



**CITY OF ATHENS, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**PREPARED BY THE FINANCE DEPARTMENT  
OF THE CITY OF ATHENS, TEXAS**

**CITY OF ATHENS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**TABLE OF CONTENTS**

	<b><u>Page Number</u></b>
<b>INTRODUCTORY SECTION</b>	
List of Principal Officials	i
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)</b>	3
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Position	11
Statement of Activities	12
<b>Fund Financial Statements</b>	
<b>Governmental Fund Financial Statements</b>	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	17
<b>Proprietary Fund Financial Statements</b>	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Net Position	19
Statement of Cash Flows	20
<b>Notes to the Financial Statements</b>	22
<b>REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)</b>	
Schedule of Changes in Net Pension Liability and Related Ratios	47
Schedule of Contributions: TMRS	48
Schedule of Changes in Total OPEB Liability and Related Ratios	49
<b>COMBINING FUND FINANCIAL STATEMENTS</b>	
<b>Nonmajor Governmental Funds</b>	
Description of Nonmajor Governmental Funds	50
Combining Balance Sheet	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	52
<b>GOVERNMENTAL COMPLIANCE SECTION</b>	
Independent Auditor’s 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	53
Schedule of Findings and Responses	55

## **INTRODUCTORY SECTION**

**CITY OF ATHENS, TEXAS**  
**LIST OF PRINCIPAL OFFICIALS**  
**SEPTEMBER 30, 2018**

<b>Mayor</b>	Monte Montgomery
<b>Councilmember, Place 1</b>	Toni Clay
<b>Councilmember, Place 2</b>	Aaron Smith
<b>Councilmember, Place 3, Mayor Pro Tem</b>	Edward McCain
<b>Councilmember, Place 4</b>	Robert Gross
<b>City Manager</b>	Elizabeth Borstad
<b>Director of Finance</b>	Mandie Quigg

**FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Athens, Texas, as of and for the year ended September 30, 2018, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Athens Economic Development Corporation, discretely presented component unit of the City. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such discretely presented component units, is based solely on the report of the other auditors. 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Athens, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### ***Change in Accounting Principal***

As discussed in the notes to the financial statements, in fiscal year 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of changes in total OPEB liability and related ratios on pages 3-10, and 47-49 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 of Athens, Texas' basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2019, on our consideration of City of Athens, Texas' 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 the 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 City of Athens, Texas' internal control over financial reporting and compliance.

Henry E. Peters, PC

Longview, Texas  
April 3, 2019



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**





## 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, 2018. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 11. 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, 2018 by \$18,952,094. Of this amount, unrestricted net position equals (\$12,545,555) due largely to the implementation of GASB 68, which requires Cities to report total pension liability, and GASB 75, which requires Cities to report Other Post-Employment Benefits. In addition, the reporting of restricted funds in the amount of \$9,876,387, designates remaining 2017 Certificates of Obligations monies for capital improvements. A positive unrestricted position may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net position increased by \$1,214,515. Of this amount (\$1,061,963) was associated with governmental and \$2,276,478 with business-type activities. The primary reason for the decrease in governmental net position is related to prior period adjustment detailed in Note 11. GASB 68 and 75 continues to impact the City's net position with a governmental related liability of \$7,682,849 and business-type liability totaling \$1,724,109.
- As of the close of the current fiscal year, the City of Athens Governmental Funds reported combined ending fund balances of \$14,764,541. This is a decrease of (\$2,235,454) in comparison with the prior year; this change is related to Note 11, use of fund balance to complete The Texan Theatre and expenditure of Capital Projects monies in excess of the prior year. An additional factor includes the Airport Fund type changing to a Proprietary Fund, as it fits the business-type classification.
- The year's operations positively affected the Net Change in the General Fund and Debt Service Fund's fund balance, while operations decreased the Capital Projects and Combined Nonmajor fund balances. These decreases were approved by Council through the budget process for completion of ongoing capital improvements such as completion of The Texan Theatre.
- Sales tax revenue increased with a 3.07% increase above prior years' actual. Actual receipts were above budget projections by approximately 5.12%.
- City Council increased the General Fund Emergency Reserve by adding 5 days, a total of 65 days, of estimated General Fund expenditures. Currently \$1,896,850 as the City's Emergency Reserve.
- Property tax values for 2017 tax rolls increased by \$22,711,185 or 3.31% compared to the prior tax year (2016). The Tax Rate remained the same as the previous year at .685221 per \$100 valuation.

## **Overview of the Financial Statements**

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

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to 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 indicating how the City's net position changed during the fiscal year. All changes in net position are reported when 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 (e.g., uncollected taxes and earned but unused compensated absences).

Both government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks and recreation, culture, community development and other charges. The business-type activities include utilities and airport operations. The government-wide financial statements can be found on pages 11 - 12 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that are 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 funds of the City 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 current sources 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. The Governmental Funds balance sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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. The basic governmental funds financial statements can be found on pages 13 - 17. Data from the other 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 which can be found on pages 50 - 52.

### **Proprietary Funds**

The City of Athens maintains two proprietary funds in the form of enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utilities and airport operations. A major change to the financial statements effective Fiscal Year 2018, is the transition of the Airport Fund to the proprietary classification. The Airport Fund best fits this classification because it supports itself through user charges. The proprietary fund financial statements provide separate information for the Utilities and Airport Funds, with the Utility Fund as a major fund of the City. The basic proprietary fund financial statements can be found on pages 18 - 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 - 46 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found on pages 47 - 49 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a governments' financial position. As of September 30, 2018, the City's assets exceeded its liabilities by \$18,952,094.

The largest portion of the City's net position, \$21,078,029, reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction-in-progress and infrastructure), less any outstanding debt used to acquire those assets. Capital assets are used to provide services to citizens; they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted 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**  
**Fiscal Year Ending September 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	16,332,782	20,975,393	3,738,651	3,589,045	20,071,433	24,564,438
Capital Assets	9,753,066	7,161,194	15,468,322	13,799,881	25,221,388	20,961,075
Total Assets	26,085,848	28,136,587	19,206,973	17,388,926	45,292,821	45,525,513
Deferred Outflow of Resources	1,386,952	1,666,899	326,138	377,362	1,713,090	2,044,261
Long-Term Liabilities	19,916,474	22,208,256	3,705,024	4,516,865	23,621,498	26,725,121
Other Liabilities	1,787,446	1,787,772	755,077	735,057	2,542,523	2,522,829
Total Liabilities	21,703,920	23,996,028	4,460,101	5,251,922	26,164,021	29,247,950
Deferred Inflows of Resources	1,530,016	506,631	359,780	77,614	1,889,796	584,245
Net Position:						
Invested in Capital Assets, Net of Related Debt	8,039,707	9,078,982	13,038,322	11,832,282	21,078,029	20,911,264
Restricted	10,419,620	134,400	-	-	10,419,620	134,400
Unrestricted	(14,220,463)	(3,912,555)	1,674,908	604,470	(12,545,555)	(3,308,085)
Total Net Position	\$ 4,238,864	\$ 5,300,827	\$ 14,713,230	\$ 12,436,752	\$ 18,952,094	\$ 17,737,579

An additional portion of net position 54.97% or \$10,419,620 represents resources that are subject to external restrictions on how they may be used. These restricted balances include funds such as the 2017 Certificates of Obligations monies that are restricted for capital projects and funds such as the Hotel Occupancy Tax Fund which are restricted.

The remaining unrestricted portion is a negative (\$12,545,555). The negative balance in unrestricted net position is the remaining portion of net position after considering the prior period adjustment in Note 11, long-term debt payments due in future periods and GASB 68, GASB 71 and GASB 75 which requires the recording of all pension related assets and liabilities in the financial statements. Currently pension liabilities exceed pension assets. The City of Athens participates in the Texas Municipal Retirement System (TMRS). This situation is not unique to the City of Athens; many organizations across the country are experiencing similar scenarios with the implementation of these standards.

**City of Athens**  
**Changes in Net Position**  
**Fiscal Year Ending September 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
Program revenues:						
Charges for Services	514,812	1,437,884	7,793,761	5,866,093	8,308,573	7,303,977
Operating Grants and Contributions	24,814	-	6,454	-	31,268	-
Capital Grants and Contributions	77,193	148,996	421,530	-	498,723	148,996
General Revenues:						
Property Taxes	4,918,837	3,893,175	-	-	4,918,837	3,893,175
Sales Taxes	4,211,853	4,086,351	-	-	4,211,853	4,086,351
Other Taxes	1,238,898	1,197,685	-	-	1,238,898	1,197,685
Investment Earnings	214,872	96,568	32,374	15,809	247,246	112,377
Donations	-	-	-	-	-	-
Miscellaneous	21,440	26,450	1,791	-	23,231	26,450
Gain on Sale of Assets	59,459	189,656	-	-	59,459	189,656
<b>Total Revenues</b>	<b>11,282,178</b>	<b>11,076,765</b>	<b>8,255,910</b>	<b>5,881,902</b>	<b>19,538,088</b>	<b>16,958,667</b>
<b>EXPENSES</b>						
General Government	1,127,883	2,862,143	-	-	1,127,883	2,862,143
Public Safety	5,746,721	5,654,137	-	-	5,746,721	5,654,137
Public Services	520,117	266,381	-	-	520,117	266,381
Public Works	1,426,488	1,099,283	-	-	1,426,488	1,099,283
Health	253,784	209,893	-	-	253,784	209,893
Culture and Recreation	1,130,659	638,791	-	-	1,130,659	638,791
Interest on Long-Term Debt	508,261	355,954	-	-	508,261	355,954
Water Utilities	-	-	7,003,918	4,704,371	7,003,918	4,704,371
Airport	-	159,457	125,452	-	125,452	159,457
<b>Total Expense</b>	<b>10,713,913</b>	<b>11,246,039</b>	<b>7,129,370</b>	<b>4,704,371</b>	<b>17,843,283</b>	<b>15,950,410</b>
Increase in Net Position Before Transfers	568,265	(169,274)	1,126,540	1,177,531	1,394,805	1,008,257
Transfers	12,700	650,000	(12,700)	(650,000)	-	-
<b>Change in Net Position</b>	<b>580,965</b>	<b>480,726</b>	<b>1,113,840</b>	<b>527,531</b>	<b>1,694,805</b>	<b>1,008,257</b>
Net Position - October 1	5,300,827	4,820,101	12,436,752	11,909,221	17,737,579	16,729,322
Prior Period Adjustment (Note 11)	(1,642,928)	-	1,162,638	-	(480,290)	-
<b>Net position - September 30</b>	<b>\$ 4,238,864</b>	<b>\$ 5,300,827</b>	<b>\$ 14,713,230</b>	<b>\$ 12,436,752</b>	<b>\$ 18,952,094</b>	<b>\$ 17,737,579</b>

**Governmental Activities:** Governmental activities decreased the City's net position by \$1,061,963. This decrease is attributed to prior period adjustment in Note 11, which corrects adjusting journal entries for fiscal year ending 2017. The determination was made to move the Airport Fund to the Proprietary classification as it fits the requirements more closely by operating as a business-type function. The decreases were partially offset set by revenue exceeding expenses in the current year. 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 increased the City's net position by \$2,276,478, accounting for an estimated 18% increase in net position. As the Airport Fund more closely resembles a Proprietary classification, the determination was made to move it from the governmental activities to the business-type activities. This decision positively impacted the net position of the business-type activities in addition to a revenue surplus over expenses in the current period. Other factors that affected the position include a prior period adjustment Note 11, which corrects adjusting journal entries for fiscal year ending 2017.

