revenues	\$ 4,454,229
Depreciation Expense	703,111
Operating Income	562,294
Operating Transfers (Out)	(980,607)
Change in Net Position	(403,045)
Fixed Asset Additions	456,347
Net Working Capital (Deficiency)	2,255,497
Total Assets	17,722,454
Total Net Position	12,590,339
Certificates of Obligation Payable	4,215,000

C. Pension Benefits 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 state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The plan provisions are adopted by the governing body of the City, within the options available in the Texas state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	7.0%	7.0%
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)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

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

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

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC Contributed	Cumulative Net Pension Obligation/ (Asset)
2012	1,297,549	1,104,643	85%	1,019,952
2013	1,314,398	1,178,258	89%	1,156,089
2014	1,365,587	1,267,594	93%	1,254,083

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	26.2 Closed Period	25.2 Closed Period	24.0 Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Method	10-year Smoothed Method	10-year Smoothed Method
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	2.1%	2.1%	2.1%

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

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)
12/31/2013	\$19,873,187	\$31,149,019	63.8%	\$11,275,832	\$6,116,818	184.3%

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 Required Supplementary Information 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.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

D. Life Insurance Benefits Plan

Plan Description

The City also participated in the cost sharing multiple-employer defined benefit group-term insurance plan operated by the Texas Municipal Retirement System (TMRS) know as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to the effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

Contributions

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the TMRS SDBF for the year ended 2013, 2012, and 2011 were \$1,859, \$1,823 and \$1,690, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
 (RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.03%	0.03%	100.0%
2011	0.03%	0.03%	100.0%
2012	0.03%	0.03%	100.0%

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

9. EXPENDITURES OF FEDERAL AND STATE AWARDS

A “Single Audit” of Federal Grant Awards under Circular A-133 was not required for the fiscal year ended September 30, 2014.

A “Single Audit” of State of Texas Grant Award Programs was not required by the State of Texas Single Audit Circular for the fiscal year ended September 30, 2014.

10. LITIGATION

The City of Athens is involved in one instance of pending litigation the outcome of which is unknown as of the audit report date. The primary reason for the large increase in legal expense was due to litigation of a lawsuit by the Athens Municipal Water Authority over a contractual dispute.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ATHENS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2014

	Airport Fund	Community Improvement Fund	Law Enforcement Grant	Airport Grant Fund	Special Donations Fund
ASSETS					
Cash and Cash Equivalents	\$ 202,231	\$ 341,950	\$	\$ 2,729	\$ 79,093
Receivables (net of allowance for uncollectibles)	166				
Intergovernmental Receivables			5,980	3,067	
Infrastructure - WIP					
Due from Other Funds	5,751				
Total Assets	<u>\$ 208,148</u>	<u>\$ 341,950</u>	<u>\$ 5,980</u>	<u>\$ 5,796</u>	<u>\$ 79,093</u>
LIABILITIES AND FUND BALANCES					
Due to Other Funds	\$ 682	\$ 7,732	\$ 5,980	\$ 5,796	\$ 899
Deposits	2,100				
Total Liabilities	<u>\$ 2,782</u>	<u>\$ 7,732</u>	<u>\$ 5,980</u>	<u>\$ 5,796</u>	<u>\$ 899</u>
FUND BALANCES					
Restricted Fund Balance:					
Capital Acquisition					
Other Restricted Fund Balance		334,218			78,194
Assigned Fund Balance:					
Other Assigned Fund Balance	205,366				
Total Fund Balances	<u>205,366</u>	<u>334,218</u>	<u>0</u>	<u>0</u>	<u>78,194</u>
Total Liabilities and Fund Balances	<u>\$ 208,148</u>	<u>\$ 341,950</u>	<u>\$ 5,980</u>	<u>\$ 5,796</u>	<u>\$ 79,093</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A

Homeland Security Fund	Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$	\$ 209	\$ 9,038	\$ 28,755	\$ 664,005
4,832				166
				13,879
				5,751
<u>4,832</u>	<u>\$ 209</u>	<u>\$ 9,038</u>	<u>\$ 28,755</u>	<u>\$ 683,801</u>
4,832	\$	\$ 335	\$	\$ 26,256
				2,100
<u>4,832</u>	<u>\$ 0</u>	<u>\$ 335</u>	<u>\$ 0</u>	<u>\$ 28,356</u>
	209	8,703	28,755	450,079
				205,366
<u>0</u>	<u>209</u>	<u>8,703</u>	<u>28,755</u>	<u>655,445</u>
<u>4,832</u>	<u>\$ 209</u>	<u>\$ 9,038</u>	<u>\$ 28,755</u>	<u>\$ 683,801</u>