## **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. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This report can be found on page 13 - 17. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$14,764,541. Approximately 16.3% of this amount, \$2,406,749, constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2018, unassigned fund balance of the General Fund was \$2,410,509, while total fund balance reached \$4,348,681.

The General Fund's fund balance decreased during the current fiscal year \$193,120. This decrease is related to the prior period adjustment (Note 11) found in Notes to the Financial Statements.

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

The Debt Service Fund's fund balance decreased by \$3,760 as a result of a prior period adjustment (Note 11) which can be found in Notes to the Financial Statements.

The Capital Projects Fund's fund balance decreased by \$1,533,470. The decrease was due to spending of bond proceeds in excess of interest earnings.

### **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 Utility Fund at the end of the year amounted to \$13,700,862, an increase of \$1,264,110; the Airport Fund, now a proprietary fund ended the year with a net position of \$1,012,368. Factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities. The financial report can be found on pages 18 – 21.

**General Fund Budgetary Highlights:** The General Fund budgeted revenues and expenditures were adjusted mid-year to account for a decreased revenue expectation of an estimated \$407,985. Property and Sales Tax revenues exceeded budget largely contributing to the increased revenues over actual. Mid-year reductions in spending across all departments as well as salary savings due to vacancies contributed largely to budget savings. Primary changes in revenue and (expenses) can be summarized as follows:

- \$154,710 - Reduction of Miscellaneous Revenue to remove revenue deemed not realizable
- \$95,500 - Reduction of expected revenue collection from Fines and Forfeitures
- \$200,000 - Increase expenditure for inaccurately budgeted Equipment Replacement transfer

Fund balance increased by \$156,221 and positively impacted end-of-year fund balance prior to recording a prior period adjustment per Note 11. More information can be found on page 17 of the financial report.

## **Capital Asset and Debt Administration**

### **Capital Assets**

The City's investment in capital assets for its governmental and business type activities at September 30, 2018 amounts to \$25,221,388 (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.

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

#### **Government Activities**

- \$96,489 – Brush Truck for Fire Services Department
- \$80,000 – 2018 International Dump Truck
- \$258,952 – 501 W. Hwy 175 (DSC Building) and improvements
- \$52,100 – Coleman Park Improvements
- \$391,710 – 2018 Street Improvement Program
- \$83,970 – Final payment for warning system
- \$412,748 – Completion of Texan construction and FF&E

#### **Business-Type Activities**

- \$355,643 – Scott Street Water Tank
- \$18,815 – 13x20 Pole Barn
- \$88,465 – AMR Water Meters
- \$30,000 – West Plant Electrical Improvements
- \$45,008 – Submersible pumps and grinder pumps for Wastewater Treatment
- \$220,299 – West Plant collection line replacement
- \$209,015 – Engineering for Water Study, Tank Rehabilitation and West Wastewater Treatment Plant
- \$213,196 – Booster Station (Work in Progress at 9/30/18)

Additional information on the City's capital assets can be found in Note 3 on pages 31 - 33 of this report.

## Long-Term Liability

At the end of the current fiscal year, the City had \$24,697,679 in outstanding liabilities consisting of general obligation bonds, certificates of obligation, capital leases, compensated absences, post-employment benefits and net pension liability. Additional information on the City's long-term debt can be found in Note 4 on pages 33 - 35.

### Outstanding Liabilities at September 30, 2018

	Governmental Activities	Business-Type Activities	Total
Certificates of Obligation	11,254,991		11,254,991
Certificates of Obligation Notes Payable		2,430,000	2,430,000
Capital Leases Payable	385,724	-	385,724
Compensated Absences Payable	1,151,472	68,534	1,220,006
Post-Employment Benefits	293,468	65,206	358,674
Net Pension Liability	7,389,381	1,658,903	9,048,284
Total	\$ 20,475,036	\$ 4,222,643	\$ 24,697,679

### Economic Factors and Next Year's Budgets and Rates

- Property tax values increased \$4,416,799 for taxable valuations in 2018. The property tax rate remains unchanged for the upcoming year at \$0.685221 per \$100 valuation.
- The 2019 budget anticipates a conservative budget of sales tax revenue over the prior year (\$4,144,602 vs \$4,211,853).
- City adopted a 5-year water utility rate plan in 2015. The rate increase was necessary to accomplish capital improvements and maintain the water and wastewater systems.
- The City issued Certificates of Obligation in 2017, these obligations are budgeted via ad valorem tax revenue and paid via the Debt Service Fund. In early 2016, the City refunded debt known as "Series 2015 General Obligation Refunding" which is budgeted via the Utility Fund.
- Unfunded actuarial liability is expected to decrease significantly due to Council's decision to reduce the City's repeating Cost of Living Adjustment for retirees from 70% to 30%, an estimated savings of more than \$3.5 million dollars.
- The City will seek to obtain capital lease purchased equipment to fulfill needs within multiple departments including: a new fire engine, wheel loader, pneumatic roller, crane truck and jet truck.

### 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. 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.

The City's component unit, Athens Economic Development Center, prepares separately issued financial statements. For more information regarding their report please address your requests to Athens Economic Development Center, 201 West Corsicana St. 3 Athens, Texas 75751.



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF ATHENS, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Athens Economic Development Corporation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 904,925	\$ 691,957	\$ 1,596,882	\$ 2,541,412
Investments	3,057,885	2,022,508	5,080,393	-
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	1,193,902	-	1,193,902	254,354
Accounts	251,202	947,621	1,198,823	24,774
Notes	100,000	-	100,000	-
Loans	-	-	-	814,776
Due from other governments	52,200	-	52,200	-
Internal balances	318,052	(318,052)	-	-
Inventory	-	192,512	192,512	-
Prepaid expenses	3,000	1,600	4,600	-
Restricted:				
Cash and cash equivalents	524,260	200,505	724,765	-
Investments	9,927,356	-	9,927,356	-
Capital assets (net of accumulated depreciation)	9,753,066	15,468,322	25,221,388	4,908,164
Total Assets	26,085,848	19,206,973	45,292,821	8,543,480
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	1,366,842	321,410	1,688,252	53,150
Deferred outflows related to OPEB	20,110	4,728	24,838	755
Total Deferred Outflows of Resources	1,386,952	326,138	1,713,090	53,905
<b>LIABILITIES</b>				
Accounts payable	699,689	30,253	729,942	9,568
Due to other governments	9,245	-	9,245	-
Due to component unit	258,084	-	258,084	-
Accrued expenses	180,583	-	180,583	-
Accrued interest payable	79,633	6,700	86,333	-
Customer deposits	1,650	200,505	202,155	-
Long-term debt				
Due within one year	558,562	517,619	1,076,181	204,151
Due in more than one year	19,916,474	3,705,024	23,621,498	1,490,872
Total Liabilities	21,703,920	4,460,101	26,164,021	1,704,591
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	1,530,016	359,780	1,889,796	57,452
Total Deferred Inflows of Resources	1,530,016	359,780	1,889,796	57,452
<b>NET POSITION</b>				
Net investment in capital assets	8,039,707	13,038,322	21,078,029	3,428,596
Restricted for capital projects	9,876,387	-	9,876,387	-
Restricted for grant restrictions	12,707	-	12,707	-
Restricted for municipal court	9,580	-	9,580	-
Restricted for public safety	105,381	-	105,381	-
Restricted for tourism and convention	415,565	-	415,565	-
Unrestricted	(14,220,463)	1,674,908	(12,545,555)	3,406,746
Total Net Position	\$ 4,238,864	\$ 14,713,230	\$ 18,952,094	\$ 6,835,342

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 1,127,883	\$ 39,843	\$ 10,090	\$ -	\$ (1,077,950)	\$ -	\$ (1,077,950)	\$ -
Public safety	5,746,721	355,371	11,855	-	(5,379,495)	-	(5,379,495)	-
Public services and operations	520,117	-	-	-	(520,117)	-	(520,117)	-
Public works	1,426,488	99,901	-	-	(1,326,587)	-	(1,326,587)	-
Health	253,784	-	-	-	(253,784)	-	(253,784)	-
Culture, parks, and recreation	1,130,659	19,697	2,869	77,193	(1,030,900)	-	(1,030,900)	-
Interest and fiscal charges	508,261	-	-	-	(508,261)	-	(508,261)	-
Total Governmental activities	<u>10,713,913</u>	<u>514,812</u>	<u>24,814</u>	<u>77,193</u>	<u>(10,097,094)</u>	<u>-</u>	<u>(10,097,094)</u>	<u>-</u>
Business-Type activities:								
Utility	7,003,918	7,735,251	-	421,530	-	1,152,863	1,152,863	-
Airport	125,452	58,510	6,454	-	-	(60,488)	(60,488)	-
Total Business-Type activities	<u>7,129,370</u>	<u>7,793,761</u>	<u>6,454</u>	<u>421,530</u>	<u>-</u>	<u>1,092,375</u>	<u>1,092,375</u>	<u>-</u>
Total Primary Government	<u>\$ 17,843,283</u>	<u>\$ 8,308,573</u>	<u>\$ 31,268</u>	<u>\$ 498,723</u>	<u>(10,097,094)</u>	<u>1,092,375</u>	<u>(9,004,719)</u>	<u>\$ -</u>
Component Unit:								
Economic Development Corporation	\$ 1,125,661	\$ 100,200	\$ -	\$ -				(1,025,461)
Total Component Unit	<u>\$ 1,125,661</u>	<u>\$ 100,200</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(1,025,461)</u>
General Revenues:								
Taxes:								
Property					4,918,837	-	4,918,837	-
Sales					4,211,853	-	4,211,853	1,630,035
Other					1,238,898	-	1,238,898	-
Investment income					214,872	32,374	247,246	63,760
Miscellaneous					21,440	1,791	23,231	7,327
Gain on sale of assets					59,459	-	59,459	32,800
Transfers					12,700	(12,700)	-	-
Total general revenues					<u>10,678,059</u>	<u>21,465</u>	<u>10,699,524</u>	<u>1,733,922</u>
Change in net position					580,965	1,113,840	1,694,805	708,461
Net position - beginning of year					5,300,827	12,436,752	17,737,579	6,136,538
Prior period adjustments (Note 11)					(1,642,928)	1,162,638	(480,290)	(9,657)
Net position - end of year					<u>\$ 4,238,864</u>	<u>\$ 14,713,230</u>	<u>\$ 18,952,094</u>	<u>\$ 6,835,342</u>

See accompanying notes to financial statements.

**FUND FINANCIAL STATEMENTS**

**CITY OF ATHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 904,925	\$ 1,809	\$ 108	\$ 522,343	\$ 1,429,185
Investments	3,057,885	-	9,927,356	-	12,985,241
Receivables (net of allowance for uncollectibles):					
Taxes	1,144,865	14,800	-	34,237	1,193,902
Accounts	250,534	-	-	668	251,202
Intergovernmental receivable	52,200	-	-	-	52,200
Due from other funds	341,141	-	-	-	341,141
Prepaid items	3,000	-	-	-	3,000
Total assets	<u>\$ 5,754,550</u>	<u>\$ 16,609</u>	<u>\$ 9,927,464</u>	<u>\$ 557,248</u>	<u>\$ 16,255,871</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 651,893	\$ -	\$ 47,749	\$ 47	\$ 699,689
Accrued expenses	180,583	-	-	-	180,583
Customer deposits	-	-	-	1,650	1,650
Due to other funds	-	7,443	3,328	12,318	23,089
Due to other governments	9,245	-	-	-	9,245
Due to component unit	258,084	-	-	-	258,084
Total liabilities	<u>1,099,805</u>	<u>7,443</u>	<u>51,077</u>	<u>14,015</u>	<u>1,172,340</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	57,378	12,926	-	-	70,304
Unavailable revenue - fines	198,739	-	-	-	198,739
Unavailable revenue - fees/liens	49,947	-	-	-	49,947
Total deferred inflows of resources	<u>306,064</u>	<u>12,926</u>	<u>-</u>	<u>-</u>	<u>318,990</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid items	3,000	-	-	-	3,000
Restricted for:					
Capital projects	-	-	9,876,387	-	9,876,387
Grant restrictions	-	-	-	12,707	12,707
Municipal court	-	-	-	9,580	9,580
Public safety	-	-	-	105,381	105,381
Tourism and convention	-	-	-	415,565	415,565
Committed to:					
Emergency Reserve	1,896,850	-	-	-	1,896,850
Assigned to:					
Encumbrances - capital outlay	38,322	-	-	-	38,322
Unassigned	2,410,509	(3,760)	-	-	2,406,749
Total fund balances	<u>4,348,681</u>	<u>(3,760)</u>	<u>9,876,387</u>	<u>543,233</u>	<u>14,764,541</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,754,550</u>	<u>\$ 16,609</u>	<u>\$ 9,927,464</u>	<u>\$ 557,248</u>	<u>\$ 16,255,871</u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2018**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 14,764,541
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	9,753,066
Long-term notes receivable are not due and receivable in the current period and therefore, are not reported in the governmental funds balance sheet.	100,000
Some of the City's revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and therefore are not reported in the governmental funds balance sheet.	318,990
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(1,151,472)
Governmental funds report all other post employment benefit (OPEB) payments as expenditures. However, in the government-wide statement of activities the OPEB asset or liability is actuarially determined. This amount is the total OPEB liability exceeds the deferred outflows.	(273,358)
Long-term liabilities including bonds payable, net of deferred loss on refunding, and net pension liability including related deferred inflows and outflows related to pensions are not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet.	(19,193,270)
Interest payable on long-term debt in the City's governmental activities is not payable from current resources and, therefore, is not reported in the governmental funds balance sheet.	<u>(79,633)</u>
Net position of governmental activities	<u><u>\$ 4,238,864</u></u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 4,246,858	\$ 765,469	\$ -	\$ -	\$ 5,012,327
Sales tax	4,211,853	-	-	-	4,211,853
Franchise tax	911,949	-	-	-	911,949
Other taxes	33,653	-	-	293,296	326,949
Licenses and permits	99,901	-	-	-	99,901
Intergovernmental	77,193	-	-	-	77,193
Charges for services	208,531	-	-	19,697	228,228
Fine and forfeitures	176,999	-	-	4,686	181,685
Investment earnings	49,962	472	161,994	2,444	214,872
Donations	10,090	-	-	14,724	24,814
Miscellaneous	11,123	-	-	10,317	21,440
Total revenues	<u>10,038,112</u>	<u>765,941</u>	<u>161,994</u>	<u>345,164</u>	<u>11,311,211</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,047,616	-	-	4,632	1,052,248
Public safety:					
Police	3,025,238	-	-	2,635	3,027,873
Fire	2,696,962	-	-	22,618	2,719,580
Public services and operations	95,303	-	421,530	-	516,833
Public works	1,011,921	-	8,109	-	1,020,030
Health	258,511	-	-	-	258,511
Culture, parks, and recreation	697,955	-	-	321,818	1,019,773
Debt service:					
Principal	91,112	-	-	-	91,112
Interest and fiscal charges	9,989	743,494	-	-	753,483
Capital Outlay:					
General government	258,952	-	-	13,858	272,810
Public safety	218,246	-	55,000	2,915	276,161
Public services and operations	17,113	-	-	-	17,113
Public works	471,710	-	1,210,825	-	1,682,535
Culture, parks, and recreation	66,772	-	-	331,942	398,714
Total Expenditures	<u>9,967,400</u>	<u>743,494</u>	<u>1,695,464</u>	<u>700,418</u>	<u>13,106,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>70,712</u>	<u>22,447</u>	<u>(1,533,470)</u>	<u>(355,254)</u>	<u>(1,795,565)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of assets	85,509	-	-	-	85,509
Transfers in	-	-	-	12,700	12,700
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>85,509</u>	<u>-</u>	<u>-</u>	<u>12,700</u>	<u>98,209</u>
Net change in fund balances	156,221	22,447	(1,533,470)	(342,554)	(1,697,356)
Fund balance - beginning of year	<u>4,541,801</u>	<u>-</u>	<u>11,409,857</u>	<u>860,624</u>	<u>16,812,282</u>
Prior period adjustment (Note 11)	(349,341)	(26,207)	-	25,163	(350,385)
Fund balance - end of year	<u>\$ 4,348,681</u>	<u>\$ (3,760)</u>	<u>\$ 9,876,387</u>	<u>\$ 543,233</u>	<u>\$ 14,764,541</u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2018**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (1,697,356)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay in the current period exceeded depreciation.	1,727,826
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.	(1,050)
The issuance of long-term debt (e.g. notes payable) 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.	(25,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(88,492)
Governmental funds report all OPEB contributions as expenditures. However, in the government-wide statement of activities the actuarial determined cost is considered an expense. This is the amount that the actuarially determined OPEB expense exceed contributions.	(29,634)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences.	253,362
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while 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 premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related issues.	63,317
Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined. This amount is the total of the decrease in the net pension liability of \$1,592,211, the decrease in the deferred outflows related to pensions of \$300,057, and the increase in deferred inflows of \$1,187,179.	104,975
Interest payable on long-term debt is recorded in the government-wide statements. This is the amount that prior year interest payable exceeded current year interest payable.	273,017
Change in net position of governmental activities	<u>\$ 580,965</u>

See accompanying notes to financial statements.



**CITY OF ATHENS, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 4,161,196	\$ 4,161,196	\$ 4,246,858	\$ 85,662
Sales tax	4,046,862	4,006,393	4,211,853	205,460
Franchise tax	932,518	932,518	911,949	(20,569)
Other taxes	31,800	31,800	33,653	1,853
Licenses and permits	134,317	136,567	99,901	(36,666)
Intergovernmental	50,000	121,943	77,193	(44,750)
Charges for services	421,625	198,963	208,531	9,568
Fine and forfeitures	264,000	168,500	176,999	8,499
Investment earnings	15,362	36,500	49,962	13,462
Donations	-	-	10,090	10,090
Miscellaneous	154,710	10,025	11,123	1,098
Total revenues	<u>10,212,390</u>	<u>9,804,405</u>	<u>10,038,112</u>	<u>233,707</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,907,801	1,786,168	1,047,616	738,552
Public safety:				
Police	3,506,237	3,164,682	3,025,238	139,444
Fire	2,692,256	2,686,655	2,696,962	(10,307)
Public services and operations	204,311	199,811	95,303	104,508
Public works	1,228,185	1,138,066	1,011,921	126,145
Health	313,824	275,337	258,511	16,826
Culture, parks, and recreation	681,954	709,507	697,955	11,552
Debt service:				
Principal	90,086	91,112	91,112	-
Interest and fiscal charges	11,014	9,989	9,989	-
Capital Outlay:				
General government	-	239,478	258,952	(19,474)
Public safety	31,750	212,209	218,246	(6,037)
Public services and operations	71,400	83,364	17,113	66,251
Public works	435,000	495,000	471,710	23,290
Culture, parks, and recreation	121,000	120,500	66,772	53,728
Total Expenditures	<u>11,294,818</u>	<u>11,211,878</u>	<u>9,967,400</u>	<u>1,244,478</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,082,428)</u>	<u>(1,407,473)</u>	<u>70,712</u>	<u>1,478,185</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of assets	25,000	50,000	85,509	35,509
Transfers in	1,046,498	846,498	-	(846,498)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>1,071,498</u>	<u>896,498</u>	<u>85,509</u>	<u>(810,989)</u>
Net change in fund balances	(10,930)	(510,975)	156,221	667,196
Fund balance - beginning of year	<u>4,541,801</u>	<u>4,541,801</u>	<u>4,541,801</u>	
Prior period adjustment (Note 11)	(349,341)	(349,341)	(349,341)	
Fund balance - end of year	<u>\$ 4,181,530</u>	<u>\$ 3,681,485</u>	<u>\$ 4,348,681</u>	