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

	Airport Fund	Community Improvement Fund	Law Enforcement Grant	Airport Grant Funds	Special Donations Fund
REVENUES:					
Taxes:					
General Sales and Use Taxes	\$	\$ 234,233	\$	\$	\$
Intergovernmental Revenue and Grants			5,980	6,027	
Charges for Services	2,456				
Fines					
Investment Earnings	561	1,042			240
Rents and Royalties	48,206				
Miscellaneous Revenue					2,560
Contributions & Donation from Private Sources					9,804
Total Revenues	<u>51,223</u>	<u>235,275</u>	<u>5,980</u>	<u>6,027</u>	<u>12,604</u>
EXPENDITURES:					
Current:					
General Government					
Public Safety - Police			11,960		2,434
Public Safety - Fire					10,685
Public Works:					
Highways and Streets	8,744			12,054	
Conservation and Development					
Culture and Recreation		209,004			
Debt Service:					
Principal					
Interest					
Capital Outlay:					
Capital Outlay					
Total Expenditures	<u>8,744</u>	<u>209,004</u>	<u>11,960</u>	<u>12,054</u>	<u>13,119</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>42,479</u>	<u>26,271</u>	<u>(5,980)</u>	<u>(6,027)</u>	<u>(515)</u>
OTHER FINANCING SOURCES (USES):					
Transfers In			5,980	6,027	
Transfers Out (Use)	(6,027)				
Total Other Financing Sources(Uses)	<u>(6,027)</u>	<u>0</u>	<u>5,980</u>	<u>6,027</u>	<u>0</u>
Net Change in Fund Balance	<u>36,452</u>	<u>26,271</u>	<u>0</u>	<u>0</u>	<u>(515)</u>
Fund Balance - October 1 (Beginning)	<u>168,914</u>	<u>307,947</u>			<u>78,709</u>
Fund Balance - September 30 (Ending)	<u>\$ 205,366</u>	<u>\$ 334,218</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 78,194</u>

The accompanying notes are an integral part of this statement.

Homeland Security Fund	Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
	\$	\$	\$	\$
4,832				234,233
				16,839
		5,016		2,456
		21	92	5,016
				1,956
				48,206
				2,560
				9,804
4,832	0	5,037	92	321,070
4,832		7,735		7,735
				19,226
				10,685
				20,798
				209,004
4,832	0	7,735	0	267,448
0	0	(2,698)	92	53,622
				12,007
				(6,027)
0	0	0	0	5,980
0	0	(2,698)	92	59,602
	209	11,401	28,663	595,843
0 \$	209 \$	8,703	\$ 28,755	\$ 655,445