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2018**

	Enterprise Funds		
	Utility	Nonmajor Airport	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 672,726	\$ 19,231	\$ 691,957
Investments	2,022,508	-	2,022,508
Receivables (net of allowance for uncollectibles)	947,621	-	947,621
Inventories	192,512	-	192,512
Prepaid items	1,600	-	1,600
Restricted assets:			
Cash	198,755	1,750	200,505
Total current assets	<u>4,035,722</u>	<u>20,981</u>	<u>4,056,703</u>
Noncurrent assets:			
Capital assets, not being depreciated:			
Land	152,200	188,124	340,324
Construction in progress	499,925	167,736	667,661
Capital assets, net of accumulated depreciation:			
Buildings and improvements	79,948	352,353	432,301
Infrastructure	13,003,126	5,550	13,008,676
Improvements other than buildings	10,066	226,448	236,514
Machinery and equipment	729,683	53,163	782,846
Total noncurrent assets	<u>14,474,948</u>	<u>993,374</u>	<u>15,468,322</u>
Total assets	<u>18,510,670</u>	<u>1,014,355</u>	<u>19,525,025</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	321,410	-	321,410
Deferred outflows related to OPEB	4,728	-	4,728
Total deferred outflows of resources	<u>326,138</u>	<u>-</u>	<u>326,138</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	30,253	-	30,253
Accrued interest payable	6,700	-	6,700
Due to other funds	317,815	237	318,052
Compensated absences - current	17,619	-	17,619
Bonds payable - current	500,000	-	500,000
Restricted liabilities:			
Customer deposits	198,755	1,750	200,505
Total current liabilities	<u>1,071,142</u>	<u>1,987</u>	<u>1,073,129</u>
Noncurrent liabilities:			
Compensated absences - long term	50,915	-	50,915
Bonds payable - long term	1,930,000	-	1,930,000
Net pension liability	1,658,903	-	1,658,903
Total OPEB liability	65,206	-	65,206
Total noncurrent liabilities	<u>3,705,024</u>	<u>-</u>	<u>3,705,024</u>
Total liabilities	<u>4,776,166</u>	<u>1,987</u>	<u>4,778,153</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	359,780	-	359,780
Total deferred inflows of resources	<u>359,780</u>	<u>-</u>	<u>359,780</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,044,948	993,374	13,038,322
Unrestricted	1,655,914	18,994	1,674,908
Total net position	<u>\$ 13,700,862</u>	<u>\$ 1,012,368</u>	<u>\$ 14,713,230</u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Enterprise Funds		
	Utility	Nonmajor Airport	Total
<b>OPERATING REVENUES</b>			
Water revenue	\$ 3,014,910	\$ -	\$ 3,014,910
Wastewater revenue	2,672,327	-	2,672,327
Garbage collection revenue	1,581,750	-	1,581,750
Fees	153,355	-	153,355
Penalties	101,734	-	101,734
Airport sales and rentals	-	43,510	43,510
Intergovernmental	200,000	-	200,000
Miscellaneous	11,175	15,000	26,175
Total operating revenues	<u>7,735,251</u>	<u>58,510</u>	<u>7,793,761</u>
<b>OPERATING EXPENSES</b>			
Utility administration	329,981	-	329,981
Water utility	952,367	-	952,367
Distribution and collection	820,200	-	820,200
Wastewater utility	1,203,485	-	1,203,485
Garbage collection	1,589,157	-	1,589,157
Utility billing	226,436	-	226,436
Non-departmental	975,445	-	975,445
Airport operations	-	53,801	53,801
Depreciation and amortization	858,759	71,651	930,410
Total operating expenses	<u>6,955,830</u>	<u>125,452</u>	<u>7,081,282</u>
<b>OPERATING INCOME (LOSS)</b>	<u>779,421</u>	<u>(66,942)</u>	<u>712,479</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment earnings	31,820	554	32,374
Interest expense and fiscal charges	(48,088)	-	(48,088)
Intergovernmental	-	6,454	6,454
Miscellaneous	1,791	-	1,791
Total nonoperating revenues (expenses)	<u>(14,477)</u>	<u>7,008</u>	<u>(7,469)</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>764,944</u>	<u>(59,934)</u>	<u>705,010</u>
Capital contributions	421,530	-	421,530
Transfers in	-	-	-
Transfers out	-	(12,700)	(12,700)
Change in net position	1,186,474	(72,634)	1,113,840
Total net position, beginning	<u>12,436,752</u>	<u>-</u>	<u>12,436,752</u>
Prior period adjustment (Note 11)	<u>77,636</u>	<u>1,085,002</u>	<u>1,162,638</u>
Total net position, ending	<u>\$ 13,700,862</u>	<u>\$ 1,012,368</u>	<u>\$ 14,713,230</u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Enterprise Funds		
	Utility	Nonmajor Airport	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 7,898,168	\$ 63,377	\$ 7,961,545
Cash payments to suppliers for goods and services	(4,280,046)	(55,488)	(4,335,534)
Cash payments to employees for services	(1,835,812)	-	(1,835,812)
Net cash provided by (used in) operating activities	<u>1,782,310</u>	<u>7,889</u>	<u>1,790,199</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Grant proceeds	-	6,454	6,454
Operating transfers out to other funds	-	(12,700)	(12,700)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(6,246)</u>	<u>(6,246)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,027,819)	(167,736)	(1,195,555)
Principal paid on general obligation bonds	(495,000)	-	(495,000)
Interest and fiscal charges on debt	(45,151)	-	(45,151)
Net cash provided by (used in) capital and related financing activities	<u>(1,567,970)</u>	<u>(167,736)</u>	<u>(1,735,706)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(806,424)	-	(806,424)
Interest on investments	31,820	554	32,374
Proceeds from insurance payment	1,791	-	1,791
Net cash provided by (used in) investing activities	<u>(772,813)</u>	<u>554</u>	<u>(772,259)</u>
Net increase (decrease) in cash and cash equivalents	(558,473)	(165,539)	(724,012)
Cash and cash equivalents, beginning	<u>1,429,954</u>	<u>186,520</u>	<u>1,616,474</u>
Cash and cash equivalents, ending	<u>\$ 871,481</u>	<u>\$ 20,981</u>	<u>\$ 892,462</u>

See accompanying notes to financial statements.

**CITY OF ATHENS, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
CONTINUED**

	Enterprise Funds		
	Utility	Nonmajor Airport	Total
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 779,421	\$ (66,942)	\$ 712,479
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	858,759	71,651	930,410
Change in assets and liabilities:			
Decrease (increase) in assets:			
Receivables	157,222	166	157,388
Due from other funds	-	2,951	2,951
Inventories	(49,880)	-	(49,880)
Prepaid expense	(1,500)	-	(1,500)
Deferred outflows	51,485	-	51,485
Increase (decrease) in liabilities:			
Accounts payable	(26,022)	(1,924)	(27,946)
Due to other funds	90,175	237	90,412
Customer deposits	5,695	1,750	7,445
Compensated absences	(561)	-	(561)
Net pension liability	(374,405)	-	(374,405)
Total OPEB liability	9,755	-	9,755
Deferred inflows	282,166	-	282,166
Total adjustments	<u>1,002,889</u>	<u>74,831</u>	<u>1,077,720</u>
Net cash provided by (used in) operating activities	<u>\$ 1,782,310</u>	<u>\$ 7,889</u>	<u>\$ 1,790,199</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Contribution of capital assets	\$ 421,530	\$ -	\$ 421,530
<b>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</b>			
Current assets:			
Cash and cash equivalents	\$ 672,726	\$ 19,231	\$ 691,957
Restricted assets - cash and cash equivalents	198,755	1,750	200,505
Total cash and cash equivalents	<u>\$ 871,481</u>	<u>\$ 20,981</u>	<u>\$ 892,462</u>

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Athens, Texas have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The City of Athens, Texas (the "City") is a municipal corporation governed by an elected mayor and a four-member council. The City was incorporated in 1856 and operated under the provision of a general rule concept until June 1, 1960, when the City's first charter was adopted. The City operates under a Council-Manager form of government and provides the following authorized services: police and fire protection, streets, sanitation, health services, water utilities, library, recreation, planning and zoning, and general administrative services.

The accompanying financial statements present the City and its discretely presented component unit, Athens Economic Development Corporation. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

For financial reporting purposes, the City's basic financial statements include all financial activities that are controlled by, or are dependent upon, actions taken by City Council.

The financial statements of the individual component units may be obtained by writing the City of Athens, Finance Department, 508 E. Tyler Street, Athens, Texas 75751.

**Discretely Presented Component Unit**

The financial statements of the following component unit have been discretely presented in the accompanying report because the City is considered to be financially accountable.

**Athens Economic Development Corporation**

The Athens Economic Development Corporation ("AEDC") is a nonprofit corporation. The seven-member governing body of AEDC is appointed by the City Council and AEDC's operating budget is subject to approval of the City Council. The purpose of AEDC, which is financed with a voter-approved half-cent city sales tax, is to aid, promote, and further economic development within the City.

**Payments Between the City and Component Units**

Resources flow between a primary government and its discretely presented component units are reported as external transactions – that is, as revenue and expenses.

**Related Organizations**

Organizations for which a primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered to be related organizations.

**Athens Housing Authority**

The Athens Housing Authority ("AHA") is chartered as a public corporation under the state laws for the purpose of providing safe and sanitary dwelling accommodations. This entity receives federal grant funds and administers a housing/rent subsidy program inside the city limits of Athens. The five-member governing body of AHA is appointed by City Council; however the City has no further accountability.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effects of the interfund activity have 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. Likewise, the primary government is reported separately from the legally-separate component unit for which the primary government is financially accountable.

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Government-wide and Fund Financial Statements (Cont'd)**

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor governmental funds (i.e. special revenue funds) are reported in a single column in the basic fund financial statements. A combining statement is presented after the notes with detail information for each fund.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and legal claims and judgments, are recorded only when payment is due.

Property taxes, franchise and sales tax revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds are accounted for on a flow of economic resources measurement focus. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's Utility fund and Airport fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

The **General Fund** is the 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 or 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.



**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)**

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 from taxes levied by the City.

The **Capital Projects Fund** is used to account for capital improvement projects while under way. Once completed the project is transferred to the appropriate fund.

The City reports the following major enterprise fund:

The **Utility Fund** accounts for the operation of the City's water, sewer, and garbage utilities. Activities of the fund include administration, operation 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 revenue bonds when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**Cash, Cash Equivalents 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 of three months or less from the date of acquisition.

In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent with GASB Statement 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City is disclosed in Note 1 to the financial statements.

**Restricted Assets**

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

The balances of the restricted asset accounts at September 30, 2018 are as follows:

	Governmental Activities	Business-Type Activities
Customer deposits	\$ 1,650	\$ 200,505
Debt service/bond reserves	1,809	-
Special revenue purposes	520,693	-
Capital projects	9,927,464	-
Total restricted assets	\$ 10,451,616	\$ 200,505

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Inventories and Prepaid Items**

Supplies used in business-type activities are accounted for by the consumption method. Supply inventory is capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. They are valued at the lower of cost or market, using the first-in, first-out (FIFO) method for determining unit cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost.

Contributed capital assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	25
Machinery & equipment	3 - 20
System infrastructure	20 - 40
Vehicles	5 - 10
Office equipment	5
Computer equipment	5

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one type of deferred outflows, which arise only under the accrual basis of accounting. Deferred outflows related to pensions and OPEB, are reported only in the government-wide and proprietary statements of net position. These amounts are deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes, municipal court revenue, and fees/liens and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows related to pensions and OPEB, in the government-wide and proprietary statements of net position, represent actuarial gains (losses) that are deferred and amortized over the actuarial determined recognition period.

**Compensated Absences**

The City encourages its employees to take annual leave (vacation) in the year it accrues; however, employees are allowed to accumulate vacation time for a maximum of two years credit. Upon termination, civil service employees would be paid their accumulated sick leave up to a maximum accrual of six years of credits. At September 30, 2018, the liability for unpaid leave was \$1,220,006, of which \$1,151,472 is reported in the governmental activities and \$68,534 in the business-type activities.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Other Post-Employment Benefits (OPEB)**

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Total OPEB Liability of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Total OPEB Liability are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

**Fund Balances**

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned.

- **Nonspendable fund balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventories or prepaid amounts) or legally required to remain intact.
- **Restricted fund balance** – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation (such as municipal court fines).
- **Committed fund balance** – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same action previously used to commit those amounts, an ordinance. Commitments are typically done through adoption and amendment of the budget.
- **Assigned fund balance** – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund.
- **Unassigned fund balance** – represents the residual classification for the general fund or deficit fund balances in other funds.

When an expenditure is incurred for a purpose for which more than one fund balance classification could be used, the City considers the expenditure to be made from the most restrictive classification first.

The City passed a resolution committing \$1,896,850 from the Financial Reserve, which represents approximately 65 days of operating funds. This amount is shown as committed fund balance in the general fund.

**Net position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of net capital assets 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 is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

**Interfund Transactions**

During the course of operations, numerous transactions occur between individual funds for goods provided and services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables and payables are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds."

In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services for which the elimination would distort the direct costs and program revenues of the various functions reported.

**Use of Estimates**

Preparing the City's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Change in Accounting Principle**

During the year, the City implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Under GASB 75, the City is required to record the total OPEB liability (asset) and the related deferred inflows and outflows of resources. This change required a prior period adjustment to restate prior years in accordance with the change in accounting principle. The prior period adjustment recorded represents the total OPEB liability at September 30, 2017, less the related deferred outflows of resources. The amount of the restatement can be seen in more detail in Note 11.

**New Accounting Pronouncements**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which improves accounting and reporting by enhancing the consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting by requiring reporting of certain lease liabilities that currently are not reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, which improves accounting and financial reporting by clarifying which liabilities governments should include in their note disclosures related to debt. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reported period. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*, which clarifies the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**Reclassifications**

Certain amounts of the discretely presented component unit have been reclassified to conform with the presentation of the primary government.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The City Council adopts an annual operating budget, which can be amended by the Council throughout the year. Legal budgets are adopted for the City's major funds and certain non-major funds. The following non-major funds did not have budgets adopted for fiscal year 2018: the Airport Grant Fund, Texan Theatre Fund, Special Donations Fund, Energy Grants Fund, Municipal Court Technology Fund, and Local Forfeited Cash Fund. The level of budgetary control (the level at which expenditures may not exceed budget) is the fund level. The City Manager is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Unencumbered appropriations for annual budgets lapse at fiscal year-end, with the exception of the Capital Projects fund. The Capital Projects fund appropriates funds on a project life basis, which means appropriated funds will be available for the life of the stated project.

Encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**Deficit Fund Equity**

The Debt Service Fund had a deficit fund balance of \$3,760 as of September 30, 2018. The deficit fund balance is a result the interest payments for certificates of obligation exceeding property tax revenue. The City plans to use general funds to cover the deficit fund equity of the Debt Service Fund until future property tax revenue is received.

**III. DETAILED NOTES ON ALL FUNDS**

**NOTE 1: DEPOSITS AND INVESTMENTS**

Cash and investments as of September 30, 2018 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and equivalents	\$ 1,596,882
Restricted cash and equivalents	724,765
Investments	5,080,393
Restricted investments	9,927,356
Total primary government	17,329,396
Component Unit	
Cash and equivalents	2,541,412
Total component unit	2,541,412
Total cash and investments	\$ 19,870,808

***Custodial Credit Risk***

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2018, the City and its component unit's deposits were covered by Federal Depository Insurance or by collateral held by a third party custodian.

In the case of investments, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are with the Texas Local Government Investment Pool ("TexPool").

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

***Custodial Credit Risk*** (Cont'd)

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

***Credit Risk***

This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government's policy to limit its investments to those investments rated at least AAAM. The credit quality rating for TexPool at year end was AAAM by Standard & Poor's.

***Interest Rate Risk***

This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The maximum allowable maturity for operating funds is five years. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

***Foreign Currency Risk***

This is the risk that exchange rates will adversely affect the fair value of an investment. The government is not exposed to foreign currency risk.

***Concentration of Credit Risk***

This is the risk of loss attributed to the magnitude of the government's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent (5%) or more in the securities of a single issuer. It is the government's policy to not allow for a concentration of credit risk. Investments issued by the U.S. Government and investments in investment pools are excluded from the 5 percent (5%) disclosure requirement. The government is not exposed to concentration of credit risk.

At year end, the government's investment balances were as follows:

	Fair Value	Weighted Average Maturity (Years)
Primary government		
TexPool	\$ 15,007,749	0.08
Total primary government	\$ 15,007,749	

Under provisions of state and local statutes, the City's investment policies and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities.
2. Fully insured or collateralized depository certificates of deposit of banks doing business in Texas.
3. Fully FDIC insurance brokered certificate of deposit securities in any US state delivered versus payment to the City's safekeeping depository with a maximum of one year.
4. Fully collateralized, direct purchase agreements purchased through a primary government securities dealer, as defined by the Federal Reserve with a maximum maturity of six months
5. Local Government Investment Pools authorized under Section 2256.016 of the Texas Government code which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

**Concentration of Credit Risk (Cont'd)**

6. AAA-rated, SEC registered money market mutual funds which strive to maintain a \$1 net asset value.
7. Obligations of state and local governments in the US with a maximum A rating from a nationally recognized rating agency with a stated maturity not to exceed two years.
8. A1/P1 commercial paper rated by two nationally recognized rating agencies with a maximum maturity of 90 days.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Investment Act of 1995 (Chapter 2256, Texas Government Code). In addition, the component unit has adopted a written investment policy as well. Additional disclosures related to the investment policies of the component unit are disclosed in their separately issued financial reports.

The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year.

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

**Concentration of Credit Risk (Cont'd)**

A summary of the City's investments under the requirements of the fair value hierarchy follows:

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Primary Government:</b>				
Texas Government Investment Pool	\$ -	\$ 15,007,749	\$ -	\$ 15,007,749
Total	\$ -	\$ 15,007,749	\$ -	\$ 15,007,749

Texas government investment pool categorized as Level 2 is valued based on amortized costs, which generally approximates fair value.

**NOTE 2: RECEIVABLES**

Receivables at September 30, 2018 for the government's individual major funds and non-major funds in the aggregate, including the applicable allowance for uncollectible accounts, consist of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Utility Fund	Total
Taxes and Accounts Receivable					
Property tax	\$ 134,841	\$ 29,600	\$ -	\$ -	\$ 164,441
Sales tax	1,017,417	-	-	11,926	1,029,343
Other taxes	60,027	-	34,237	-	94,264
Municipal court	1,169,051	-	-	-	1,169,051
Accounts	201,636	-	668	1,055,118	1,257,422
Gross receivables	2,582,972	29,600	34,905	1,067,044	3,714,521
Less: allowance for uncollectibles	(1,187,573)	(14,800)	-	(119,423)	(1,321,796)
Total taxes and accounts receivable (net)	\$ 1,395,399	\$ 14,800	\$ 34,905	\$ 947,621	\$ 2,392,725

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 2: RECEIVABLES (Cont'd)**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

At September 30, 2018, the components of delinquent taxes receivables are as follows:

	General Fund	Debt Service Fund	Total
Delinquent taxes	\$ 134,840	\$ 29,600	\$ 164,440
Allowance	(67,420)	(14,800)	(82,220)
Totals	\$ 67,420	\$ 14,800	\$ 82,220

**NOTE 3: CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,443,087 *	\$ 45,049	\$ -	\$ 2,488,136
Construction in progress	-	269,967	-	269,967
Total capital assets, not being depreciated	2,443,087	315,016	-	2,758,103
Capital assets, being depreciated:				
Buildings and improvements	8,376,673 *	1,502,265	-	9,878,938
Infrastructure	6,210,362 *	391,711	-	6,602,073
Improvements other than buildings	429,759 *	62,942	-	492,701
Machinery and equipment	6,993,014 *	375,399	166,025	7,202,388
Total capital assets being depreciated	22,009,808	2,332,317	166,025	24,176,100
Less accumulated depreciation for:				
Buildings and improvements	(7,288,012) *	(142,458)	-	(7,430,470)
Infrastructure	(4,046,698) *	(334,312)	-	(4,381,010)
Improvements other than buildings	(259,105) *	(15,902)	-	(275,007)
Machinery and equipment	(4,832,790) *	(426,835)	(164,975)	(5,094,650)
Total accumulated depreciation	(16,426,605)	(919,507)	(164,975)	(17,181,137)
Total capital assets, being depreciated, net	5,583,203	1,412,810	1,050	6,994,963
Governmental activities capital assets, net	\$ 8,026,290	\$ 1,727,826	\$ 1,050	\$ 9,753,066

\* These amounts have been adjusted for the prior period adjustment discussed in Note 11.



**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 3: CAPITAL ASSETS (Cont'd)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 340,324 *	\$ -	\$ -	\$ 340,324
Construction in progress	-	667,661	-	667,661
Total capital assets, not being depreciated	340,324	667,661	-	1,007,985
Capital assets, being depreciated:				
Buildings and improvements	1,547,374 *	18,815	-	1,566,189
Infrastructure	25,715,899 *	788,212	-	26,504,111
Improvements other than buildings	1,530,490 *	-	-	1,530,490
Machinery and equipment	2,063,956 *	142,397	-	2,206,353
Total capital assets being depreciated	30,857,719	949,424	-	31,807,143
Less accumulated depreciation for:				
Buildings and improvements	(1,106,702) *	(27,186)	-	(1,133,888)
Infrastructure	(12,777,390) *	(718,045)	-	(13,495,435)
Improvements other than buildings	(1,255,122) *	(38,854)	-	(1,293,976)
Machinery and equipment	(1,277,182) *	(146,325)	-	(1,423,507)
Total accumulated depreciation	(16,416,396)	(930,410)	-	(17,346,806)
Total capital assets, being depreciated, net	14,441,323	19,014	-	14,460,337
Business-type activities capital assets, net	\$ 14,781,647	\$ 686,675	\$ -	\$ 15,468,322

\* These amounts have been adjusted for the prior period adjustment discussed in Note 11.