CITY OF ATHENS, TEXAS
 COMBINING BALANCE SHEET
 PROPRIETARY FUNDS
 SEPTEMBER 30,2014

	Water/Sewer Bond Projects Fund	Utilities Fund	TDCP- First Time Sewer Fund	Total Proprietary Funds
ASSETS				
Cash and Cash Equivalents	\$	\$ 1,504,284	\$	\$ 1,504,284
Investments - Current		8,817		8,817
Accounts Receivable Net of Uncoll. Allow.		582,808		582,808
Intergovernmental Receivables	63,395	269,573	32,717	365,685
Due from Other Governments		31,508	65,896	97,404
Inventories		303,411		303,411
Prepaid Items		100		100
Restricted Assets:				
Cash and Cash Equivalents	1,013,769			1,013,769
Total Current Assets	<u>1,077,164</u>	<u>2,700,501</u>	<u>98,613</u>	<u>3,876,278</u>
Non-Current Assets:				
Capital Assets:				
Work in Progress	24,213		466,939	491,152
Land Purchase and Improvements		152,200		152,200
Buildings		799,441		799,441
Improvement other than Buildings		24,005,463		24,005,463
Machinery and Equipment		1,325,435		1,325,435
Amortizable Assets		243,082		243,082
Accumulated Depreciation		(12,593,122)		(12,593,122)
Accumulated Amortization		(211,790)		(211,790)
Total Non-Current Assets	<u>24,213</u>	<u>13,720,709</u>	<u>466,939</u>	<u>14,211,861</u>
Total Assets	<u>\$ 1,101,377</u>	<u>\$ 16,421,210</u>	<u>\$ 565,552</u>	<u>\$ 18,088,139</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 3,842	\$ 19,345	\$ 20,562	\$ 43,749
Accrued Interest Payable		33,380		33,380
Internal Balances	302,290	556,154	98,612	957,056
Certificates of Obligation Payable		405,000		405,000
Unearned Revenue		5,576		5,576
Deposits		176,020		176,020
Total Current Liabilities	<u>306,132</u>	<u>1,195,475</u>	<u>119,174</u>	<u>1,620,781</u>
Non-Current Liabilities				
Compensate Absences Payable		67,019		67,019
Certificates of Obligation Payable		3,810,000		3,810,000
Total Non-Current Liabilities	<u>0</u>	<u>3,877,019</u>	<u>0</u>	<u>3,877,019</u>
Total Liabilities	<u>\$ 306,132</u>	<u>\$ 5,072,494</u>	<u>\$ 119,174</u>	<u>\$ 5,497,800</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 24,213	\$ 9,505,709	\$ 446,378	\$ 9,976,300
Restricted for:				
Capital Projects	771,032			771,032
Other Special Purposes				0
Unrestricted		1,843,007		1,843,007
Total Net Position	<u>\$ 795,245</u>	<u>\$ 11,348,716</u>	<u>\$ 446,378</u>	<u>\$ 12,590,339</u>

CITY OF ATHENS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30,2014

	Water/Sewer Bond Projects Fund	Utilities Fund	TDCP- First Time Sewer Fund	Total Proprietary Funds
Operating Revenues:				
Charges for Water Services	\$	\$ 2,213,294	\$	\$ 2,213,294
Charges for Waste Water Services		1,954,095		1,954,095
Fees		113,539		113,539
Other Revenue		173,301		173,301
Total Operating Revenue	<u>0</u>	<u>4,454,229</u>	<u>0</u>	<u>4,454,229</u>
Operating Expenses:				
Personal Services		1,729,538		1,729,538
Supplies		492,218		492,218
Contractual Services		926,828		926,828
Depreciation		703,111		703,111
Bad Debt Expense		40,240		40,240
Total Operating Expenses	<u>0</u>	<u>3,891,935</u>	<u>0</u>	<u>3,891,935</u>
Operating Income	<u>\$ 0</u>	<u>\$ 562,294</u>	<u>\$ 0</u>	<u>\$ 562,294</u>
LIABILITIES				
Non-Operating Revenues (Expenses):				
Investment Earnings	\$ 3,639	\$ 5,932	\$	\$ 9,571
Interest Expenses-Non-operating		(192,414)		(192,414)
Fiscal Agent Fees		(1,126)		(1,126)
Premium on Bonds Sold		558		558
Grants			198,679	198,679
Total Non-operating Revenues (Expenses)	<u>3,639</u>	<u>(187,050)</u>	<u>198,679</u>	<u>15,268</u>
Income Before Transfers	3,639	375,244	198,679	577,562
Transfers In(Out)	<u>(212,895)</u>	<u>(980,607)</u>	<u>212,895</u>	<u>(980,607)</u>
Change in Net Position	<u>\$ (209,256)</u>	<u>\$ (605,363)</u>	<u>\$ 411,574</u>	<u>\$ (403,045)</u>
Total Net Position - October 1, (Beginning)	<u>\$ 1,004,501</u>	<u>\$ 11,954,079</u>	<u>\$ 34,804</u>	<u>\$ 12,993,384</u>
Total Net Position	<u>\$ 795,245</u>	<u>\$ 11,348,716</u>	<u>\$ 446,378</u>	<u>\$ 12,590,339</u>