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

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 77,636
Public safety	295,510
Public services and operations	6,253
Public works	429,095
Parks, culture, and recreation	111,013
Total depreciation expense - governmental activities	<u>\$ 919,507</u>
Business-type activities:	
Utility	\$ 858,759
Airport	71,651
Total depreciation expense - business-type activities	<u>\$ 930,410</u>

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 3: CAPITAL ASSETS (Cont'd)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Athens Economic Development Corporation:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,037,889	\$ 495,289	\$ (8,000)	\$ 2,525,178
Total capital assets, not being depreciated	2,037,889	495,289	(8,000)	2,525,178
Capital assets, being depreciated:				
Buildings & improvements	2,066,420	96,606	-	2,163,026
Infrastructure	804,531	46,280	-	850,811
Machinery & equipment	303,612	30,000	-	333,612
Total capital assets being depreciated	3,174,563	172,886	-	3,347,449
Less accumulated depreciation for:				
Buildings & improvements	(824,482)	(74,572)	-	(899,054)
Infrastructure	(36,705)	(17,663)	-	(54,368)
Machinery & equipment	(10,470)	(571)	-	(11,041)
Total accumulated depreciation	(871,657)	(92,806)	-	(964,463)
Total capital assets, being depreciated, net	2,302,906	80,080	-	2,382,986
Athens Economic Development Corporation capital assets, net	<u>\$ 4,340,795</u>	<u>\$ 575,369</u>	<u>\$ (8,000)</u>	<u>\$ 4,908,164</u>

Depreciation expense was charged to functions/programs of the component unit as follows:

Economic Development	\$ 92,806
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**NOTE 4: LONG TERM DEBT**

**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the 2015 fiscal year, General Obligation refunding bonds were issued to refund 2000 and 2004 Certificates of Obligation related to the Utility fund and 1998 Certificates of Obligation related to governmental activities. The City intends to retire all of its general long-term liabilities, plus interest, net revenues of the utility system. General obligation bonds currently outstanding are as follows:

2015 General obligation refunding bonds due in various annual principal installments through August 2024 interest at 0.60% to 2.20%

Utility Fund	<u>\$ 2,430,000</u>
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30	Business-Type Activities	
	Principal	Interest
2019	\$ 500,000	\$ 40,200
2020	510,000	34,200
2021	345,000	27,060
2022	350,000	21,540
2023	355,000	15,240
2024	370,000	8,140
Total	<u>\$ 2,430,000</u>	<u>\$ 146,380</u>

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 4: LONG TERM DEBT** (Cont'd)

**Certificates of Obligation**

During the 2017 fiscal year, the City issued \$11,755,000 of Combination Tax and Revenue Certificates of Obligation for the purpose of paying contractual obligations to be incurred for: (i) improving and extending the City's water and wastewater system, (ii) constructing, equipping, and improving park and recreation facilities, including improvements to the Cain Center, (iii) constructing, improving, and equipping a community events facility, (v) constructing and equipping firefighting facilities and, (vi) professional services rendered in connection therewith.

Certificate of obligation bonds may be issued for both general government and proprietary activities to provide funds for acquisition or construction of major capital facilities. The 2017 Combination Tax and Revenue Certificates of Obligation are expected to be repaid from property tax revenues; therefore, they have been reported as in governmental activities.

The City has outstanding certificate of obligation bonds as follows:

2017 Combination Tax and Revenue Certificates of Obligation due in various annual principal installments through February 2036, interest at 3% - 4.5%

Governmental Activities	<u>\$ 11,755,000</u>
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Annual debt service requirements to maturity for certificate of obligations are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2019	\$ 280,000	\$ 477,800
2020	295,000	469,400
2021	310,000	460,550
2022	330,000	451,250
2023	350,000	438,050
2024-2028	2,085,000	1,962,850
2029-2033	2,765,000	1,493,850
2034-2038	3,605,000	873,071
2039-2040	1,735,000	118,125
Total	\$ 11,755,000	\$ 6,744,946

**Capital Leases**

The City is obligated under one capital lease for a fire truck. At September 30, 2018 the fire truck had a net book value of \$540,000.

The outstanding leases at September 30, 2018 are as follows:

Fire Truck payable in 120 monthly installments of \$8,425.02, including interest at 2.3365%, with a final payment on September 14, 2022.

Governmental Activities	<u>\$ 385,724</u>
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**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 4: LONG TERM DEBT (Cont'd)**

**Capital Leases (Cont'd)**

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending September 30	Governmental Activities
2019	\$ 101,100
2020	101,100
2021	101,100
2022	101,100
Total amount of minimum lease payments	404,400
Less: amount representing interest	(18,676)
Present value of minimum lease payments	<u>\$ 385,724</u>

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Balance 10/1/2017	Additions	Retirements	Balance 9/30/2018	Due Within One Year
<b>Governmental activities:</b>					
Certificates of obligation	\$ 11,755,000	\$ -	\$ -	\$ 11,755,000	\$ 280,000
Less: Bond premium	(522,737)	-	22,728	(500,009)	22,728
Total bonds payable	11,232,263	-	22,728	11,254,991	302,728
Capital leases payable	471,769	-	(86,045)	385,724	93,082
Compensated absences	1,404,834 *	-	(253,362)	1,151,472	146,580
Net pension liability	8,981,592	2,777,223	(4,369,434)	7,389,381	-
OPEB - health	9,020	36,653	(29,501)	16,172	16,172
OPEB - supplemental death	235,812 *	43,025	(1,541)	277,296	-
Total governmental activities	<u>\$ 22,335,290</u>	<u>\$ 2,856,901</u>	<u>\$ (4,717,155)</u>	<u>\$ 20,475,036</u>	<u>\$ 558,562</u>
<b>Business-type Activities:</b>					
General obligation bonds	\$ 2,925,000	\$ -	\$ (495,000)	\$ 2,430,000	\$ 500,000
Compensated absences	69,095 *	17,904	(18,465)	68,534	17,619
Net pension liability	2,033,308	653,058	(1,027,463)	1,658,903	-
OPEB - supplemental death	55,451 *	10,117	(362)	65,206	-
Total business-type activities	<u>\$ 5,082,854</u>	<u>\$ 681,079</u>	<u>\$ (1,541,290)</u>	<u>\$ 4,222,643</u>	<u>\$ 517,619</u>
<b>Component Unit:</b>					
Notes payable	\$ 1,857,673	\$ -	\$ (378,105)	\$ 1,479,568	\$ 204,151
Net pension liability	264,830	104,285	(164,072)	205,043	-
OPEB - supplemental death	8,854 *	1,616	(58)	10,412	-
Total component unit	<u>\$ 2,131,357</u>	<u>\$ 105,901</u>	<u>\$ (542,235)</u>	<u>\$ 1,695,023</u>	<u>\$ 204,151</u>

\* These amounts have been adjusted for the prior period adjustment discussed in Note 11.

Within the governmental activities, the General Fund generally liquidates the liability for compensated absences payable, the net pension liability, and OPEB liability.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 4: LONG TERM DEBT** (Cont'd)

**Component Unit – Athens Economic Development Corporation**

AEDC obtained notes payable for the building they are located in, various land and building purchases to attract business to the area, and for infrastructure in the Industrial Park. Notes payable outstanding at year-end are as follows:

Notes payable in monthly installments of \$4,247.72, including yearly adjusted interest rates. On January 1, 2017 the interest rate was increased to 2.89%.

Component Unit \$ 164,621

Notes payable in 110 monthly installments of \$6,576.69, including interest at 2.25% for 60 months and then 2.81% for 50 months.

Component Unit \$ 431,005

Notes payable in 180 monthly installments of \$4,504.86, including interest at 2.76%.

Component Unit \$ 528,625

Notes payable in 120 monthly installments of \$4,899.55, including interest at 2.85%.

Component Unit \$ 355,317

**Component Unit – Athens Economic Development Corporation**

The principal and interest requirements at September 30, 2018, for the component unit debt for the next five years and, thereafter, are as follows:

Year Ending September 30	AEDC	
	Principal	Interest
2019	\$ 204,151	\$ 38,595
2020	209,879	32,866
2021	215,769	26,977
2022	189,991	21,148
2023	175,604	16,169
Thereafter	484,174	32,683
Total	<u>\$ 1,479,568</u>	<u>\$ 168,438</u>

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS**

**Texas Municipal Retirement System**

***Plan Description***

The City of Athens participates as one of 833 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the city are required to participate in TMRS.

***Benefits provided***

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	Plan Year 2017	Plan Year 2016
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
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	70% of CPI

***Employees covered by benefit terms***

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	77
Inactive employees entitled to but not yet receiving benefits	58
Active employees	126
	261

***Contributions***

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

***Contributions (Cont'd)***

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year, respectively. The contribution rates for the City were 21.17% and 21.60% in calendar years 2017 and 2018, respectively. The City's total contributions to TMRS for the year ended December 31, 2017, were \$1,383,834, and were equal to the required contributions.

***Net Pension Liability***

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

**Net Pension Liability (Cont'd)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	100.00%	

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/16	\$ 35,630,848	\$ 24,351,118	\$ 11,279,730
Changes for the year:			
Service cost	1,132,820	-	1,132,820
Interest	2,383,369	-	2,383,369
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(343,260)	-	(343,260)
Changes of assumptions	-	-	-
Contributions - employer	-	1,383,834	(1,383,834)
Contributions - employee	-	457,573	(457,573)
Net investment income	-	3,376,302	(3,376,302)
Benefit payments, including refunds of employee contributions	(1,776,171)	(1,776,171)	-
Administrative expense	-	(17,491)	17,491
Other changes	-	(886)	886
Net changes	1,396,758	3,423,161	(2,026,403)
<b>Balance at 12/31/17</b>	<b>\$ 37,027,606</b>	<b>\$ 27,774,279</b>	<b>\$ 9,253,327</b>

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 14,701,524	\$ 9,253,327	\$ 4,820,607



**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

***Pension expense and deferred outflows and inflows of resources related to pensions***

For the year ended September 30, 2018, the city recognized pension expense of \$1,256,238.

At September 30, 2018, the city reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 36,511
Difference between projected and actual investment earnings	676,801
Contributions subsequent to the measurement date	1,026,264
Total	\$ 1,739,576

\$1,026,264 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ 382,116
2020	328,335
2021	2,861

At September 30, 2018, the city reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ (559,664)
Difference between projected and actual economic experience	(1,387,584)
Total	\$ (1,947,248)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ (559,173)
2020	(522,686)
2021	(450,292)
2022	(415,097)

**Other Post-Employment Benefits (OPEB) – TMRS Supplemental Death Benefits Fund**

***Plan Description***

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known 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 be effective the following January 1.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Other Post-Employment Benefits (OPEB) – TMRS Supplemental Death Benefits Fund (Cont'd)**

***Benefits provided***

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered an other post-employment benefit and is a fixed amount of \$7,500.

***Employees covered by benefit terms***

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	8
Active employees	126
	198
	198

***Contributions***

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.17% for 2018 and 0.19% for 2017, of which 0.04% and 0.03%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's retiree-only portion of contributions to the SDBF for the years ended September 30, 2018 and 2017 were \$1,982 and \$1,901, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

***Total OPEB Liability***

The City's total OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Other Post-Employment Benefits (OPEB) – TMRS Supplemental Death Benefits Fund (Cont'd)**  
*Changes in Total OPEB Liability*

	<b>Increase (Decrease)</b>
	<b>Total OPEB Liability</b>
Balance at 12/31/16	\$ 300,117
Changes for the year:	
Service cost	14,381
Interest	11,579
Changes of benefit terms	-
Changes of assumptions	28,798
Benefit payments	(1,961)
Net changes	52,797
<b>Balance at 12/31/17</b>	<b>\$ 352,914</b>

***Sensitivity of the Total OPEB Liability to changes in the discount rate***

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	\$ 426,828	\$ 352,914	\$ 295,655

***OPEB expense and deferred outflows of resources related to OPEB***

For the year ended September 30, 2018, the city recognized OPEB expense of \$30,590.

At September 30, 2018, the city reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 24,168
Contributions subsequent to the measurement date	1,425
Total	\$ 25,593

\$1,425 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Year ended September 30:
2019	\$ 4,630
2020	4,630
2021	4,630
2022	4,630
2023	4,630
2024	1,018

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Other Post-Employment Benefits (OPEB) – Retiree Health Insurance  
Plan Description**

For employees who retire prior to October 1, 2017 and who have 20 years or more of continuous service with the City of Athens, the City will pay health insurance benefits (medical only) for eighteen (18) months or until retiree has reached his/her eligibility for Medicare benefits, whichever comes first. At the end of eighteen (18) months, the retiree only (no dependents) may continue to participate in the City's health insurance plan (medical only) at the retiree's expense until which time the retiree has reached his/her eligibility age for Medicare benefits.

For employees who have reached age 59 on or before September 30, 2017 who retire between October 1, 2017 and September 30, 2018 and who have 20 years or more of continuous service with the City of Athens, the City will pay health insurance benefits (medical only) for twelve (12) months or until retiree has reached his/her eligibility for Medicare benefits, whichever comes first. At the end of twelve (12) months, the retiree only (no dependents) may continue to participate in the City's health insurance plan (medical only) at the retiree's expense until which time the retiree has reached his/her eligibility age for Medicare benefits.

For all other employees retiring on or after October 1, 2017, with 20 years of service, may make a one-time election to continue health and dental insurance coverage, at group rates, at their expense. Retirees may continue to participate in the City's health insurance plan at the retiree's expense until which time the retiree has reached his/her eligibility age for Medicare benefits. Dependents of retiring employees may have coverage continued through a COBRA election per COBRA guidelines.

At September 30, 2018, there were five retirees that were eligible and receiving City paid benefits. The City's last payment for these retirees will be in July 2019. Subsequent to that, all retiree health and dental benefits will be at the retiree's expense.

**Net OPEB Liability**

The City's net OPEB liability calculated as of September 30, 2018 was \$16,172.

**NOTE 6: INTERFUND TRANSACTIONS**

Transfers between funds during the year were as follows:

	Transfers In	
Transfers Out:	Governmental	
	Nonmajor	
	Governmental	
	Funds	Total
Nonmajor Enterprise Fund	\$ 12,700	\$ 12,700
Total	\$ 12,700	\$ 12,700

The Airport Fund transferred \$12,700 to the Airport Grant Fund for a 10% match on a grant.

The composition of interfund balances as of September 30, 2018, is as follows:

	Due From					
Due To:	Governmental			Enterprise		Total
	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Utility Fund	Nonmajor Enterprise Fund	
General Fund	\$ 7,443	\$ 3,328	\$ 12,318	\$ 317,815	\$ 237	\$ 341,141
Total	\$ 7,443	\$ 3,328	\$ 12,318	\$ 317,815	\$ 237	\$ 341,141

All amounts due to the General Fund are related to accounts payable and payroll processed by the General Fund for all other funds.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

**Grant Audits**

The City received federal and state grants for special purposes that are subjected to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

**Contracts**

Effective May 1, 2016 the City contracted with Allied Waste Systems, Inc. for the collection and disposal of garbage for residents within the city limits. The service will be paid for in accordance with the rates set forth in the contract. The contract is for a seven year period ending April 30, 2023. During the year ended September 30, 2018, the City paid \$1,589,157 to Allied Waste Systems, Inc. under the contract.

**Construction Commitments**

The City has active construction projects as of September 30, 2018. The projects include airport runway and the construction of water and sewer facilities. At year-end, the City's commitments with contractors are as follows:

Enterprise Projects		
Project	Spent-to-Date	Estimated Remaining Commitment
Storage Tank Rehab	\$ 51,064	\$ 20,543
West Wastewater Treatment Plant	57,164	185,490
Water Study	100,787	10,373
WWTP Improvements	77,715	7,953
Booster Station	213,196	168,058
Airport Runway Project	167,736	12,700
Faulk Street Fence	-	16,052
	\$ 667,662	\$ 421,169

**NOTE 8: RISK MANAGEMENT**

**Group Health**

The City provides health and dental insurance at no cost to all full-time employees. For the year ending September 30, 2018, the monthly City paid premium costs for each eligible employee for health and dental insurance was \$581.70 and \$29.68, respectively.

**General Liability**

The government 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 government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**Worker's Compensation**

All City employees are covered by a risk pool workmen's compensation insurance program. The City pays certain administrative fees to an independent insurance intermediary who administers the program and processes all claims. Any valid claims are paid by the City and charged as current operating expenditures. Any potential future claims cannot be determined and, as of September 30, 2018, the administrator had not reported any such claims to the City.

**NOTE 9: NOTE RECEIVABLE**

During fiscal year 2017, the City sold a building and land to Trinity Valley Community College (TVCC) for \$250,000. At closing TVCC paid \$125,000 and signed a five year note. The terms of the note are yearly payments of \$25,000 at 0% interest. At September 30, 2018, the balance of the note receivable was \$100,000.

**CITY OF ATHENS, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 10: TAX ABATEMENTS**

The City is authorized by Section 312 of the Texas Tax Code to enter into property tax abatement agreements for the purpose of enhancing the competitiveness and expansion of businesses. Tax abatements, which cannot exceed a term of ten years, may be granted for the exemption of real property located within the re-investment zone and/or personal property (excluding inventory and supplies). The possible abatement amount is based on the amount of the capital investment, minimum annual payroll, and number of jobs created. The City Council approves all abatements. The City recaptures a prorated amount of abated taxes if these conditions are not met.

For the year ended September 30, 2018, the City abated property taxes totaling \$28,749 under this program, including the following tax abatement agreement:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
CMH Manufacturing, Inc.	Construction and improvement to real property; personal property investment; jobs creation	100%	\$ 28,749

**NOTE 11: PRIOR PERIOD ADJUSTMENTS**

Following is a summary of prior period adjustments made on the government-wide financial statements.

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
To reclassify the Airport Fund as an enterprise fund, as it does not meet the criteria of a special revenue fund.	\$ (187,713)	\$ 187,713
To record beginning capital assets of the Airport Fund on the fund level due to the reclassification as an enterprise fund.	(897,289)	897,289
To adjust capital assets to agree to the depreciation schedule at 9/30/17.	(326,369)	(67,723)
To remove the basis of property sold in the prior year and to record the related note receivable from TVCC.	105,279	
To record unbilled utility revenue at 9/30/17.		241,458
To report receivables for lot cleanup and liens filed for code enforcement issues net of allowances at 9/30/17.	(151,445)	
To report municipal court receivable net of allowances at 9/30/17.	(609,284)	
To adjust deferred inflows of resources related to pensions to the correct amount at 9/30/17.	163,794	
To remove receivable and payable balances related to prior years that do not exist.	53,418	41,753
To record prior period accumulated net loss on garbage collections.		(67,125)
To correctly report the compensated absences liability at 9/30/17, including adding the accrual for taxes and retirement.	(323,023)	(15,537)
To accrue mixed beverage tax receivable as of 9/30/17 in order to properly state revenue in the current period.	8,021	
To accrue hotel/motel tax receivable as of 9/30/17 in order to properly state revenue in the current period.	25,163	
To accrue franchise tax receivable as of 9/30/17 in order to properly state revenue in the current period.	52,973	
To accrue sales tax receivable as of 9/30/17 in order to properly state revenue in the current period.	678,251	
To record the Total OPEB Liability and the related deferred outflows related to the implementation of GASB Statement No. 75.	(234,704)	(55,190)
<b>Total</b>	<b>\$ (1,642,928)</b>	<b>\$ 1,162,638</b>

**CITY OF ATHENS, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 11: PRIOR PERIOD ADJUSTMENTS (Cont'd)**

Following is a summary of prior period adjustments made on the fund financial statements.

Purpose of Prior Period Adjustment	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Utility Fund	Nonmajor Enterprise Fund
To reclassify the Airport Fund as an enterprise fund, as it does not meet the criteria of a special revenue fund.					\$ 187,713
To record beginning capital assets of the Airport Fund on the fund level due to the reclassification as an enterprise fund.					897,289
To adjust capital assets to agree to the depreciation schedule at 9/30/17.				(67,723)	
To record unbilled utility revenue at 9/30/17.				241,458	
To report receivables for lot cleanup and liens filed for code enforcement issues net of allowances and to report unavailable revenue related to these receivables as a deferred inflow on the modified accrual basis of accounting at 9/30/17.	(201,927)				
To report unavailable revenue from fines as a deferred inflow on the modified accrual basis of accounting and to adjust municipal court receivable net of allowance to correct amount at 9/30/17.	(802,490)				
To report unavailable revenue from property taxes as a deferred inflow on the modified accrual basis of accounting at 9/30/17.	(137,587)	(26,207)			
To remove receivable and payable balances related to prior years that do not exist.	53,418			41,753	
To record prior period accumulated net loss on garbage collections.				(67,125)	
To adjust compensated absences liability at 9/30/17, including adding the accrual for taxes and retirement.				(15,537)	
To accrue mixed beverage tax receivable as of 9/30/17 in order to properly state revenue in the current period.	8,021				
To accrue hotel/motel tax receivable as of 9/30/17 in order to properly state revenue in the current period.			25,163		
To accrue franchise tax receivable as of 9/30/17 in order to properly state revenue in the current period.	52,973				
To accrue sales tax receivable as of 9/30/17 in order to properly state revenue in the current period.	678,251				
To record the Total OPEB Liability and the related deferred outflows related to the implementation of GASB Statement No. 75.				(55,190)	
	<b>\$ (349,341)</b>	<b>\$ (26,207)</b>	<b>\$ 25,163</b>	<b>\$ 77,636</b>	<b>\$ 1,085,002</b>

**NOTE 12: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 3, 2019, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**



CITY OF ATHENS, TEXAS

REQUIRED SUPPLEMENTAL INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

LAST 10 FISCAL YEARS\*

(UNAUDITED)