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

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 3,650,123	\$ 3,650,123	\$ 3,587,473	\$ (62,650)
General Sales and Use	3,724,779	3,724,779	3,852,642	127,863
Franchise	876,638	876,638	939,027	62,389
Penalty and Interest	45,000	45,000	58,284	13,284
Licenses and Permits	35,865	35,865	27,509	(8,356)
Intergovernmental Revenues and Grants	40,522	40,522	47,550	7,028
Charges for Services	36,500	36,500	36,167	(333)
Fines	191,450	191,450	540,636	349,186
Investment Income	12,000	12,000	14,287	2,287
Rents and Royalties	1,200	1,200	708	(492)
Contributions & Donations from Private Sources	9,000	9,000	11,365	2,365
Other Revenue	20,525	20,525	125,929	105,404
Total Revenues	<u>8,643,602</u>	<u>8,643,602</u>	<u>9,241,577</u>	<u>597,975</u>
EXPENDITURES:				
Current:				
General Government	1,416,290	1,416,290	1,772,946	(356,656)
Public Safety:				
Police	3,055,152	3,055,152	2,759,964	295,188
Fire	2,500,083	2,500,083	2,397,799	102,284
Other	422,197	422,197	401,589	20,608
Public Works:				
Highways and Streets	865,746	865,746	975,305	(109,559)
Health	401,898	401,898	363,737	38,161
Culture and Recreation	548,399	548,399	505,243	43,156
Capital Outlay:				
Capital Outlay	354,000	354,000	199,508	154,492
Total Expenditures	<u>9,563,765</u>	<u>9,563,765</u>	<u>9,376,091</u>	<u>187,674</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(920,163)	(920,163)	(134,514)	785,649
OTHER FINANCING SOURCES (USES):				
Non-current Loans				0
Transfers In	650,000	1,000,000	980,607	(19,393)
Transfers Out (Use)	(5,950)	(5,950)	(5,980)	(30)
Total Other Financing Sources (Uses)	<u>644,050</u>	<u>994,050</u>	<u>974,627</u>	<u>(19,423)</u>
Net Change in Fund Balances	(276,113)	73,887	840,113	766,226
Fund Balance - October 1 (Beginning)	<u>3,955,716</u>	<u>3,955,716</u>	<u>3,955,716</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,679,603</u>	<u>\$ 4,029,603</u>	<u>\$ 4,795,829</u>	<u>\$ 766,226</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 610,199	\$ 610,199	\$ 598,086	\$ (12,113)
Penalty and Interest	8,000	8,000	10,344	2,344
Investment Income	702	702	878	176
Total Revenues	618,901	618,901	609,308	(9,593)
EXPENDITURES:				
General Government:				
Debt Service:				
Principal	534,232	534,232	534,537	(305)
Interest	96,469	96,469	96,165	304
Fiscal Agent Fees	700	700	321	379
Total Expenditures	631,401	631,401	631,023	378
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,500)	(12,500)	(21,715)	(9,215)
OTHER FINANCING SOURCES (USES)				
Transfers In				
Net Change in fund Balances	(12,500)	(12,500)	(21,715)	(9,215)
Fund Balance - October 01 (Beginning)	90,090	90,090	90,090	0
Fund Balance - September 30 (Ending)	\$ 77,590	\$ 77,590	\$ 68,375	\$ (9,215)

See accompanying notes to the basic financial statements.

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	\$16,085,459	\$25,395,397	63.3	\$9,309,938	\$5,707,979	163.1
12/31/2012	\$17,902,602	\$27,260,649	65.7	\$9,358,047	\$5,899,862	158.6
12/31/2013	\$19,873,187	\$31,149,019	63.8	\$11,275,832	\$6,116,818	184.3

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
Chris M. Johnson, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**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***

Independent Auditor's Report

City Council
City of Athens, Texas
508 East Tyler Street
Athens, Texas 75751

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the 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 June 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 opinion 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

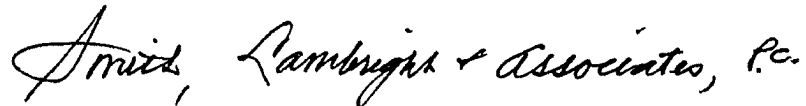
Compliance and Other Matters

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

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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Smith, Lambright & Associates, P.C.".