	12/31/2014	12/31/2015	12/31/2016	12/31/2017
<b>Total Pension Liability</b>				
Service Cost	\$ 999,695	\$ 1,107,277	\$ 1,068,555	\$ 1,132,820
Interest (on the Total Pension Liability)	2,170,306	2,267,157	2,287,742	2,383,369
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(414,587)	(209,910)	(137,118)	(343,260)
Changes of Assumptions	-	86,986	-	-
Benefit Payments, Including Refunds of Employee Contributions	(1,289,000)	(1,562,220)	(1,893,054)	(1,776,171)
<b>Net Change in Total Pension Liability</b>	1,466,414	1,689,290	1,326,125	1,396,758
<b>Total Pension Liability - Beginning</b>	31,149,019	32,615,433	34,304,723	35,630,848
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 32,615,433</u>	<u>\$ 34,304,723</u>	<u>\$ 35,630,848</u>	<u>\$ 37,027,606</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 1,341,520	\$ 1,356,975	\$ 1,294,946	\$ 1,383,834
Contributions - Employee	454,813	449,330	427,422	457,573
Net Investment Income	1,203,399	33,544	1,554,075	3,376,302
Benefit Payments, Including Refunds of Employee Contributions	(1,289,000)	(1,562,220)	(1,893,054)	(1,776,171)
Administrative Expense	(12,562)	(20,429)	(17,544)	(17,491)
Other	(1,033)	(1,009)	(945)	(886)
<b>Net Change in Plan Fiduciary Net Position</b>	1,697,137	256,191	1,364,900	3,423,161
<b>Plan Fiduciary Net Position - Beginning</b>	21,032,890	22,730,027	22,986,218	24,351,118
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 22,730,027</u>	<u>\$ 22,986,218</u>	<u>\$ 24,351,118</u>	<u>\$ 27,774,279</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 9,885,406</u>	<u>\$ 11,318,505</u>	<u>\$ 11,279,730</u>	<u>\$ 9,253,327</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	69.69%	67.01%	68.34%	75.01%
<b>Covered Employee Payroll</b>	\$ 6,487,050	\$ 6,418,998	\$ 6,106,026	\$ 6,536,755
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	152.39%	176.33%	184.73%	141.56%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF ATHENS, TEXAS**

**REQUIRED SUPPLEMENTAL INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CONTRIBUTIONS**

**LAST 10 FISCAL YEARS\***

**(UNAUDITED)**

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>
Actuarially Determined Contribution	\$ 1,375,903	\$ 1,369,172	\$ 1,307,300	\$ 1,418,947
Contributions in relation to the actuarially determined contribution	1,375,903	1,369,172	1,307,300	1,418,947
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,487,050	\$ 6,418,998	\$ 6,106,026	\$ 6,536,755
Contributions as a percentage of covered employee payroll	21.21%	21.33%	21.41%	21.71%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:**

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation (City) / N/A (Hospital)
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF ATHENS, TEXAS**

**REQUIRED SUPPLEMENTAL INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**

**LAST 10 FISCAL YEARS\***

**(UNAUDITED)**

	12/31/2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 14,381
Interest on the Total OPEB Liability	11,579
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	28,798
Benefit Payments	(1,961)
<b>Net Change in Total OPEB Liability</b>	52,797
<b>Total OPEB Liability - Beginning</b>	300,117
<b>Total OPEB Liability - Ending (a)</b>	\$ 352,914
 <b>Covered Employee Payroll</b>	 \$ 6,536,755
 <b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	 5.40%

**NOTES TO SCHEDULE OF CHANGES**

No assets are accumulated in a trust for the supplemental death benefits plan to pay related benefits that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Summary of Actuarial Assumptions:**

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**COMBINING FUND FINANCIAL STATEMENTS**

## NONMAJOR GOVERNMENTAL FUNDS

### *Special Revenue Funds*

**Hotel Tax Fund** - To account for the 7% occupancy tax on hotel accommodations. The funds are to be expended on endeavors which promote tourism and the convention and hotel industry.

**Airport Grant Fund** - To account for airport grant revenue and expenditures of the City.

**Texan Theatre Fund** - To account for revenue and expenditures of the Texan Theatre.

**Special Donations Fund** - To account for donations received by the City that are restricted for specific purposes.

**Energy Grant Fund** - To account for energy grant revenue and expenditures of the City.

**Municipal Court Technology Fund** - To account for technology fees that the municipal court assesses. The funds are required to be used on court technology.

**Local Forfeited Cash Fund** - To account for cash forfeited to the police department after disposition of local and state criminal cases and can be used for certain law enforcement expenses.

**CITY OF ATHENS, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	Hotel Tax	Airport Grant	Texan Theatre	Special Donations	Energy Grants	Municipal Court Technology	Local Forfeited Cash	Total Nonmajor Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 381,947	\$ 12,707	\$ 9,813	\$ 69,034	\$ -	\$ 9,580	\$ 39,262	\$ 522,343
Receivables (net of allowance for uncollectibles):								
Taxes	34,237	-	-	-	-	-	-	34,237
Accounts	-	-	668	-	-	-	-	668
Total assets	<u>\$ 416,184</u>	<u>\$ 12,707</u>	<u>\$ 10,481</u>	<u>\$ 69,034</u>	<u>\$ -</u>	<u>\$ 9,580</u>	<u>\$ 39,262</u>	<u>\$ 557,248</u>
<b>LIABILITIES</b>								
Accounts payable	\$ -	\$ -	\$ 47	\$ -	\$ -	\$ -	\$ -	\$ 47
Customer deposits	-	-	1,650	-	-	-	-	1,650
Due to other funds	8,203	-	1,200	2,915	-	-	-	12,318
Total liabilities	<u>8,203</u>	<u>-</u>	<u>2,897</u>	<u>2,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,015</u>
<b>FUND BALANCES</b>								
Restricted for:								
Grant restrictions	-	12,707	-	-	-	-	-	12,707
Municipal court	-	-	-	-	-	9,580	-	9,580
Public safety	-	-	-	66,119	-	-	39,262	105,381
Tourism and convention	407,981	-	7,584	-	-	-	-	415,565
Total fund balances	<u>407,981</u>	<u>12,707</u>	<u>7,584</u>	<u>66,119</u>	<u>-</u>	<u>9,580</u>	<u>39,262</u>	<u>543,233</u>
Total liabilities and fund balances	<u>\$ 416,184</u>	<u>\$ 12,707</u>	<u>\$ 10,481</u>	<u>\$ 69,034</u>	<u>\$ -</u>	<u>\$ 9,580</u>	<u>\$ 39,262</u>	<u>\$ 557,248</u>

**CITY OF ATHENS, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Hotel Tax	Airport Grant	Texan Theatre	Special Donations	Energy Grants	Municipal Court Technology	Local Forfeited Cash	Total Nonmajor Governmental Funds
<b>REVENUES</b>								
Other taxes	\$ 293,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 293,296
Charges for services	-	-	19,697	-	-	-	-	19,697
Fine and forfeitures	-	-	-	-	-	4,686	-	4,686
Investment earnings	2,076	7	-	209	1	17	134	2,444
Donations	-	-	2,869	11,855	-	-	-	14,724
Miscellaneous	-	-	-	5,454	-	2,474	2,389	10,317
Total revenues	<u>295,372</u>	<u>7</u>	<u>22,566</u>	<u>17,518</u>	<u>1</u>	<u>7,177</u>	<u>2,523</u>	<u>345,164</u>
<b>EXPENDITURES</b>								
Current:								
General government	-	-	-	4,422	210	-	-	4,632
Public safety:								
Police	-	-	-	2,635	-	-	-	2,635
Fire	-	-	-	22,618	-	-	-	22,618
Culture, parks, and recreation	306,836	-	14,982	-	-	-	-	321,818
Capital Outlay:								
General government	-	-	-	13,858	-	-	-	13,858
Public safety	-	-	-	2,915	-	-	-	2,915
Culture, parks, and recreation	331,942	-	-	-	-	-	-	331,942
Total Expenditures	<u>638,778</u>	<u>-</u>	<u>14,982</u>	<u>46,448</u>	<u>210</u>	<u>-</u>	<u>-</u>	<u>700,418</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(343,406)</u>	<u>7</u>	<u>7,584</u>	<u>(28,930)</u>	<u>(209)</u>	<u>7,177</u>	<u>2,523</u>	<u>(355,254)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	-	12,700	-	-	-	-	-	12,700
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>12,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,700</u>
Net change in fund balances	(343,406)	12,707	7,584	(28,930)	(209)	7,177	2,523	(342,554)
Fund balance - beginning of year	<u>726,224</u>	<u>-</u>	<u>-</u>	<u>95,049</u>	<u>209</u>	<u>2,403</u>	<u>36,739</u>	<u>860,624</u>
Prior period adjustment (Note 11)	25,163	-	-	-	-	-	-	25,163
Fund balance - end of year	<u>\$ 407,981</u>	<u>\$ 12,707</u>	<u>\$ 7,584</u>	<u>\$ 66,119</u>	<u>\$ -</u>	<u>\$ 9,580</u>	<u>\$ 39,262</u>	<u>\$ 543,233</u>

**GOVERNMENTAL COMPLIANCE SECTION**





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

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Athens, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Athens, Texas’ basic financial statements, and have issued our report thereon dated April 3, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Athens, Texas’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Athens, Texas’ internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Athens, Texas’ 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses as finding number 2018-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Athens, Texas’ 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*.



### **City of Athens, Texas' Response to Findings**

City of Athens, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. City of Athens, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Henry & Peters, PC

Longview, Texas

April 3, 2019

**CITY OF ATHENS, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Section II - Financial Statement Findings**

2018-1

*Criteria:*

Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

*Condition:*

Material journal entries were proposed by the auditors to properly account for various financial statement amounts. These misstatements were not detected by the City's internal control over financial reporting in a timely manner. These entries proposed by the auditors were considered qualitatively or quantitatively material to various funds. The entries were necessary to adjust accounts receivable, due from other funds, capital assets, deferred outflows of resources, accounts payable, due to component units, accrued expenditures, deferred inflows of resources, long-term debt, fund balance/net position, revenues, expenses/expenditures, and transfers in/out.

*Cause:*

Material misstatements were not detected by the City's internal control over financial reporting. Account reconciliations were not performed in a timely manner.

*Effect or Potential Effect:*

Had the journal entries not been recorded, the financial statements would have been materially misstated.

*Recommendation:*

We recommend the City take steps to ensure that all accounts are reconciled in a timely manner and that material journal entries are identified and recorded. This will help improve the City Council's decisions by basing their decisions on accurate financial information.

*Management's Response:*

The City of Athens has experienced substantial managerial changes over the past three years, which has largely contributed to the noted deficiency. City staff concurs with the auditor's recommendation and anticipates continuity amongst City staff and engaged firms will significantly improve identified weaknesses. The primary corrective action(s) to be implemented include:

- a. Fiscal year-end procedures to be formally documented for reconciling closing entries.
- b. City Staff will increase periodic reconciliations for areas including but not limited to: fixed assets, accounts receivable, due to/due from other funds, continued cleanup of prior year receivable and payable balances, in addition to other important accounts.