SMITH, LAMBRIGHT AND ASSOCIATES, P. C.
Certified Public Accountants

June 1, 2015

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2014
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2014</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
2004	1,658,588	1,654,495	100
2005	1,747,353	1,743,392	100
2006	2,278,403	2,272,124	100
2007	2,469,898	2,402,753	100
2008	2,622,686	2,615,729	100
2009	2,946,236	2,932,080	100
2010	3,263,140	3,253,350	100
2011	3,483,041	3,454,459	99
2012	3,804,103	3,738,443	99
2013	4,042,455	3,948,118	99
2014	4,195,356	4,112,908	98
	<u>\$ 32,511,259</u>	<u>\$ 32,127,851</u>	

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

TABLE 2

CITY OF ATHENS, TEXAS
 SCHEDULE OF GENERAL OBLIGATION BONDS
 AND INTEREST REQUIREMENTS
 BONDS OUTSTANDING AT SEPTEMBER 30, 2014

Series 1998 General Obligation Improvement and Refunding Bonds				
Original Bond Issue \$5,060,000				
<u>Requirements for Fiscal Year Ended</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-15	4.50%	370,000	52,650	422,650
9-30-16	4.50%	390,000	36,000	426,000
9-30-17	4.50%	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
TOTAL		<u>\$ 1,170,000</u>	<u>\$ 107,100</u>	<u>\$ 1,277,100</u>

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

TABLE 3

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2014

<u>Requirements for Fiscal Year Ended</u>	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			
	Annual Rate	Principal	Interest	Total Requirements
9-30-15	5.00%	135,000	47,000	182,000
9-30-16	5.00%	145,000	40,250	185,250
9-30-17	5.00%	150,000	33,000	183,000
9-30-18	5.00%	160,000	25,500	185,500
9-30-19	5.00%	170,000	17,500	187,500
9-30-20	5.00%	180,000	9,000	189,000
TOTAL		\$ 940,000	\$ 172,250	\$ 1,112,250

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

TABLE 4

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2014

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004			
	Annual Rate	Principal	Interest	Total Requirements
9-30-15	3.50%	270,000	130,487	400,487
9-30-16	3.65%	285,000	121,038	406,038
9-30-17	3.75%	295,000	110,635	405,635
9-30-18	3.85%	305,000	99,573	404,573
9-30-19	3.95%	315,000	87,830	402,830
9-30-20	4.00%	330,000	75,387	405,387
9-30-21	4.10%	345,000	62,188	407,188
9-30-22	4.20%	360,000	48,042	408,042
9-30-23	4.25%	375,000	32,922	407,922
9-30-24	4.30%	<u>395,000</u>	<u>16,985</u>	<u>411,985</u>
TOTAL		<u>\$ 3,275,000</u>	<u>\$ 785,087</u>	<u>\$ 4,060,087</u>

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

TABLE 5

CITY OF ATHENS, TEXAS
 MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION
 SEPTEMBER 30, 2014
 UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Jerry Don Vaught, Mayor Tres Winn, Monte Montgomery, Charles Elliott, Joe Whatley	
Other Officials	City Administrator - Pam Burton. Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA Assistant City Administrator & City Secretary - Pam Watson Director of Public Works/Utilities - Glen Herriage Chief of Police - Michael Hill Fire Chief - John McQueary Director of Planning and Development - Gary Crecelius Director of Human Resources - Haven Cox City Judge - Steven R. Green City Attorney - Conner Bateman	
City Area	19.6 Square Miles	
Miles of Streets	Paved	100
	Graded	2
Fire Protection	Number of Stations	2
	Number of Employees	27
Police Protection	Number of Stations	1
	Number of Policemen	34
Education	Community College	1
	High School	1
	Middle School	2
	Elementary School	4
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	1920	3 176
	1930	4 342
	1940	4 765
	1950	5 194
	1960	7 086
	1970	9 553
	1980	10 197
	1990	10 818
	2000	11 297
	2010	12 710

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
Chris M. Johnson, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

City Council
City of Athens, Texas
508 East Tyler Street
Athens, Texas 75751

Members of the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 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, when applicable, *Government Auditing Standards* and OMB Circular A-133, 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 June 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

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 application of existing policies was not changed during the year. 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 significant estimates effecting the financial statements were:

Managements estimate of the uncollectible accounts and accumulated depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management and performing and completing our audit.

Audit Differences and 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, none of 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.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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.

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 City'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.

Issues Discussed Prior to Retention of Independent Auditors

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.

Supplementary Information

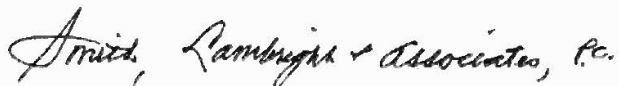
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United 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 statement themselves.

General Audit Comments, Findings or Issues

None

This information is intended solely for the use of those with governance, including the audit committee, City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

June 1, 2015